
**Northern Rhode Island
Private Industry Council, Inc.**

Single Audit Reports

Fiscal Years Ended
June 30, 1999 and 1998

Ernest A. Almonte, CPA, CFE
Auditor General

State of Rhode Island and Providence Plantations
General Assembly
Office of the Auditor General



ERNEST A. ALMONTE, CPA, CFE
Auditor General

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November 9, 1999

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

SPEAKER John B. Harwood, Chairman

Senator Paul S. Kelly
Senator Dennis L. Algieri
Representative Gerard M. Martineau
Representative Robert A. Watson

We have completed our audits of the financial statements of the Northern Rhode Island Private Industry Council, Inc. for the fiscal years ended June 30, 1999 and 1998.

Our report is contained herein as outlined in the Table of Contents.

Sincerely,

Ernest A. Almonte, CPA, CFE
Auditor General

NORTHERN RHODE ISLAND PRIVATE INDUSTRY COUNCIL, INC.

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INDEPENDENT AUDITOR'S REPORT

JOINT COMMITTEE ON LEGISLATIVE SERVICES, GENERAL ASSEMBLY STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS:

We have audited the accompanying statements of financial position of the Northern Rhode Island Private Industry Council, Inc. (the Council) as of June 30, 1999 and 1998 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with generally accepted auditing standards 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Because the Council has suspended operations, management was unable to provide written representations regarding their responsibility for the financial statements including representations regarding compliance with laws, regulations, contracts and grants, significant estimates and uncertainties.

As described in Note 10 (B), there are significant uncertainties regarding the ultimate allowability of certain costs reimbursed by federal grants. Additionally, as described in Note 10 (E), the financial responsibility of the Northern Rhode Island Job Training Consortium, if any, for the administration of programs by the Council and the cumulative deficit of the Council cannot be determined.

As described in Note 10 (A) and (C), there are significant uncertainties at June 30, 1999 regarding lease commitments and claims for the Council's furniture and equipment.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain written representations from management regarding the 1998 financial statements and except for the effect of the uncertainties regarding the allowability of costs reimbursed by federal grants and the financial responsibility of the Northern Rhode Island Job Training Consortium which are described in the second preceding paragraph, the 1998 financial statements present fairly, in all material respects, the financial position of the Northern Rhode Island Private Industry Council, Inc. as of June 30, 1998 and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain written representations from management regarding the 1999 financial statements and except for the effect of the uncertainties regarding the allowability of costs reimbursed by federal grants and the financial responsibility of the Northern Rhode Island Job Training Consortium as well as the uncertainties regarding lease commitments and claims for the Council's furniture which are described in the second and third preceding paragraphs, the 1999 financial statements present fairly, in all material respects, the financial position of the Northern Rhode Island Private Industry Council, Inc. as of June 30, 1999 and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Council will continue as a going concern. As discussed in Note 10 (D) to the financial statements, liabilities of the Council exceeded assets by \$1,230,379 at June 30, 1999 and the Council cannot meet its obligations as they come due. The Council has suspended operations and the Governor revoked all active JTPA plans administered by the Council. Additionally, on October 12, 1999, a permanent receiver was appointed for the Council. These conditions raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our reports dated August 13, 1999 on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedules of Operating and Direct Program Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. The fiscal 1999 and 1998 information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to obtain written representations from management regarding the financial statements and except

for the effect of the uncertainties affecting the 1998 financial statements described in the sixth preceding paragraph and the uncertainties affecting the 1999 financial statements described in the fifth and sixth preceding paragraphs, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.



Ernest A. Almonte, CPA, CFE
Auditor General

August 13, 1999, except for
Note 12 as to which the date is
October 12, 1999

Northern Rhode Island Private Industry Council, Inc.
Statements of Financial Position
June 30, 1999 and 1998

	1999	1998
Assets		
Current assets		
Cash	\$ -	\$ 1,668
Due from the State of Rhode Island (note 3)	313,894	188,025
Other assets	-	6,483
	313,894	196,176
Noncurrent assets		
Furniture and equipment (net of accumulated depreciation of \$371,345 in 1999 and \$290,726 in 1998) {note 10 (C)}	175,946	237,790
	\$ 489,840	\$ 433,966
	\$ 489,840	\$ 433,966
Liabilities and Net Assets		
Current liabilities		
Cash overdraft	\$ 15,619	\$ -
Accounts payable	998,044	626,029
Accrued expenses (note 4)	64,070	86,838
Due to the State of Rhode Island (note 7)	438,425	176,900
Loan payable (note 5)	-	10,280
Interest payable - line of credit	4,061	-
Line of credit (note 6)	200,000	200,000
	1,720,219	1,100,047
Commitments and contingencies (note 10)		
Net Assets		
Unrestricted	(1,230,379)	(835,294)
Temporarily restricted	-	169,213
Total net assets	(1,230,379)	(666,081)
	\$ 489,840	\$ 433,966

The accompanying notes are an integral part of these financial statements.

Northern Rhode Island Private Industry Council, Inc.
Statements of Activities
Years Ended June 30, 1999 and 1998

	1999	1998
Changes in unrestricted net assets		
Program revenue (note 10-B)		
Job Training Partnership Act	\$ 1,240,017	\$ 1,464,994
Employer and Training Assistance -		
Dislocated Workers	471,552	665,458
TANF - Rapid Job Entry		29,293
Welfare to Work Grants to States and Localities	181,572	
School to Work	542,386	259,554
Employment Service	-	31,967
Human Resource Investment Council	459,252	550,461
Other programs	29,600	6,119
Total program revenue, net	2,924,379	3,007,846
Unrestricted revenue		
Interest income	21	440
Other	3,500	6,416
Total unrestricted revenue	3,521	6,856
Total program and unrestricted revenue	2,927,900	3,014,702
Net assets released from restrictions (note 8)	169,213	341,029
Total program and unrestricted revenues and other support	3,097,113	3,355,731
Program expenses		
Job Training Partnership Act	1,384,210	1,574,174
Employer and Training Assistance -		
Dislocated Workers	597,947	1,109,855
TANF - Rapid Job Entry		29,293
Welfare to Work Grants to States and Localities	181,572	
School to Work	542,386	259,554
Employment Service	5,533	31,967
Human Resource Investment Council	464,852	579,862
Other programs	29,600	6,119
Total program expenses	3,206,100	3,590,824
Other operating expenses (note 2)	286,098	568,014
Total expenses	3,492,198	4,158,838
Decrease in unrestricted net assets	(395,085)	(803,107)
Changes in temporarily restricted net assets		
Deferred program revenue	-	169,213
Net assets released from restrictions (note 8)	(169,213)	(341,029)
Decrease in temporarily restricted net assets	(169,213)	(171,816)
Decrease in net assets	(564,298)	(974,923)
Net assets at beginning of year (restated - note 11)	(666,081)	308,842
Net assets at end of year	\$ (1,230,379)	\$ (666,081)

The accompanying notes are an integral part of these financial statements.

Northern Rhode Island Private Industry Council, Inc.
Statements of Cash Flows
Years Ended June 30, 1999 and 1998

	1999	1998
Cash flows from operating activities		
Cash received from State of Rhode Island	\$ 3,030,435	\$ 3,274,036
Cash received from other sources	33,100	12,535
Cash paid to employees and employee benefits	(1,324,296)	(1,522,553)
Cash paid to vendors, suppliers	(1,713,136)	(2,146,714)
Interest received	21	440
Net cash provided (used) by operating activities	26,124	(382,256)
 Cash flows from investing activities		
Capital expenditures	(18,775)	(139,099)
 Cash flows from financing activities		
Negative cash balance implicitly financed	15,619	-
Net borrowings under line of credit	-	200,000
Proceeds from short-term borrowing (note 6)	-	52,280
Repayment of short-term borrowing (note 6)	(10,280)	(42,000)
Interest paid on borrowing	(14,356)	(3,299)
Net cash provided (used) by financing activities	(9,017)	206,981
 Net decrease in cash	(1,668)	(314,374)
Cash at beginning of year	1,668	316,042
Cash at end of year	\$ -	\$ 1,668

Reconciliation of Decrease in Net Assets to Net Cash Provided (Used) by Operating Activities

Decrease in net assets	\$ (564,298)	\$ (974,923)
Adjustments to reconcile net assets to net cash provided by operating activities		
Increase in Due from the State of Rhode Island	(125,869)	(55,757)
Decrease in other assets	6,483	-
Increase in accounts payable	372,015	384,361
Increase in accrued expenses	(22,768)	25,979
Increase in Due to the State of Rhode Island	261,525	158,852
Increase in interest payable	4,061	-
Depreciation	80,619	75,933
Interest paid on borrowing	14,356	3,299
Total adjustments	590,422	592,667
Net cash provided (used) by operating activities	\$ 26,124	\$ (382,256)

The accompanying notes are an integral part of these financial statements.

NORTHERN RHODE ISLAND PRIVATE INDUSTRY COUNCIL, INC.

Notes To Financial Statements

Years Ended June 30, 1999 and 1998

Note 1. Nature of Business

Northern Rhode Island Private Industry Council, Inc. (the "Council") is a non-business corporation (private non-profit) which was established in October 1983 under the Rhode Island General Laws. The Council was created to increase the involvement of the business community and others in the employment and training system operated within the Northern Rhode Island Service Delivery Area. The Council is also involved with increasing private sector employment opportunities for eligible participants under the federal Job Training Partnership Act (JTPA).

The JTPA provides states with funds to establish programs to prepare youth and unskilled adults for entry into the labor force. These programs provide job training to economically disadvantaged and other individuals who face serious barriers to employment and who are in special need of such training to obtain productive employment.

The Council was granted certification as a Regional Employment and Training Board (RETB) on November 14, 1990, by the Rhode Island Workforce 2000 Council, now known as the Human Resource Investment Council (HRIC). RETB is responsible for local planning and coordination guidelines, reviewing and commenting on all local plans, proposals, and programs that would be funded directly by state and/or federal agencies, assisting in the development of public-private partnerships, and development of a local coordination plan which addresses programs and services within the RETB area.

The Council also sponsors the Northern Rhode Island Business/Education Alliance which was created to implement the provisions of the federal School to Work Opportunities Act of 1994 and the Rhode Island School-to-Career Transition Act of 1996 (General Law Chapter 16-80). The Rhode Island Business/Education Alliance Council, which is comprised of representatives from business, education and labor, serves in an advisory and oversight role to the Alliance and is affiliated with the Northern Rhode Island Private Industry Council. The financial activities of the Alliance are reflected within these financial statements.

The Council suspended operations on April 9, 1999. On May 28, 1999 the Governor imposed an emergency reorganization plan for the Council. This reorganization plan took effect immediately and consisted of revoking all active JTPA plans administered by the Council. The plan designated the Governor as the grant recipient of all funds and the Rhode Island Department of Labor and Training as the administrative entity of these funds until June 30, 2000.

NORTHERN RHODE ISLAND PRIVATE INDUSTRY COUNCIL, INC.

**Notes To Financial Statements
Years Ended June 30, 1999 and 1998**

Note 2. Summary of Significant Accounting Policies

A. Basis of Statement Presentation

The accompanying financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Council as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

Net assets and revenues are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Council. The Council did not have any permanently restricted net assets.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of the Council or the passage of time. Program receipts received prior to incurring expenses for eligible program costs are considered to be temporarily restricted net assets.

Unrestricted net assets – Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets.

Program revenues and related expenses have been recorded based on the amount of allowable reimbursable program expenses for each program, subject to the limits of specific grant awards or allocations. Costs not reimbursable under a specific program due to lack of sufficient award authority are reflected as other operating expenses.

B. Furniture and Equipment

Furniture and equipment are recorded at cost and depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis. Estimated useful lives for financial reporting purposes were as follows:

Computer equipment	5 years
Furniture and equipment	7 years

NORTHERN RHODE ISLAND PRIVATE INDUSTRY COUNCIL, INC.

**Notes To Financial Statements
Years Ended June 30, 1999 and 1998**

Note 2. Summary of Significant Accounting Policies (continued)

C. Income Taxes

The Council is generally exempt from federal income taxes under the provisions of the Internal Revenue Code Section 501 (a) as an organization described in Section 501 (c) (3). Accordingly, no provision for federal income tax is required.

D. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Reclassification

Certain 1998 balances have been reclassified to conform to the 1999 presentation.

Note 3. Due from the State of Rhode Island

Amounts due from the State of Rhode Island in reimbursement of eligible program costs at June 30, 1999 and 1998 consisted of the following:

	<u>1999</u>	<u>1998</u>
Department of Labor and Training:		
TANF – Rapid Job Entry	\$	\$ 14,993
HRIC	148,478	115,800
School to Work	165,416	57,232
Totals	<u>\$ 313,894</u>	<u>\$ 188,025</u>

NORTHERN RHODE ISLAND PRIVATE INDUSTRY COUNCIL, INC.

**Notes To Financial Statements
Years Ended June 30, 1999 and 1998**

Note 4. Accrued Expenses

Accrued expenses at June 30, 1999 and 1998 consisted of the following:

	<u>1999</u>	<u>1998</u>
Accrued salaries	\$ 28,101	\$ 38,004
Payroll taxes	21,411	14,872
Accrued employee benefits	14,558	16,100
Accrued professional fees		17,862
Totals	<u>\$ 64,070</u>	<u>\$ 86,838</u>

Note 5. Loan Payable

The Council borrowed amounts during fiscal 1998 from an unrelated organization to finance its short-term cash flow needs. Total borrowings were \$52,280 during fiscal 1998. The amount outstanding at June 30, 1998 was \$10,280. No interest rate or repayment terms were specified.

Note 6. Line of Credit

The Council established a \$200,000 unsecured line of credit in March of 1998 to fulfill its short-term borrowing needs. This line of credit was renewed in February 1999. Interest on the line of credit equaled prime plus .75% or 8.50% at June 30, 1999. Borrowings under the line totaled \$200,000 at June 30, 1999 and 1998.

Note 7. Due to the State of Rhode Island

Due to the State of Rhode Island represents the amount of grant funds drawn in excess of allowable program costs. Such amounts consisted of the following at June 30, 1999 and 1998:

	<u>1999</u>	<u>1998</u>
Department of Labor and Training:		
JTPA Program		
Title II- A	\$ 48,793	\$
Title II- C	4,109	
Title III – Formula Grants	78,276	
Title III – Dislocated Workers		
Almacs	178,525	158,852
Hasbro	96,212	
Brooks Drug	18,048	18,048
Welfare to Work	8,595	
HRIC	5,867	
Totals	<u>\$ 438,425</u>	<u>\$ 176,900</u>

NORTHERN RHODE ISLAND PRIVATE INDUSTRY COUNCIL, INC.

Notes To Financial Statements

Years Ended June 30, 1999 and 1998

Note 8. Temporarily Restricted Net Assets

Net assets released from temporary grant restrictions by incurring expenses satisfying the occurrence of events specified by the grantor were \$169,213 and \$341,029 for the fiscal years ended June 30, 1999 and 1998, respectively.

Note 9. Defined Contribution Plan

Effective July 1989, the Council established a defined contribution plan for the exclusive benefit of its employees and their beneficiaries. Employees were eligible to participate in the Plan on the first day of the calendar quarter following one year of service and attainment of age 19. Each quarter, the Council contributed to the Plan on behalf of each eligible participant, an amount equal to 6% of their respective calendar quarter base compensation.

Effective September 1, 1997, the Council converted their existing plan from a money purchase plan to a 401(k) plan. Employees were eligible to make salary deferral contributions to the Plan as of the first day of the month following their date of hire, but did not become eligible for the employer matching and discretionary contributions until the first day of the month coincident with or following completion of 1 year of service and attainment of age 19. Eligible participants elected to contribute from 1% to 15% of their compensation. The employer match was 100% of the amount contributed by the employee up to a maximum of 3% of compensation, and the discretionary match was limited to 15% of covered payroll. Employer contributions became vested in 20% increments, annually.

After the Council suspended operations, each employee's 401(k) plan was rolled over into an Individual Retirement Account (IRA).

The Council expensed \$19,520 and \$24,778 for the Plan during the fiscal years ended June 30, 1999 and 1998, respectively.

Note 10. Commitments and Contingencies

A. Lease Commitments

The Council is committed under various operating leases for office space and office equipment.

The Council terminated its lease for office space in Lincoln, RI when it suspended operations in April 1999. The Council owed rental payments for occupancy through April 1999 and these amounts (net of returnable security deposits) have been included in accounts payable. Future minimum lease payments over the remaining term of the lease totaled \$249,339 at June 30, 1999. The lessor has subsequently leased the Council's former offices to another entity, which potentially could reduce the Council's obligation for future lease payments. The amount of future minimum lease payments remaining pursuant to the Council's lease agreement, after deduction for rentals payable to the lessor under the replacement lease, is estimated at \$26,500.

NORTHERN RHODE ISLAND PRIVATE INDUSTRY COUNCIL, INC.

**Notes To Financial Statements
Years Ended June 30, 1999 and 1998**

Note 10. Commitments and Contingencies (continued)

A. Lease Commitments (continued)

The Council terminated its lease for office space in Pawtucket, RI effective May 1999. The Council was obligated upon termination of the lease for the balance of unreimbursed renovation costs which totaled \$50,655 at June 30, 1999. This amount has been included in accounts payable at June 30, 1999.

The Council was also obligated under various operating leases for office equipment at June 30, 1999. Future minimum lease payments required under these operating leases totaled \$66,763 at June 30, 1999.

The Council's ultimate obligation, if any, for early termination of these leases cannot presently be determined. No provision has been made in the 1999 financial statements for the amount payable, if any (other than the amount due for unreimbursed renovation costs as described above), pursuant to the Council's obligation for early termination of non-cancelable operating leases.

Rental expense under non-cancelable operating leases for the year ended June 30, 1999 was \$154,857.

B. Federal Grants – Disallowed expenses

The Council has received funds under federal and state grants for specific purposes that are subject to audit. Audits for the fiscal years ended June 30, 1999 and 1998 have identified questioned costs which could lead to requests for reimbursement to the grantor agencies for expenditures disallowed under the terms of the grant. Program revenues have been reduced as follows to provide an allowance for these questioned costs:

Allowance provided for questioned costs:

<u>Program</u>	<u>1999</u>	<u>1998</u>
JTPA – Title II A	\$ 55,941	\$ 822
JTPA – Title II C	4,109	
JTPA – Title III – Formula Grants	28,584	44,973
JTPA – Title III – Almacs		166,753
JTPA – Title III – Hasbro	23,874	
Totals	<u>\$ 112,508</u>	<u>\$ 212,548</u>

NORTHERN RHODE ISLAND PRIVATE INDUSTRY COUNCIL, INC.

Notes To Financial Statements

Years Ended June 30, 1999 and 1998

Note 10. Commitments and Contingencies (continued)

B. Federal Grants – Disallowed expenses (continued)

The ultimate resolution of questioned costs rests with the federal grantor agencies and therefore the actual amount to be repaid to federal grantor agencies, if any, is not known.

C. Furniture and Equipment

The owner of the premises in Lincoln previously occupied by the Council has asserted a claim pursuant to the lease agreement between the Council and the lessor for certain of the Council's furniture and equipment located on the premises. The lessor obtained a court order preventing any of the Council's furniture and equipment from being removed from the building until the matter of rights is settled.

The carrying value of the Council's furniture and equipment at June 30, 1999, as shown on the Statement of Financial Position, may exceed its net realizable value if sold or liquidated should the Council not resume operations.

D. Substantial Doubt About the Council's Ability to Continue as a Going Concern

The Council suspended operations effective April 9, 1999 and on May 28, 1999, the Governor revoked all active JTPA plans administered by the Council. Liabilities of the Council exceeded assets by \$1,230,379 at June 30, 1999 and the Council cannot meet its obligations as they come due.

The Governor on May 28, 1999 imposed an emergency reorganization plan for the Council. In addition to revoking all active JTPA plans administered by the Council, the plan designated the Governor as grant recipient of all funds and the Rhode Island Department of Labor and Training as the administrative entity for these funds until June 30, 2000.

E. Financial Responsibility of the Northern Rhode Island Job Training Consortium

The Northern Rhode Island Job Training Consortium (the Consortium) is comprised of eight member municipalities (Lincoln, Pawtucket, Woonsocket, Cumberland, Central Falls, North Smithfield, Smithfield and Burrillville). The Consortium entered into an agreement with the Council for the period July 1, 1998 through June 30, 2000 which defines and delegates various powers and duties granted to "Chief Elected Officials" by the JTPA and regulations issued thereunder. As part of this agreement, the Consortium "assumed full financial responsibility for the proper expenditure of funds in accordance with the law and regulations issued under JTPA". The amount of financial responsibility of the Consortium, if any, for the administration of programs by the Council and the cumulative deficit of the Council cannot be determined. No provision has been included in the financial statements for any amounts potentially due from the Consortium.

NORTHERN RHODE ISLAND PRIVATE INDUSTRY COUNCIL, INC.
Notes To Financial Statements
Years Ended June 30, 1999 and 1998

Note 11. Restatement of Prior Year Balances

Certain fiscal 1998 balances have been restated as follows.

	Amounts previously reported for Fiscal 1998	Increase (Decrease)	Restated Fiscal 1998 Amounts
Cash	\$ 3,311	\$ (1,643)	\$ 1,668
Accounts receivable/Due from State of Rhode Island	1,070,473	(882,448)	188,025
Loan payable	0	10,280	10,280
Unrestricted net assets	240,026	(1,075,320)	(835,294)
Temporarily restricted net assets	165,163	4,050	169,213
Revenues	4,202,726	(846,995)	3,355,731
Expenses	4,157,421	1,417	4,158,838

Fiscal 1998 net assets at the beginning of the year have been restated as follows:

	Amounts previously reported at June 30, 1997	Increase (Decrease)	Restated Net Assets – Beginning Fiscal 1998 Amounts
Net assets			
Unrestricted	\$ 194,721	(\$ 226,908)	\$ (32,187)
Temporarily restricted	132,169	208,860	341,029
Totals	<u>\$ 326,890</u>	<u>(\$ 18,048)</u>	<u>\$ 308,842</u>

NORTHERN RHODE ISLAND PRIVATE INDUSTRY COUNCIL, INC.

Notes To Financial Statements

Years Ended June 30, 1999 and 1998

Note 12. Subsequent Events

On October 12, 1999, the Rhode Island Superior Court appointed a permanent receiver for the Council.

At June 30, 1999, the Council had accounts payable of \$998,044. Certain of these liabilities, totaling approximately \$107,000 were incurred under the School to Work Opportunities Act of 1994 program. These have been satisfied subsequent to June 30, 1999, by a new fiscal agent for the School to Work program, using federal funds passed through the State Department of Labor and Training.

Northern Rhode Island Private Industry Council, Inc.
Schedules of Operating and Direct Program Expenses
For the Years Ended June 30, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Personnel expenses		
Salaries	\$1,033,316	\$1,253,325
Employee benefits and taxes	268,212	295,207
Total personnel expenses	<u>1,301,528</u>	<u>1,548,532</u>
Office related expenses		
Equipment expense	40,724	76,454
Rent	208,233	185,975
Telephone	34,180	34,222
Utilities	10,108	-
Office consumables	16,404	27,652
Postage	5,196	7,829
Advertising	3,316	7,984
Staff travel	13,080	17,096
Meetings, conferences and staff development	36,903	36,167
Printing	9,150	11,901
Insurance and bonding	9,110	9,216
Publications, memberships and miscellaneous	30,163	27,020
Total office related expenses	<u>416,567</u>	<u>441,516</u>
Outside services		
Audit fees	-	19,070
Pension administrative fees	5,842	7,978
Other outside services	70,657	96,545
Management consultant fees	-	7,160
Total outside services	<u>76,499</u>	<u>130,753</u>
Other expenses		
Interest	18,416	3,299
Depreciation	80,619	75,933
Total other expenses	<u>99,035</u>	<u>79,232</u>
Total operating expenses	<u>1,893,629</u>	<u>2,200,033</u>
Direct program expenses		
Client employer marketing	4,554	23,364
Program supplies and activities	3,209	32,204
Client support services	44,829	36,439
Contractor training fees	1,456,125	1,700,279
Contractor administration	85,932	144,282
Contractor support services	3,920	9,710
Almacs grant	-	6,404
Awards	-	6,123
Total direct program expenses	<u>1,598,569</u>	<u>1,958,805</u>
Total operating and direct program expenses	<u>\$3,492,198</u>	<u>\$4,158,838</u>

NORTHERN RHODE ISLAND PRIVATE INDUSTRY COUNCIL, INC.

**INFORMATION REQUIRED BY
OMB CIRCULAR A-133**

FISCAL YEAR ENDED JUNE 30, 1999



ERNEST A. ALMONTE, CPA, CFE
Auditor General

State of Rhode Island and Providence Plantations

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INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JOINT COMMITTEE ON LEGISLATIVE SERVICES, GENERAL ASSEMBLY
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS:

We have audited the financial statements of the Northern Rhode Island Private Industry Council, Inc. (Council) as of and for the year ended June 30, 1999 and have issued our report thereon dated August 13, 1999 except for Note 12 to the financial statements as to which the date is October 12, 1999. Our report on the Council's financial statements was qualified due to the inability of management to provide written representations regarding the financial statements and because of various uncertainties which may impact the financial statements.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Council taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133 *Audits of States, Local Governments and Non-Profit Organizations* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to obtain written representations from management regarding the financial statements and except for the effect of the uncertainties described in the fourth and fifth paragraphs of our report on the financial statements, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Joint Committee on Legislative Services, the Northern Rhode Island Job Training Consortium, the court appointed receiver for the Northern Rhode Island Private Industry Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernest A. Almonte, CPA, CFE
Auditor General

August 13, 1999, except for
Note 12 as to which the date is
October 12, 1999

**Northern Rhode Island Private Industry Council
Schedule of Expenditures of Federal Awards
Fiscal Year End June 30, 1999**

Federal Grantor Program Title	CFDA Number	Expenditures
U.S. Department of Labor:		
Pass through the State of Rhode Island:		
Employment Service	17.207	\$ 5,533
Job Training Partnership Act Cluster:		
Employment and Training Assistance - Dislocated Workers	17.246	597,947
Job Training Partnership Act	17.250	1,384,210
Welfare to Work Grants to States and Localities	17.253	<u>158,905</u>
Total U.S. Department of Labor		<u>\$ 2,146,595</u>
U.S. Department of Education:		
Pass through the State of Rhode Island:		
School to Work Opportunities Act of 1994	none	<u>\$ 542,386</u>
Total U.S. Department of Education		<u>\$ 542,386</u>
U.S. Department of Health and Human Services:		
Pass through the State of Rhode Island:		
Temporary Assistance for Needy Families	93.558	<u>\$ 22,667</u>
Total U.S. Department of Health and Human Services		<u>\$ 22,667</u>
Total Expenditures of Federal Awards		<u><u>\$ 2,711,648</u></u>

See accompanying notes to the schedule of expenditures of federal awards.

NORTHERN RHODE ISLAND PRIVATE INDUSTRY COUNCIL, INC.
Notes to the Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 1999

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Northern Rhode Island Private Industry Council, Inc. and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.



ERNEST A. ALMONTE, CPA, CFE
Auditor General

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING

JOINT COMMITTEE ON LEGISLATIVE SERVICES, GENERAL ASSEMBLY
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS:

We have audited the financial statements of the Northern Rhode Island Private Industry Council, Inc. (Council) as of and for the fiscal year ended June 30, 1999 and have issued our report thereon dated August 13, 1999 except for Note 12 to the financial statements as to which the date is October 12, 1999. Our report on the Council's financial statements was qualified due to the inability of management to provide written representations regarding the financial statements and because of various contingencies which may impact the financial statements. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Finding 99-3.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely

affect the Council's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 99-1 and 99-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider Findings 99-1 and 99-2 to be material weaknesses.

This report is intended solely for the information and use of the Joint Committee on Legislative Services, the Northern Rhode Island Job Training Consortium, the court appointed receiver for the Northern Rhode Island Private Industry Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Ernest A. Almonte, CPA, CFE
Auditor General

August 13, 1999, except for
Note 12 as to which the date is
October 12, 1999



ERNEST A. ALMONTE, CPA, CFE
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

JOINT COMMITTEE ON LEGISLATIVE SERVICES, GENERAL ASSEMBLY,
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS:

Compliance

We have audited the compliance of the Northern Rhode Island Private Industry Council, Inc. (Council) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1999. The Council's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Council's management. Our responsibility is to express an opinion on the Council's compliance based on our audit.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Council's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Council's compliance with those requirements.

Because the Council has suspended operations, management was unable to provide us with written representations regarding compliance with requirements applicable to major programs.

As described in Findings 99-4, 99-5 and 99-6 in the accompanying schedule of findings and questioned costs, the Council did not comply with the requirements regarding cash management, earmarking, and reporting that are applicable to the Job Training Partnership Act Cluster programs. Additionally, as described in Findings 99-4 and 99-6 in the accompanying schedule of findings and questioned costs, the Council did not comply with the requirements regarding cash management and reporting that are applicable to the School to Work Opportunities Act of 1994 program. Compliance with such requirements is necessary, in our opinion, for the Council to comply with the requirements applicable to these programs.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the Council did not comply in all material respects with the requirements referred to above that are applicable to the Job Training Partnership Act Cluster programs. Also, in our opinion, except for the noncompliance described in the preceding paragraph, and except for the effect of such noncompliance, if any, as might have been disclosed had management provided us with written representations regarding compliance with requirements applicable to major programs, the Council complied, in all material respects, with the requirements referred to above that are applicable to the School to Work Opportunities Act of 1994 program for the year ended June 30, 1999.

Internal Control Over Compliance

The management of the Council is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Council's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Council's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 99-4, 99-5 and 99-6.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all

matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider Findings 99-4, 99-5 and 99-6 to be material weaknesses.

This report is intended solely for the information and use of the Joint Committee on Legislative Services, the Northern Rhode Island Job Training Consortium, the court appointed receiver for the Northern Rhode Island Private Industry Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Ernest A. Almonte, CPA, CFE
Auditor General

October 15, 1999

NORTHERN RHODE ISLAND PRIVATE INDUSTRY COUNCIL, INC.
Schedule of Findings and Questioned Costs
Year Ended June 30, 1999

Section I – Summary of Auditor’s Results

Financial Statements

- 1) The independent auditor’s report on the financial statements expressed a qualified opinion.
- 2) The audit of the financial statements disclosed reportable conditions which we considered material weaknesses in internal control over financial reporting.
- 3) The audit disclosed an instance of noncompliance which is material to the financial statements.

Federal Awards

- 4) The audit disclosed reportable conditions in internal control over major programs, which were classified as material weaknesses.
- 5) The independent auditor’s report on compliance for major programs expressed an adverse opinion for the Job Training Partnership Act Cluster programs and an unqualified opinion for the School to Work Opportunities Act program.
- 6) The audit disclosed findings that must be reported under OMB Circular A-133 provisions.
- 7) The Council’s major programs for the fiscal year ended June 30, 1999 are as follows:

<u><i>Name of Federal Program or Cluster</i></u>	<u><i>CFDA Number</i></u>
Job Training Partnership Act Cluster:	
Employment and Training Assistance- Dislocated Workers	17.246
Job Training Partnership Act	17.250
 School to Work Opportunities Act of 1994	 none

- 8) The dollar threshold used to distinguish between type A and type B programs was \$300,000.
- 9) The Council did not qualify as a low-risk auditee as defined by OMB Circular A-133.

NORTHERN RHODE ISLAND PRIVATE INDUSTRY COUNCIL, INC.
Schedule of Findings and Questioned Costs
Year Ended June 30, 1999

Section II – Financial Statement Findings

Finding 99-1

The Council did not have adequate accounting controls in place to ensure that revenue was recorded within its accounting records and financial statements consistent with the terms and limitations of grant awards and agreements. Direct and allocated program expenses for certain programs/grants exceeded the amount of grant award authority available to the Council. Due to the lack of these controls, financial data from the Council's accounting system required substantial adjustment in order to recognize revenue consistent with the terms and limitations of grant awards and agreements and to prepare financial statements in conformance with generally accepted accounting principles. Adjustments were made in the fiscal 1999 financial statements to record revenue to the extent of reimbursable program costs and within the limits of grant awards available to the Council. Expenses in excess of available grant awards are classified as other operating expenses.

Finding 99-2

The Council suspended operations on April 9, 1999 and terminated its employees effective that date. Consequently, the Council's internal controls over financial reporting were not operational. This severely limited the Council's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Finding 99-3

As described in Finding 99-5 (Section III – Federal Award Findings and Questioned Costs), questioned costs were identified for certain of the federal programs administered by the Council. These questioned costs resulted from noncompliance with provisions of grant agreements and related federal regulations. These questioned costs are considered material to the financial statements for the fiscal year ended June 30, 1999. As described in Note 10 (B) to the financial statements, specific program revenues have been reduced to provide an allowance for the amount of questioned costs identified as a result of audit.

NORTHERN RHODE ISLAND PRIVATE INDUSTRY COUNCIL, INC.
Schedule of Findings and Questioned Costs
Year Ended June 30, 1999

Section III – Federal Award Findings and Questioned Costs

Finding 99-4

Job Training Partnership Act Cluster:

Employment And Training Assistance – Dislocated Workers – CFDA 17.246

Job Training Partnership Act – CFDA 17.250

CASH MANAGEMENT

The Council lacked adequate controls to ensure that its draws of federal cash from the State of Rhode Island were limited to its immediate needs and were supported by actual reimbursable program disbursements. At June 30, 1999, the Council had overdrawn federal funds for programs within the Job Training Partnership Cluster by \$423,963. This amount is included within *Due to the State of Rhode Island* on the accompanying Statement of Financial Position at June 30, 1999.

Questioned Costs: None

Finding 99-5

Job Training Partnership Act Cluster:

Employment And Training Assistance – Dislocated Workers – CFDA 17.246

Job Training Partnership Act – CFDA 17.250

EARMARKING REQUIREMENTS

Federal grants made pursuant to the Job Training Partnership Act (JTPA) are subject to various set-asides and limitations on the amount of the grant that may be spent for administrative expenses. We found that the Council lacked adequate controls to ensure compliance with these limitations.

Our tests of the Council's compliance with the limitations on administrative expenses funded by JTPA programs identified that these limitations were exceeded.

NORTHERN RHODE ISLAND PRIVATE INDUSTRY COUNCIL, INC.
Schedule of Findings and Questioned Costs
Year Ended June 30, 1999

Section III – Federal Award Findings and Questioned Costs

Finding 99-5 (continued)

Questioned costs:

<u>Program component</u>	<u>Questioned costs</u>
JTPA - Title II-A	\$ 55,941
JTPA - Title II-C	4,109
JTPA - Title III Formula Grants	28,584
JTPA - Title III (Hasbro)	<u>23,874</u>
Total	<u>\$ 112,508</u>

Finding 99-6

Job Training Partnership Act Cluster:

Employment And Training Assistance – Dislocated Workers – CFDA 17.246

Job Training Partnership Act – CFDA 17.250

School to Work Opportunities Act of 1994 – CFDA none

REPORTING

The Council's internal controls did not ensure that amounts reported in federal expenditure reports were supported by internal accounting records. We found discrepancies between amounts reported in the quarterly reports submitted to the state pass-through agency and the amounts recorded in the Council's internal grants management system. For example, in the report for the period ended December 31, 1998, the Council's accounting system included expenditures of \$391,490 for the JTPA Title IIA program; the Council reported expenditures of \$531,216. The total award for this program was \$592,880.

Questioned Costs: None

NORTHERN RHODE ISLAND PRIVATE INDUSTRY COUNCIL, INC.
Corrective Action Plan
Year Ended June 30, 1999

Findings 99-1 to 99-6

The Council has suspended operations and a permanent receiver has been appointed by the Rhode Island Superior Court for the Council. The receiver is now responsible for the resolution of questioned costs identified in this report. Corrective action for internal control matters is not applicable since the Council has suspended operations and is now in receivership.

Contact person:

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NORTHERN RHODE ISLAND PRIVATE INDUSTRY COUNCIL, INC.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 1999

Finding No.	Finding	Initial Year of Recommendation	Status
98-4	The Council lacked adequate controls to ensure compliance with cash management requirements and did not comply with these requirements in drawing federal funds for the JTPA program.	1998	not implemented
98-5	The Council lacked adequate controls and did not comply with the earmarking requirements for the JTPA program.	1998	not implemented
98-6	The Council lacked adequate controls over the preparation of federal reports and its federal reports were not supported by the Council's accounting records.	1998	not implemented

NORTHERN RHODE ISLAND PRIVATE INDUSTRY COUNCIL, INC.

**INFORMATION REQUIRED BY
OMB CIRCULAR A-133**

FISCAL YEAR ENDED JUNE 30, 1999



ERNEST A. ALMONTE, CPA, CFE
Auditor General

State of Rhode Island and Providence Plantations

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INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JOINT COMMITTEE ON LEGISLATIVE SERVICES, GENERAL ASSEMBLY
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS:

We have audited the financial statements of the Northern Rhode Island Private Industry Council, Inc. (Council) as of and for the year ended June 30, 1998 and have issued our report thereon dated August 13, 1999 except for Note 12 to the financial statements as to which the date is October 12, 1999. Our report on the Council's financial statements was qualified due to the inability of management to provide written representations regarding the financial statements and because of various uncertainties which may impact the financial statements.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Council taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133 *Audits of States, Local Governments and Non-Profit Organizations* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to obtain written representations from management regarding the financial statements and except for the effect of the uncertainties described in the fourth paragraph of our report on the financial statements, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Joint Committee on Legislative Services, the Northern Rhode Island Job Training Consortium, the court appointed receiver for the Northern Rhode Island Private Industry Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernest A. Almonte, CPA, CFE
Auditor General

August 13, 1999, except for
Note 12 as to which the date is
October 12, 1999

**Northern Rhode Island Private Industry Council
Schedule of Expenditure of Federal Awards
Fiscal Year Ended June 30, 1998**

Federal Grantor Program Title	CFDA Number	Expenditures
U.S. Department of Labor:		
Pass through the State of Rhode Island:		
Employment Service	17.207	\$ 31,967
Job Training Partnership Act Cluster:		
Employment and Training Assistance - Dislocated Workers	17.246	1,109,855
Job Training Partnership Act	17.250	<u>1,574,174</u>
Total U.S. Department of Labor		<u>\$ 2,715,996</u>
U.S. Department of Education:		
Pass through the State of Rhode Island:		
School to Work Opportunities Act of 1994	none	<u>\$ 259,554</u>
Total U.S. Department of Education		<u>\$ 259,554</u>
U.S. Department of Health and Human Services:		
Pass through the State of Rhode Island:		
Temporary Assistance to Needy Families	93.558	<u>\$ 29,293</u>
Total U.S. Department of Health and Human Services		<u>\$ 29,293</u>
Total Expenditures of Federal Awards		<u><u>\$ 3,004,843</u></u>

See accompanying notes to the schedule of expenditures of federal awards.

NORTHERN RHODE ISLAND PRIVATE INDUSTRY COUNCIL, INC.
Notes to the Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 1998

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Northern Rhode Island Private Industry Council, Inc. and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.



ERNEST A. ALMONTE, CPA, CFE
Auditor General

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

JOINT COMMITTEE ON LEGISLATIVE SERVICES, GENERAL ASSEMBLY
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS:

We have audited the financial statements of the Northern Rhode Island Private Industry Council, Inc. (Council) as of and for the fiscal year ended June 30, 1998 and have issued our report thereon dated August 13, 1999 except for Note 12 to the financial statements as to which the date is October 12, 1999. Our report on the Council's financial statements was qualified due to the inability of management to provide written representations regarding the financial statements and because of various contingencies which may impact the financial statements. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 of compliance disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Finding 98-2.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely

affect the Council's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as Finding 98-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider Finding 98-1 to be a material weakness.

This report is intended solely for the information and use of the Joint Committee on Legislative Services, the Northern Rhode Island Job Training Consortium, the court appointed receiver for the Northern Rhode Island Private Industry Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Ernest A. Almonte, CPA, CFE
Auditor General

August 13, 1999, except for
Note 12 as to which the date is
October 12, 1999



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

JOINT COMMITTEE ON LEGISLATIVE SERVICES, GENERAL ASSEMBLY,
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS:

Compliance

We have audited the compliance of the Northern Rhode Island Private Industry Council, Inc. (Council) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1998. The Council's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Council's management. Our responsibility is to express an opinion on the Council's compliance based on our audit.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Council's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Council's compliance with those requirements.

Because the Council has suspended operations, management was unable to provide us with written representations regarding compliance with requirements applicable to major programs.

As described in Findings 98-3, 98-4 and 98-5 in the accompanying schedule of findings and questioned costs, the Council did not comply with the requirements regarding cash management, earmarking and reporting that are applicable to the Job Training Partnership Act Cluster programs. Compliance with such requirements is necessary, in our opinion, for the Council to comply with the requirements applicable to those programs.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the Council did not comply in all material respects with the requirements referred to above that are applicable to the Job Training Partnership Act Cluster programs.

Internal Control Over Compliance

The management of the Council is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Council's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Council's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 98-3, 98-4 and 98-5.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all

matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider Findings 98-3, 98-4 and 98-5 to be material weaknesses.

This report is intended solely for the information and use of the Joint Committee on Legislative Services, the Northern Rhode Island Job Training Consortium, the court appointed receiver for the Northern Rhode Island Private Industry Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Ernest A. Almonte, CPA, CFE
Auditor General

October 15, 1999

NORTHERN RHODE ISLAND PRIVATE INDUSTRY COUNCIL, INC.
Schedule of Findings and Questioned Costs
Year Ended June 30, 1998

Section I – Summary of Auditor’s Results

Financial Statements

- 1) The independent auditor’s report on the financial statements expressed a qualified opinion.
- 2) The audit of the financial statements disclosed a reportable condition which we considered a material weaknesses in internal control over financial reporting.
- 3) The audit disclosed an instance of noncompliance which is material to the financial statements.

Federal Awards

- 4) The audit disclosed reportable conditions in internal control over major programs, which were classified as material weaknesses.
- 5) The independent auditor’s report on compliance for major programs expressed an adverse opinion for the Job Training Partnership Act Cluster programs and an unqualified opinion for the School to Work Opportunities Act program.
- 6) The audit disclosed findings that must be reported under OMB Circular A-133 provisions.
- 7) The Council’s major programs for the fiscal year ended June 30, 1998 are as follows:

<u><i>Name of Federal Program or Cluster</i></u>	<u><i>CFDA Number</i></u>
Job Training Partnership Act Cluster:	
Employment and Training Assistance- Dislocated Workers	17.246
Job Training Partnership Act	17.250

- 8) The dollar threshold used to distinguish between type A and type B programs was \$300,000.
- 9) The Council did qualify as a low-risk auditee as defined by OMB Circular A-133.

NORTHERN RHODE ISLAND PRIVATE INDUSTRY COUNCIL, INC.
Schedule of Findings and Questioned Costs
Year Ended June 30, 1998

Section II – Financial Statement Findings

Finding 98-1

The Council did not have adequate accounting controls in place to ensure that revenue was recorded within its accounting records and financial statements consistent with the terms and limitations of grant awards and agreements. Direct and allocated program expenses for certain programs/grants exceeded the amount of grant award authority available to the Council. Due to the lack of these controls, financial data from the Council's accounting system required substantial adjustment in order to recognize revenue consistent with the terms and limitations of grant awards and agreements and to prepare financial statements in conformance with generally accepted accounting principles. Adjustments were made in the fiscal 1998 financial statements to record revenue to the extent of reimbursable program costs and within the limits of grant awards available to the Council. Expenses in excess of available grant awards are classified as other operating expenses.

Finding 98-2

As described in Finding 98-4 (Section III – Federal Award Findings and Questioned Costs), questioned costs were identified for certain of the federal programs administered by the Council. These questioned costs resulted from noncompliance with provisions of grant agreements and related federal regulations. These questioned costs are considered material to the financial statements for the fiscal year ended June 30, 1998. As described in Note 10 (B) to the financial statements, specific program revenues have been reduced to provide an allowance for the amount of questioned costs identified as a result of audit.

NORTHERN RHODE ISLAND PRIVATE INDUSTRY COUNCIL, INC.
Schedule of Findings and Questioned Costs
Year Ended June 30, 1998

Section III – Federal Award Findings and Questioned Costs

Finding 98-3

Job Training Partnership Act Cluster:

Employment And Training Assistance – Dislocated Workers – CFDA 17.246

Job Training Partnership Act – CFDA 17.250

CASH MANAGEMENT

The Council lacked adequate controls to ensure that its draws of federal cash from the State of Rhode Island were limited to its immediate needs and were supported by actual reimbursable program disbursements. At June 30, 1998, the Council had overdrawn federal funds for programs within the Job Training Partnership Cluster by \$176,900. This amount is included within *Due to the State of Rhode Island* on the accompanying Statement of Financial Position at June 30, 1998.

Questioned Costs: None

Finding 98-4

Job Training Partnership Act Cluster:

Employment And Training Assistance – Dislocated Workers – CFDA 17.246

Job Training Partnership Act – CFDA 17.250

EARMARKING REQUIREMENTS

Federal grants made pursuant to the Job Training Partnership Act (JTPA) are subject to various set-asides and limitations on the amount of the grant that may be spent for administrative expenses. We found that the Council lacked adequate controls to ensure compliance with these limitations.

Our tests of the Council's compliance with the limitations on administrative expenses funded by JTPA programs identified that these limitations were exceeded.

NORTHERN RHODE ISLAND PRIVATE INDUSTRY COUNCIL, INC.
Schedule of Findings and Questioned Costs
Year Ended June 30, 1998

Section III – Federal Award Findings and Questioned Costs

Finding 98-4 (continued)

Questioned Costs:

<u>Program component</u>	<u>Questioned costs</u>
JTPA - Title II-A	\$ 822
JTPA - Title III Formula Grants	44,973
JTPA - Title III (Almacs)	<u>166,753</u>
Total	<u>\$ 212,548</u>

Finding 98-5

REPORTING

The Council's internal controls did not ensure that amounts reported in federal expenditure reports were supported by internal accounting records. We found discrepancies between amounts reported in the quarterly reports submitted to the state pass-through agency and the amounts recorded in the Council's internal grants management system. For example, in the report for the period ended June 30, 1998, the Council's accounting system included expenditures of \$753,428 for the JTPA Title IIA program; the Council reported expenditures of \$611,936. The total allocation for this program was \$633,893.

Questioned Costs: None

NORTHERN RHODE ISLAND PRIVATE INDUSTRY COUNCIL, INC.
Corrective Action Plan
Year Ended June 30, 1998

Findings 98-1 to 98-5

The Council has suspended operations and a permanent receiver has been appointed by the Rhode Island Superior Court for the Council. The receiver is now responsible for the resolution of questioned costs identified in this report. Corrective action for internal control matters is not applicable since the Council has suspended operations and is now in receivership.

Contact person:

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NORTHERN RHODE ISLAND PRIVATE INDUSTRY COUNCIL, INC.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 1998

Finding No.	Finding	Initial Year of Recommendation	Status
97-1	Equipment acquired with federal funds was not recorded in the fixed asset accounting system. The Council had not performed a physical inventory of nonexpendable property purchased with federal funds	1997	partially implemented; the Council began identifying fixed assets purchased with federal funds