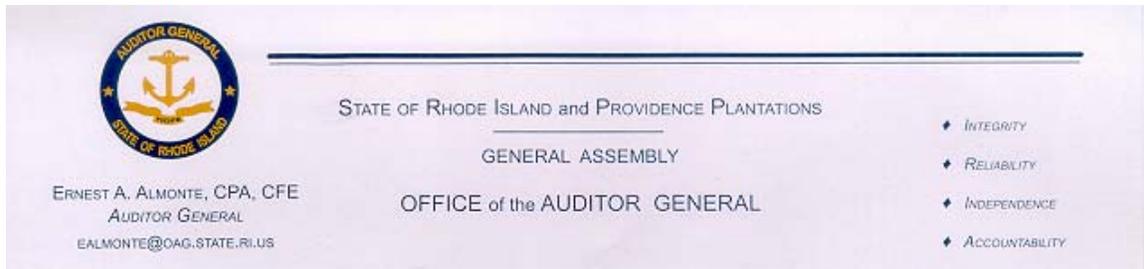


**State of Rhode Island
and Providence Plantations**

SINGLE AUDIT REPORT

Fiscal Year Ended June 30, 2003

**Ernest A. Almonte, CPA, CFE
Auditor General**



November 10, 2004

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

I am pleased to submit the State's *Single Audit Report* for the fiscal year ended June 30, 2003. 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 *Single Audit Report* includes our reports on (1) the basic financial statements of the State of Rhode Island, (2) compliance and on internal control over financial reporting, and (3) compliance with requirements applicable to each major federal program and internal control over compliance. A detailed Schedule of Expenditures of Federal Awards is also included as outlined in the Table of Contents on the next page. 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. A corrective action plan, which addresses each current year finding, has been prepared by the State and is included herein. Additionally, the status of prior year findings has also been prepared by the State and is included herein.

Respectfully submitted,

Ernest A. Almonte, CPA, CFE
Auditor General

Condensed Table of Contents

| | <u>Page</u> |
|---|-------------|
| A. Basic Financial Statements | |
| Independent Auditor's Report on the Basic Financial Statements and Supplementary Schedule of Expenditures of Federal Awards | A-1 |
| Management's Discussion and Analysis | A- 4 |
| Basic Financial Statements | A-15 |
| Notes to Basic Financial Statements | A-26 |
| Required Supplementary Information | A-77 |
| B. Schedule of Expenditures of Federal Awards | |
| Schedule of Expenditures of Federal Awards | B-1 |
| Notes to Schedule of Expenditures of Federal Awards | B-12 |
| C. Auditor's Reports | |
| Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> | C-1 |
| 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..... | C-4 |

Condensed Table of Contents (continued)

| | <u>Page</u> |
|--|-------------|
| D. Schedule of Findings and Questioned Costs | |
| Section I – Summary of Auditor’s Results | D-1 |
| Section II – Financial Statement Findings | D-4 |
| Section III – Federal Award Findings and Questioned Costs | |
| Table of Findings by Federal Program | D-26 |
| E. Corrective Action Plan – Findings Included in 2003 Single Audit Report | E-1 |
| F. Summary Schedule of Prior Audit Findings | F-1 |

Financial Statements



Basic Financial Statements

Table of Contents

| | <u>PAGE</u> |
|--|-------------|
| INDEPENDENT AUDITOR’S REPORT | A-1 |
| MANAGEMENT’S DISCUSSION AND ANALYSIS | A-4 |
| BASIC FINANCIAL STATEMENTS | |
| Government-wide Financial Statements | |
| Statement of Net Assets..... | A-15 |
| Statement of Activities | A-16 |
| Fund Financial Statements | |
| Balance Sheet – Governmental Funds..... | A-17 |
| Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Assets for Governmental Activities | A-18 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds..... | A-19 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities..... | A-20 |
| Statement of Net Assets – Proprietary Funds..... | A-21 |
| Statement of Revenues, Expenditures and Changes in Fund Net Assets – Proprietary Funds | A-22 |
| Statement of Cash Flows– Proprietary Funds | A-23 |
| Statement of Net Assets – Fiduciary Funds | A-24 |
| Statement of Changes in Fund Net Assets – Fiduciary Funds | A-25 |
| Notes to the Basic Financial Statements..... | A-26 |
| REQUIRED SUPPLEMENTARY INFORMATION..... | A-77 |
| Budgetary Comparison Schedules – General Fund..... | A-78 |
| Budgetary Comparison Schedules – Intermodal Surface Transportation Fund.... | A-99 |
| Budgetary Comparison Schedules – Temporary Disability Insurance Fund | A-100 |
| Schedules of Funding Progress for Employee’s Retirement System | A-101 |
| Notes to Required Supplementary Information..... | A-102 |



ERNEST A. ALMONTE, CPA, CFE
AUDITOR GENERAL
EALMONTE@OAG.STATE.RI.US

STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

♦ INTEGRITY
♦ RELIABILITY
♦ INDEPENDENCE
♦ ACCOUNTABILITY

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Rhode Island and Providence Plantations (the State) as of and for the year ended June 30, 2003 which collectively comprise the State's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of:

- certain component units which represent 4% of the assets and 1% of the revenues of the governmental activities and 1% of the assets and 9% of the revenues of the aggregate remaining fund information;
- the Convention Center Authority, a major fund, which represents 47% of the assets and 4% of the revenues of the business-type activities; and
- certain component units which represent 100% of the assets and 99% of the revenues of the aggregate discretely presented component units.

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates 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, is based solely on the reports of the other auditors.

Except as discussed in the following paragraph, 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 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 audit and the reports of other auditors provide a reasonable basis for our opinions.

We were unable to obtain sufficient evidence regarding the completeness of the furniture and equipment, and building improvement categories of capital assets included in governmental activities at June 30, 2003. Due to insufficient physical inventories of capital assets and weaknesses in accounting controls over the accumulation of capital asset acquisitions and disposals, we were unable to satisfy ourselves as to the carrying value of these categories of capital assets and the related depreciation expense by other auditing procedures. The furniture and equipment, and building improvement capital asset categories represent \$139 million or 13% of total recorded governmental activities capital assets of \$1,086 million at June 30, 2003.

Management has not presented encumbrances outstanding at June 30, 2003 as a reserved component of fund balance within the State's major governmental funds and other governmental funds or disclosed such amounts in the notes to the basic financial statements as required by generally accepted accounting principles. The amount by which this departure would affect the reserved and unreserved components of fund balance of the governmental funds is not reasonably determinable.

In our opinion, except for the effect of such adjustments, if any, on the governmental activities included in the government-wide statement of net assets and the related statement of activities as might have been determined to be necessary had we been provided sufficient evidence regarding the carrying value of the furniture and equipment, and building improvement components of capital assets, and except for the omission of encumbrances outstanding at June 30, 2003 as a component of reserved fund balance of the governmental funds, 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, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in notes 1(R) and 17 to the basic financial statements, the Tobacco Settlement Financing Corporation, a blended component unit, early implemented guidance provided in GASB Technical Bulletin *Tobacco Settlement Recognition and Financial Reporting Entity Issues*. As a result, the Tobacco Settlement Financing Corporation changed its method of accounting for its purchased interest in future tobacco settlement revenues and the State changed its presentation of the Corporation from a discretely presented component unit to a blended component unit.

As provided by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis—for State and Local Governments*, the State has included only capital outlays for infrastructure since July 1, 2001 as capital assets within governmental activities on the government-wide statement of net assets. Infrastructure outlays from prior years will be included in future financial statements.

In accordance with *Government Auditing Standards*, we will issue our report on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. The report on internal control and compliance will be included in the State's *Single Audit Report*.

The management's discussion and analysis and required supplementary information, listed in the accompanying table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. 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 by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, is fairly stated in all material respects, in relation to the basic financial statements taken as whole.



Ernest A. Almonte, CPA, CFE
Auditor General

October 13, 2004

Management's Discussion and Analysis

The following is a discussion and analysis of the financial activities of the State of Rhode Island and Providence Plantations (the State) for the fiscal year ended June 30, 2003. Readers are encouraged to consider the information presented here in conjunction with the letter of transmittal, which can be found at the front of this report, and with the State's financial statements, which follow this section.

Financial Highlights – Primary Government

Government-wide Financial Statements

- **Net Assets** The total assets of the State exceeded total liabilities at fiscal year ended June 30, 2003 by \$82.3 million. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government. Of this amount, (\$872.8) million was reported as unrestricted net assets, \$557.5 million was restricted net assets, and \$397.6 million was invested in capital assets net of related debt. Net assets of the governmental activities decreased by \$549.4 million for the fiscal year ended June 30, 2003. The primary reason for the decrease is the additional \$651 million of debt reported in governmental activities due to the changes in presentation as listed below. This decrease is reflected in the Changes in Net Assets in the line "Net assets-beginning, as restated." The restatement is further detailed in Note 17.
- **Changes in Net Assets** In the Statement of Activities the State's total net assets changed by (\$64.5) million in fiscal year 2003. Net assets of governmental activities changed by \$5.1 million, while net assets of the business-type activities changed by (\$69.6) million. The primary reason for the difference in the change in governmental activities was the one-time influx of \$544.2 million, during fiscal year 2002, from the Tobacco Settlement Finance Corporation that was reported as a special item. The primary reason for the difference in the business-type activities was the increase in operating transfers out.

Fund Financial Statements

- State's governmental funds reported a combined ending fund balance of \$458.1 million, a decrease of \$55.9 million in comparison with the previous fiscal year.
- The General Fund ended the current fiscal year with an unreserved, undesignated balance of \$42.6 million, an increase of \$11.6 million in comparison with the previous fiscal year.
- The Budget Reserve Account ended the fiscal year with a balance of \$83.6 million, an increase of \$1.6 million in comparison with the previous fiscal year.
- The Intermodal Surface Transportation Fund ended the fiscal year with an unreserved fund balance of \$24.1 million, which was a decrease of \$7.9 million from the previous year.
- The R.I. Temporary Disability Insurance Fund ended the current fiscal year with a 21.4% increase of \$20.1 million over last year. The fund balance at year end was \$114.1 million.
- The Rhode Island State Lottery transferred \$249.1 million to the General Fund during the fiscal year, an increase of \$34.9 million in comparison with the previous fiscal year.

Management's Discussion and Analysis

Overview of the Financial Statements

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

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

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

Changes in Presentation

The R.I. General Laws were amended giving the R.I. Underground Storage Tank Financial Responsibility Fund separate legal status; therefore, the fund was reclassified from a special revenue fund to a discretely presented component unit.

The Tobacco Settlement Financing Corporation early implemented the GASB Technical Bulletin, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*. This bulletin made it clear that the corporation should be a blended component unit; therefore the corporation was reclassified from a discretely presented component unit to a special revenue fund.

Government-wide Financial Statements

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

- The **Statement of Net Assets** presents all of the government's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in the government's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.
- The **Statement of Activities** presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods; for example, uncollected taxes and earned but unused vacation leave. This statement also presents a comparison between direct expenses and program revenues for each function of the government.

Management's Discussion and Analysis

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

- **Governmental Activities:** The activities in this section represent most of the State's basic services and are generally supported by taxes, grants and intergovernmental revenues. The governmental activities of the State include general government, human services, education, public safety, natural resources, and transportation. The net assets and change in net assets of the internal service funds are also included in this column.
- **Business-type Activities:** These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the State include the operations of the Lottery Commission, R.I. Convention Center Authority and the Employment Security Trust Fund.
- **Discretely Presented Component Units:** Component units are entities that are legally separate from the State, but for which the State is financially accountable. The State has 21 discretely presented component units. Financial information for these entities is presented separately from the financial information presented for the primary government.

Fund Financial Statements

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

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

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

Management's Discussion and Analysis

Governmental funds include the general fund and special revenue, capital projects, debt service and permanent funds. The State has several governmental funds, of which GASB Statement No. 34, *Basic Financial Statements – and Management's discussion and Analysis – for State and Local Governments* defines the general fund as a major fund and management defines the Intermodal Surface Transportation Fund as a major fund. The R.I. Temporary Disability Insurance Fund and the Bond Capital Fund are also major funds. Each of the major funds is presented in a separate column in the governmental funds balance sheet and statement of revenues, expenditures and changes in fund balances. The remaining governmental funds are combined in a single aggregated column on these financial statements. Individual fund data for each of these nonmajor governmental funds can be found in the supplementary information section of this report.

- **Proprietary funds:** Services for which the State charges customers a fee are generally reported in proprietary funds. The State maintains two different types of proprietary funds, enterprise funds and internal service funds. Enterprise funds report activities that provide supplies and services to the general public. Internal service funds report activities that provide supplies and services for the State's other programs and activities. Like the government-wide statements, proprietary funds use the accrual basis of accounting. The State has three enterprise funds, the Lottery Fund, Convention Center Authority Fund and the Employment Security Trust Fund. These funds are each presented in separate columns on the basic proprietary fund financial statements. The State's internal service funds are reported as governmental activities on the government-wide statements, because the services they provide predominantly benefit governmental activities. The State's 14 internal service funds are reported on the basic proprietary fund financial statements in a single combined column. Individual fund data for these funds is provided in the form of combining statements and can be found in the supplementary information section of this report.
- **Fiduciary funds:** These funds are used to account resources held for the benefit of parties outside the State government. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support the State's programs. These funds, which include the pension trust, private-purpose trust and agency funds, are reported using accrual accounting. Individual fund data for fiduciary funds can be found in the supplementary information section of this report.

Management's Discussion and Analysis

| Major Features of the Basic Financial Statements | | | | |
|--|--|--|---|--|
| | Government-wide | Fund Financial Statements | | |
| | Financial Statements | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire State government (except fiduciary funds) and the State's component units | Activities of the State that are not proprietary or fiduciary | Activities of the State that are operated similar to private businesses | Instances in which the State is the trustee or agent for someone else's resources |
| Required financial statements | Statement of net assets Statement of activities | Balance sheet Statement of revenues, expenditures, and changes in fund balances | Statement of net assets Statement of revenues, expenses and changes in net assets Statement of cash flows | Statement of net assets Statement of changes in fund net assets |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, and short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included | All assets and liabilities, both financial and capital, and short-term and long-term | All assets and liabilities, both short-term and long-term |
| Type of inflow/outflow information | All revenues and expenses during the year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year end Expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during the year, regardless of when cash is received or paid | All revenues and expenses during the year, regardless of when cash is received or paid |

Notes to the Financial Statements

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

Required Supplementary Information

The basic financial statements and accompanying notes are followed by a section of required supplementary information, including information concerning the State's progress in funding its obligation to provide pension benefits to its employees. This section also includes a budgetary comparison schedule for each of the State's major governmental funds that have a legally-mandated budget.

Other Supplementary Information

Other supplementary information includes combining financial statements for nonmajor governmental, internal service and fiduciary funds. These funds are added together, by fund type, and presented in single columns in the basic financial statements.

Government-Wide Financial Analysis

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (governmental and business-type activities) totaled \$82.3 million at the end of fiscal year 2003, compared to \$701.3 million (before restatement) at the end of the prior fiscal year. The primary reason for the change is the additional \$651 million of debt reported in governmental activities due to the changes in presentation as listed above.

Management's Discussion and Analysis

This change is reflected in the Changes in Net Assets in the line "Net assets-beginning, as restated." The restatement is further detailed in Note 17.

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

| State of Rhode Island's Net Assets as of June 30, 2003 | | | | | | |
|---|------------------------------------|---------------------|-------------------------------------|-------------------|---|-------------------|
| (Expressed in Thousands) | | | | | | |
| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Current and other assets | \$ 967,379 | \$ 1,082,235 | \$ 312,155 | \$ 365,997 | \$ 1,279,534 | \$ 1,448,232 |
| Capital assets | 1,086,556 | 936,397 | 208,273 | 209,022 | 1,294,829 | 1,145,419 |
| Total assets | 2,053,935 | 2,018,632 | 520,428 | 575,019 | 2,574,363 | 2,593,651 |
| Long-term liabilities outstanding | 1,599,965 | 1,589,439 | 294,364 | 286,930 | 1,894,329 | 1,876,369 |
| Other liabilities | 559,261 | 539,639 | 38,471 | 30,836 | 597,732 | 570,475 |
| Total liabilities | 2,159,226 | 2,129,078 | 332,835 | 317,766 | 2,492,061 | 2,446,844 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 481,460 | 371,614 | (83,896) | (84,909) | 397,564 | 286,705 |
| Restricted | 273,559 | 196,913 | 283,944 | 340,512 | 557,503 | 537,425 |
| Unrestricted | (860,310) | (678,973) | (12,455) | 1,650 | (872,765) | (677,323) |
| Total net assets | \$ (105,291) | \$ (110,446) | \$ 187,593 | \$ 257,253 | \$ 82,302 | \$ 146,807 |

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

Changes in Net Assets

The State's net assets decreased by (\$64.5) million during the current fiscal year. Total revenues of \$6.0 billion (including special items) were less than expenses of \$6.1 billion. Approximately 38.9% of the State's total revenue came from taxes, while 28.1% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 29.8% of the total revenues. The State's expenses covered a range of services. The largest expenses were for human services (37.0%) and intergovernmental (15.6%). In fiscal year 2003, governmental activity expenses exceeded program revenues, which resulted in the use of \$2.73 billion in general revenues (mostly taxes). On the other hand, net program revenues from business-type activities in 2003 exceeded expenses by \$142.7 million.

Management's Discussion and Analysis

| State of Rhode Island's Changes in Net Assets | | | | | | |
|---|------------------------------------|---------------------|-------------------------------------|-------------------|-------------------------------------|-------------------|
| For the Fiscal Year Ended June 30, 2003 | | | | | | |
| (Expressed in Thousands) | | | | | | |
| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 313,733 | \$ 306,007 | \$ 1,473,723 | \$ 1,345,922 | \$ 1,787,456 | \$ 1,651,929 |
| Operating grants and contributions | 1,452,834 | 1,315,974 | 45,712 | 50,656 | 1,498,546 | 1,366,630 |
| Capital grants and contributions | 191,993 | 176,071 | | | 191,993 | 176,071 |
| General revenues: | | | | | | |
| Taxes | 2,335,329 | 2,187,342 | | | 2,335,329 | 2,187,342 |
| Interest | 7,668 | 10,005 | 17,336 | 21,134 | 25,004 | 31,139 |
| Other | 160,547 | 153,947 | 5,354 | 7,615 | 165,901 | 161,562 |
| Total revenues | <u>4,462,104</u> | <u>4,149,346</u> | <u>1,542,125</u> | <u>1,425,327</u> | <u>6,004,229</u> | <u>5,574,673</u> |
| Program expenses: | | | | | | |
| General government | 459,989 | 455,489 | | | 459,989 | 455,489 |
| Human services | 2,244,980 | 2,115,220 | | | 2,244,980 | 2,115,220 |
| Education | 103,476 | 339,455 | | | 103,476 | 339,455 |
| Public safety | 309,569 | 288,291 | | | 309,569 | 288,291 |
| Natural resources | 67,597 | 138,287 | | | 67,597 | 138,287 |
| Transportation | 170,082 | 192,824 | | | 170,082 | 192,824 |
| Intergovernmental | 947,792 | 896,512 | | | 947,792 | 896,512 |
| Grants | 291,208 | 287 | | | 291,208 | 287 |
| Interest | 98,831 | 79,381 | | | 98,831 | 79,381 |
| Lottery | | | 1,054,764 | 958,626 | 1,054,764 | 958,626 |
| Convention Center | | | 59,372 | 57,900 | 59,372 | 57,900 |
| Employment insurance | | | 262,585 | 231,665 | 262,585 | 231,665 |
| | <u>4,693,524</u> | <u>4,505,746</u> | <u>1,376,721</u> | <u>1,248,191</u> | <u>6,070,245</u> | <u>5,753,937</u> |
| Increase in net assets before transfers and special items | (231,420) | (356,400) | 165,404 | 177,136 | (66,016) | (179,264) |
| Transfers | 235,064 | 198,969 | (235,064) | (198,969) | | |
| Special items | 1,511 | 525,276 | | | 1,511 | 525,276 |
| Change in net assets | <u>5,155</u> | <u>367,845</u> | <u>(69,660)</u> | <u>(21,833)</u> | <u>(64,505)</u> | <u>346,012</u> |
| Net assets - Beginning | (110,446) | 76,251 | 257,253 | 279,086 | 146,807 | 355,337 |
| Cumulative effect of prior period adjustments | | (554,542) | | | | (554,542) |
| Net assets - Beginning, as restated | <u>(110,446)</u> | <u>(478,291)</u> | <u>257,253</u> | <u>279,086</u> | <u>146,807</u> | <u>(199,205)</u> |
| Net assets - Ending | <u>\$ (105,291)</u> | <u>\$ (110,446)</u> | <u>\$ 187,593</u> | <u>\$ 257,253</u> | <u>\$ 82,302</u> | <u>\$ 146,807</u> |

Financial Analysis of the State's Funds

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

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the State's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the State's governmental funds reported a combined ending fund balance of \$458.1 million, a decrease of \$55.9 million. Reserved fund balances are not available for new spending because they have already been committed as follows: (1) \$83.6 million for a "rainy day" account, (2) \$45.5 million for continuing appropriations, (3) \$74.4 million principally for liquidating debt, (4) \$114.0 million for employment insurance programs and (5)

Management's Discussion and Analysis

\$1.4 million for other restricted purposes. Approximately 30.3% (\$139.0 million) of the ending fund balance is designated by the State's management consistent with the limitations of each fund.

The major governmental funds of the primary government are:

General Fund. The General Fund is the chief operating fund of the State. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$42.6 million, while total fund balance was \$171.8 million. As a measurement of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represent 1.0% of total General Fund expenditures, while total fund balance represent 3.9% of the same amount.

The General Fund's unreserved fund balance increased from \$31.0 million to \$42.6 million, an increase of \$11.6 million during the current fiscal year. This is primarily attributed to the revenue increases for taxes, licenses, fines and services.

Intermodal Surface Transportation Fund. The Intermodal Surface Transportation Fund (ISTEA) accounts for the collection of gasoline tax, federal grants, and bond proceeds that are used in maintenance, upgrading, and construction of the State's highway system. At the end of the current fiscal year, unreserved fund balance of the ISTEA fund was \$24.1 million, while the total fund balance was \$25.5 million. Total fund balance of the ISTEA fund decreased by \$7.9 million during the current fiscal year.

R.I. Temporary Disability Insurance Fund. This fund is responsible to account for the employee tax on wages which are levied to pay benefits to covered workers who are absent due to non job-related illnesses. The ending fund balance for the current fiscal year was \$114.1 million. It represents an increase of \$20.1 million or 21.4% over last year. This was mainly attributed to the increase in the wage limit used for the employee contribution.

Bond Capital Fund. The Bond Capital Fund tracks the proceeds from the bonds issued and the related capital expenditures not required to be disclosed in another capital projects fund. At fiscal year end, the balance at June 30, 2003 was \$57.6 million for a decrease of \$.8 million.

General Fund Budgetary Highlights

According to the State's Constitution, general revenue appropriations in the general fund cannot exceed 98% of available general revenue sources, which consist of the current fiscal year's budgeted general revenue plus the general fund undesignated fund balance from the prior fiscal year. The budgets for the components of 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 revenues must be imposed. Certain agencies have federal programs that are entitlements which must continue to receive the federal funds. Agencies may get additional appropriations providing a need is established. Adjustments to general revenue receipt estimates resulted in an increase of \$42.7 million (1.58%) between the original budget and the final budget. In addition, general revenue appropriations increased from the original budget by \$26.6 million (1.00%). Some significant

Management's Discussion and Analysis

changes between the estimated general revenue receipts and general revenue appropriations are listed below.

- Personal income tax decreased by \$ 17.5 million (2%)
- Business corporation tax increased by \$17.9 million (39%)
- Public gross earnings tax decreased by \$20.8 million (22%)
- Insurance companies tax increased by \$14.0 million (39%)
- Inheritance and gift tax increased by \$8.0 million (36%)
- Departmental general revenue increased by \$17.7 million (7%)
- Gas tax transfer increased by \$14.2 million (134%)
- General revenue appropriations increased in the Departments of Administration, Corrections and Elementary and Secondary Education increased by \$13.2 million, \$6.9 million and \$4.1 million, respectively

Capital Assets and Debt Administration

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2003, amounts to \$1,295 million, net of accumulated depreciation of \$432 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. The total increase in the State's investment in capital assets for the current fiscal year was about 14.0% in terms of net book value.

Actual expenditures to purchase or construct capital assets were \$198.8 million for the year. Of this amount, \$106.2 million was used to construct or reconstruct roads. Depreciation charges for the year totaled \$47.4 million.

| State of Rhode Island's Capital Assets as of June 30, 2003 (Expressed in Thousands) | | | | | | |
|--|-------------------------|-------------------|--------------------------|-------------------|-----------------------------|---------------------|
| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Capital assets not being depreciated | | | | | | |
| Land | \$ 382,579 | \$ 373,186 | \$ 38,032 | \$ 38,032 | \$ 420,611 | \$ 411,218 |
| Construction in progress | 102,881 | 52,193 | | 1,336 | 102,881 | 53,529 |
| Total capital assets not being depreciated | 485,460 | 425,379 | 38,032 | 39,368 | 523,492 | 464,747 |
| Capital assets being depreciated | | | | | | |
| Land improvements | 3,601 | 3,209 | | | 3,601 | 3,209 |
| Buildings | 374,127 | 369,453 | 229,748 | 227,336 | 603,875 | 596,789 |
| Buildings improvements | 198,449 | 195,860 | | | 198,449 | 195,860 |
| Equipment | 148,924 | 137,163 | 23,571 | 18,466 | 172,495 | 155,629 |
| Infrastructure | 224,490 | 118,311 | | | 224,490 | 118,311 |
| | 949,591 | 823,996 | 253,319 | 245,802 | 1,202,910 | 1,069,798 |
| Less: Accumulated depreciation | (348,495) | (312,978) | (83,078) | (76,148) | (431,573) | (389,126) |
| Total capital assets being depreciated | 601,096 | 511,018 | 170,241 | 169,654 | 771,337 | 680,672 |
| Total capital assets (net) | \$ 1,086,556 | \$ 936,397 | \$ 208,273 | \$ 209,022 | \$ 1,294,829 | \$ 1,145,419 |

Management's Discussion and Analysis

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

Debt Administration

Under the State's Constitution, the General Assembly has no power to incur State debts in excess of \$50,000 without the consent of the people (voters), except in the case of war, insurrection or invasion, or to pledge the faith of the State to the payment of obligations of others without such consent. At the end of the current fiscal year, the State's governmental activities had total bonded debt outstanding of \$1,498 million of which \$739 million is general obligation debt and \$759 million is debt of the blended component units. The State's total bonded debt increased by \$23.7 million during the current fiscal year. This increase is the net of a \$48.5 million increase in general obligation debt and a decrease of \$24.8 million in the blended component units. Additionally, the State has extended its credit through contractual agreements of a long-term nature, which are subject to annual appropriations.

During the current fiscal year, the State issued \$77.1 million of general obligation bonds and \$62.7 of general obligation refunding bonds. These bonds have been assigned ratings by Fitch, Inc. (Fitch), Moody's Investors Service (Moody's) and Standard and Poor's Rating Services (Standard and Poor's).

The State does not have any debt limitation. Bonds authorized by the voters, that remain unissued as of the end of the current fiscal year, amounted to \$238.5 million. Additional information on the State's long-term debt can be found in the notes to the financial statements of this report.

Economic Factors

The State's economy weathered the national recession of 2001 better than it did the recession of the early 1990s. According to the U.S. Bureau of Labor Statistics, Rhode Island experienced a decline in non-farm employment of 17,300 jobs in FY 1992 vs. a decline in non-farm employment of 1,300 jobs in FY 2002. On a calendar year basis, Rhode Island did even better experiencing an increase in employment of 1,700 jobs in CY 2001 vs. a loss of 29,700 jobs in CY 1991. In FY 2003, Rhode Island added 3,100 total jobs. On a calendar year basis, the State increased its non-farm employment by 4,200 in 2003.

According to Economy.com's August 2004 *Forecast Report: U.S., New England, and Rhode Island*, Rhode Island's recent job gains have begun to decelerate causing the State to fall "behind the nation in terms of year-over-year job growth in the last couple of months for the first time in three years." The slowdown in Rhode Island's employment growth can be attributed to a decrease in employment in the construction industry. Again according to Economy.com (8/2004), "From July 2002 to February 2004, the Rhode Island construction industry added 3,600 jobs, an increase of nearly 19%." The State's strong housing market and an increase in government spending on several large public works and road improvement projects fueled this hiring. Since February, construction employment has fallen.

Rhode Island personal income growth has performed similarly to Rhode Island employment growth in the current recession. In CY 1992, Rhode Island personal income growth was more

Management's Discussion and Analysis

than two percentage points less than that of the U.S. (4.3% vs. 6.6% respectively) reflecting the deeper decline in Rhode Island's economy vis-à-vis the U.S. economy during this period. In CY 2002, however, Rhode Island personal income growth was more than a full percentage point better than that of the U.S. as a whole (3.4% vs. 2.3% respectively) reflecting the reversal in the State's fortunes during the 2001 national recession.

Interestingly, Rhode Island has been able to maintain the positive differential between its personal income growth rate and the U.S. personal income growth rate in spite of the fact that Rhode Island's employment growth performance has begun to lag that of the nation as a whole. In FY 2003, Rhode Island personal income growth was 3.7% vs. 2.6% for the U.S. On a calendar year basis, Rhode Island personal income growth was 4.4% in 2003 vs. 2003 personal income growth of 3.4% for the United States.

According to Economy.com (8/2004), the near term outlook for Rhode Island's economy is "generally favorable" with payroll growth expected "to strengthen in the second half of 2004 and employment to rise a solid 1.9% in 2005." One of the catalysts for this growth is rising national defense spending. Economy.com (8/2004) notes that "Electric Boat continues to win federal contracts to retrofit submarines for use in special operations and surveillance." In addition, "Raytheon is also enjoying more business from a larger defense budget given its emphasis on surveillance and control systems." Finally, the national defense build-up is moving the State's manufacturing sector into a much better position to support growth in the Rhode Island economy. With the assistance of the Rhode Island Manufacturing Extension Services, "area businesses with little history of defense work" anticipate capturing a significant part of the U.S. Department of Defense's increased spending.

The biotechnology industry cluster that has begun to emerge in Rhode Island should positively impact the State's long term economic performance. In 2002, the Brown University Medical School won \$90 million in research grants from the National Institutes of Health. A referendum is being put before the voters in November 2004 seeking approval of \$50 million in general obligation bonds for the construction of a Center for Biotechnology and Life Sciences at the University of Rhode Island. Finally, Amgen has invested \$1.5 billion in the State since 2001 building the largest biopharmaceutical manufacturing facility in the U.S. for the production of its blockbuster rheumatoid arthritis drug Enbrel®. The final phase of the plant is expected to open in 2005 adding anywhere from 300 to 500 jobs.

Requests for Information

This financial report is designed to provide a general overview of Rhode Island's finances for all those with an interest in the State's finances. Questions concerning any of the information provided in this report or requests for additional information should be sent to finreport@mail.state.ri.us. As of fiscal year 1999, the State's Comprehensive Annual Financial Report may be found on the State Controller's home page, <http://controller.doa.state.ri.us>. Requests for additional information related to component units should be addressed as listed in Note 1 of the financial statements.

State of Rhode Island and Providence Plantations

Statement of Net Assets

June 30, 2003

(Expressed in Thousands)

| | Primary Government | | | Component Units |
|---|----------------------------|-------------------------------|------------------|---------------------|
| | Governmental activities | Business - Type Activities | Totals | |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 350,738 | \$ 23,179 | \$ 373,917 | \$ 751,479 |
| Funds on deposit with fiscal agent | 11,529 | 222,960 | 234,489 | |
| Investments | 101,020 | 294 | 101,314 | 886,257 |
| Receivables (net) | 281,817 | 44,890 | 326,707 | 1,135,626 |
| Due from primary government | | | | 4,240 |
| Due from component units | 17,498 | | 17,498 | |
| Internal balances | 4,885 | (4,885) | | |
| Due from other governments and agencies | 144,615 | 1,338 | 145,953 | 7,870 |
| Inventories | 2,058 | 1,155 | 3,213 | 7,512 |
| Other assets | 18,416 | 1,204 | 19,620 | 17,625 |
| Total current assets | <u>932,576</u> | <u>290,135</u> | <u>1,222,711</u> | <u>2,810,609</u> |
| Noncurrent assets: | | | | |
| Investments | | 17,219 | 17,219 | 88,487 |
| Receivables (net) | 668 | | 668 | 1,107,524 |
| Due from component units | 25,753 | | 25,753 | |
| Capital assets - nondepreciable | 485,460 | 38,032 | 523,492 | 275,217 |
| Capital assets - depreciable (net) | 601,096 | 170,241 | 771,337 | 966,648 |
| Lease receivable | | | | 5,555 |
| Other assets | 8,382 | 4,801 | 13,183 | 141,517 |
| Total noncurrent assets | <u>1,121,359</u> | <u>230,293</u> | <u>1,351,652</u> | <u>2,584,948</u> |
| Total assets | <u>2,053,935</u> | <u>520,428</u> | <u>2,574,363</u> | <u>5,395,557</u> |
| Liabilities | | | | |
| Current Liabilities: | | | | |
| Cash overdraft | 26,634 | | 26,634 | 215 |
| Accounts payable | 317,764 | 16,440 | 334,204 | 76,972 |
| Due to primary government | | | | 5,035 |
| Due to component units | 8,536 | | 8,536 | |
| Due to other governments and agencies | | 1,671 | 1,671 | 659 |
| Accrued expenses | 58,911 | 4,413 | 63,324 | 63,746 |
| Deferred revenue | | 1,769 | 1,769 | 16,889 |
| Other current liabilities | 34,312 | 334 | 34,646 | 8,694 |
| Current portion of long-term debt | 113,104 | 7,838 | 120,942 | 302,906 |
| Obligation for unpaid prize awards | | 6,006 | 6,006 | |
| Total current liabilities | <u>559,261</u> | <u>38,471</u> | <u>597,732</u> | <u>475,116</u> |
| Noncurrent Liabilities: | | | | |
| Due to other governments and agencies | 5,442 | | 5,442 | 4,217 |
| Accrued liabilities | | | | 33,516 |
| Deferred revenue | | 11,875 | 11,875 | 3,960 |
| Notes payable | | | | 4,151 |
| Loans payable | | | | 131,007 |
| Obligations under capital lease | 102,885 | | 102,885 | 43,747 |
| Compensated absences | 15,604 | | 15,604 | 23,901 |
| Bonds payable | 1,445,547 | 282,444 | 1,727,991 | 2,905,829 |
| Other liabilities | 30,487 | 45 | 30,532 | 290,489 |
| Total noncurrent liabilities | <u>1,599,965</u> | <u>294,364</u> | <u>1,894,329</u> | <u>3,440,817</u> |
| Total liabilities | <u>2,159,226</u> | <u>332,835</u> | <u>2,492,061</u> | <u>3,915,933</u> |
| Net Assets | | | | |
| Invested in capital assets, net of related debt | 481,460 | (83,896) | 397,564 | 718,560 |
| Restricted for: | | | | |
| Budget Reserve | 83,648 | | 83,648 | |
| State infrastructure bank | 1,354 | | 1,354 | |
| Debt | 74,363 | 24,522 | 98,885 | 573,571 |
| Self-insurance | 100 | | 100 | |
| Employment Insurance Programs | 114,094 | 259,422 | 373,516 | |
| Unrestricted | (860,310) | (12,455) | (872,765) | 187,493 |
| Total net assets | <u>\$ (105,291)</u> | <u>\$ 187,593</u> | <u>\$ 82,302</u> | <u>\$ 1,479,624</u> |

State of Rhode Island and Providence Plantations
Statement of Activities
For the Year Ended June 30, 2003
(Expressed in Thousands)

| Functions/Programs | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | | | Component Units |
|--|---------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|--------------------|---------------------|
| | Expenses | Charges for Services | Operating grants and contributions | Capital grants and contributions | Primary Government | | Totals | |
| | | | | | Governmental Activities | Business-type activities | | |
| Primary government: | | | | | | | | |
| Governmental activities: | | | | | | | | |
| General government | \$ 459,989 | \$ 108,369 | \$ 68,994 | \$ 164 | \$ (282,462) | | \$ (282,462) | \$ |
| Human services | 2,244,980 | 113,247 | 1,203,908 | 100 | (927,725) | | (927,725) | |
| Education | 103,476 | 2,877 | 132,003 | | 31,404 | | 31,404 | |
| Public safety | 309,569 | 60,341 | 24,516 | 945 | (223,767) | | (223,767) | |
| Natural resources | 67,597 | 25,807 | 14,680 | 20,175 | (6,935) | | (6,935) | |
| Transportation | 170,082 | 3,092 | 8,733 | 170,609 | 12,352 | | 12,352 | |
| Intergovernmental | 947,792 | | | | (947,792) | | (947,792) | |
| Grants | 291,208 | | | | (291,208) | | (291,208) | |
| Interest and other charges | 98,831 | | | | (98,831) | | (98,831) | |
| Capital outlays | | | | | | | | |
| Total governmental activities | <u>4,693,524</u> | <u>313,733</u> | <u>1,452,834</u> | <u>191,993</u> | <u>(2,734,964)</u> | | <u>(2,734,964)</u> | |
| Business-type activities: | | | | | | | | |
| State lottery | 1,054,764 | 1,290,406 | | | | 235,642 | 235,642 | |
| Convention Center | 59,372 | 39,610 | | | | (19,762) | (19,762) | |
| Employment security | 262,585 | 143,707 | 45,712 | | | (73,166) | (73,166) | |
| Total business-type activities | <u>1,376,721</u> | <u>1,473,723</u> | <u>45,712</u> | | | <u>142,714</u> | <u>142,714</u> | |
| Total primary government | <u>\$ 6,070,245</u> | <u>\$ 1,787,456</u> | <u>\$ 1,498,546</u> | <u>\$ 191,993</u> | <u>(2,734,964)</u> | <u>142,714</u> | <u>(2,592,250)</u> | |
| Component units | <u>\$ 991,267</u> | <u>\$ 931,981</u> | <u>\$ 37,929</u> | <u>\$ 53,731</u> | | | | 32,374 |
| General Revenues: | | | | | | | | |
| Taxes | | | | | 2,335,329 | | 2,335,329 | |
| Interest and investment earnings | | | | | 7,668 | 17,336 | 25,004 | 49,119 |
| Miscellaneous | | | | | 160,547 | 5,354 | 165,901 | (815) |
| Special items | | | | | 1,511 | | 1,511 | |
| Transfers | | | | | 235,064 | (235,064) | | |
| Total general revenues, special items, and transfers | | | | | <u>2,740,119</u> | <u>(212,374)</u> | <u>2,527,745</u> | <u>48,304</u> |
| Change in net assets | | | | | 5,155 | (69,660) | (64,505) | 80,678 |
| Net assets - beginning, as restated | | | | | (110,446) | 257,253 | 146,807 | 1,398,946 |
| Net assets - ending | | | | | <u>\$ (105,291)</u> | <u>\$ 187,593</u> | <u>\$ 82,302</u> | <u>\$ 1,479,624</u> |

State of Rhode Island and Providence Plantations

Balance Sheet

Governmental Funds

June 30, 2003

(Expressed in Thousands)

| | General | Intermodal Surface Transportation | R.I. Temporary Disability | Bond Capital | Other Governmental Funds | Total Governmental Funds |
|--|-------------------|--|--|-------------------------|---|---|
| Assets | | | | | | |
| Cash and cash equivalents | \$ 164,446 | \$ 9,951 | \$ 66,402 | \$ 90,214 | \$ 14,175 | \$ 345,188 |
| Funds on deposit with fiscal agent | | | | | 11,529 | 11,529 |
| Investments | | | | | 101,020 | 101,020 |
| Receivables (net) | 213,185 | 12,372 | 49,086 | | 9 | 274,652 |
| Due from other funds | 65,000 | 10,586 | 2 | 7,955 | 3 | 83,546 |
| Due from component units | 14,517 | 647 | | | | 15,164 |
| Due from other governments and agencies | 104,360 | 37,959 | | 2,299 | | 144,618 |
| Loans to other funds | 120 | | | | | 120 |
| Other assets | 16,240 | | | | 1,485 | 17,725 |
| Total assets | 577,868 | 71,515 | 115,490 | 100,468 | 128,221 | 993,562 |
| Liabilities and Fund Balances | | | | | | |
| Liabilities | | | | | | |
| Cash overdraft | | | | 21,011 | 4,337 | 25,348 |
| Accounts payable | 277,598 | 20,896 | 76 | 1,351 | 947 | 300,868 |
| Due to other funds | 20,519 | 7,146 | 1,320 | 20,437 | 30,815 | 80,237 |
| Due to component units | 6,146 | 2,389 | | | | 8,535 |
| Loans from other funds | | | | | 20 | 20 |
| Accrued expenses | 44,473 | | | | | 44,473 |
| Deferred revenue | 27,188 | 15,140 | | 66 | | 42,394 |
| Other liabilities | 30,105 | 490 | | 57 | 2,892 | 33,544 |
| Total liabilities | 406,029 | 46,061 | 1,396 | 42,922 | 39,011 | 535,419 |
| Fund Balances | | | | | | |
| Reserved for: | | | | | | |
| Budget reserve | 83,648 | | | | | 83,648 |
| Appropriations carried forward | 45,557 | | | | | 45,557 |
| Debt | | | | | 74,363 | 74,363 |
| Self-insurance | | | | | 100 | 100 |
| State infrastructure bank | | 1,354 | | | | 1,354 |
| Employment Insurance Programs | | | 114,094 | | | 114,094 |
| Unreserved, reported in: | | | | | | |
| General fund | 42,634 | | | | | 42,634 |
| Special revenue funds | | 24,100 | | | 1,303 | 25,403 |
| Capital projects funds | | | | 57,546 | 12,607 | 70,153 |
| Permanent fund | | | | | 837 | 837 |
| Total fund balances | 171,839 | 25,454 | 114,094 | 57,546 | 89,210 | 458,143 |
| Total liabilities and fund balances | \$ 577,868 | \$ 71,515 | \$ 115,490 | \$ 100,468 | \$ 128,221 | \$ 993,562 |

State of Rhode Island and Providence Plantations
 Reconciliation of the Balance Sheet of the Governmental Funds
 to Statement of Net Assets for Governmental Activities
 June 30, 2003
 (Expressed in Thousands)

| | | |
|---|----|-------------------------|
| Fund Balance of Governmental Funds | \$ | 458,143 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | | |
| Capital Assets used in the governmental activities are not financial resources and therefore are not reported in the funds. | | 1,082,623 |
| Bond, notes, certificates of participation accrued interest and other liabilities are not due and payable in the current period and therefore are not recorded in the governmental funds. | | (1,706,890) |
| Long-term receivables from component units are not available to pay for current-period expenditures and therefore are not recorded in the fund financial statements. | | 28,594 |
| Revenues (expenses) in the Statement of Activities that do not provide (use) current financial resources are not reported as revenues (expenditures) in the governmental funds. | | 20,577 |
| Internal service funds are used by management to charge the costs of certain activities to individual funds. The net assets of the internal service funds is reported with governmental activities. | | 11,662 |
| Net Assets - Governmental Activities | \$ | <u><u>(105,291)</u></u> |

State of Rhode Island and Providence Plantations
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003
(Expressed in Thousands)

| | General | Intermodal Surface Transportation | R.I. Temporary Disability | Bond Capital | Other Governmental Funds | Total Governmental Funds |
|--|--------------|---|---------------------------------|-----------------|--------------------------------|--------------------------------|
| Revenues: | | | | | | |
| Taxes | \$ 2,012,372 | \$ 139,458 | \$ 178,246 | \$ | \$ | \$ 2,330,076 |
| Licenses, fines, sales, and services | 223,894 | 692 | | | 6,331 | 230,917 |
| Departmental restricted revenue | 75,726 | 2,400 | | | | 78,126 |
| Federal grants | 1,433,410 | 153,197 | | 10,938 | | 1,597,545 |
| Income from investments | | 201 | 936 | 1,452 | 5,219 | 7,808 |
| Other revenues | 66,336 | 4,306 | 47 | | 52,948 | 123,637 |
| Total operating revenues | 3,811,738 | 300,254 | 179,229 | 12,390 | 64,498 | 4,368,109 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| General government | 283,618 | | 157,749 | 655 | 3,475 | 445,497 |
| Human services | 2,232,252 | | | | | 2,232,252 |
| Education | 101,270 | | | | | 101,270 |
| Public safety | 297,070 | | | | | 297,070 |
| Natural resources | 53,170 | | | 37 | | 53,207 |
| Transportation | | 143,635 | | | | 143,635 |
| Capital outlays | 42,999 | 114,062 | 164 | 19,999 | 18,387 | 195,611 |
| Intergovernmental | 937,237 | 1,549 | | 8,881 | 124 | 947,791 |
| Debt service: | | | | | | |
| Principal | 58,161 | | | | | 58,161 |
| Interest and other charges | 52,998 | | | | 47,630 | 100,628 |
| Total operating expenditures | 4,058,775 | 259,246 | 157,913 | 29,572 | 69,616 | 4,575,122 |
| Excess (deficiency) of revenues over (under) expenditures | (247,037) | 41,008 | 21,316 | (17,182) | (5,118) | (207,013) |
| Nonoperating revenues (expenditures) | | | | | | |
| Bonds and notes issued | | | | 138,685 | 1,220 | 139,905 |
| Proceeds from the sale of Certificates of Participation | | | | | 3,890 | 3,890 |
| Premium and accrued interest | | | | 10,810 | 71 | 10,881 |
| Operating transfers in | 524,139 | 44,130 | | 54,141 | 2,675 | 625,085 |
| Operating transfers in from component units | 18,578 | | | | 192 | 18,770 |
| Other | 9,461 | | | | (471) | 8,990 |
| Payment to refunded bonds escrow agent | | | | (68,657) | (16,701) | (85,358) |
| Operating transfers out | (77,386) | (58,308) | (1,225) | (84,649) | (166,783) | (388,351) |
| Operating transfers out to component units | (219,716) | (34,741) | | (33,958) | (2,793) | (291,208) |
| Total nonoperating revenues (expenditures) and other financing (uses) | 255,076 | (48,919) | (1,225) | 16,372 | (178,700) | 42,604 |
| Special item | | | | | 1,510 | 1,510 |
| Change in fund balances | 8,039 | (7,911) | 20,091 | (810) | (182,308) | (162,899) |
| Fund balances - beginning, as restated | 163,800 | 33,365 | 94,003 | 58,356 | 271,518 | 621,042 |
| Fund balances - ending | \$ 171,839 | \$ 25,454 | \$ 114,094 | \$ 57,546 | \$ 89,210 | \$ 458,143 |

State of Rhode Island and Providence Plantations
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2003
 (Expressed in Thousands)

| | |
|---|------------------------|
| Change in Fund Balance - Governmental Funds | \$ (162,899) |
| 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. | |
| | 150,157 |
| Bond, notes, and certificates of participation proceeds provide current financial resources to governmental funds by issuing debt which increases long-term debt in the Statement of Net Assets. Repayments of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. | |
| | (31,246) |
| Revenues (expenses) in the Statement of Activities that do not provide (use) current financial resources are not reported as revenues (expenditures) in the governmental funds. | |
| | 48,150 |
| Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net assets of the internal service funds is reported with governmental activities. | |
| | 993 |
| Change in Net Assets - Governmental Activities | <u><u>\$ 5,155</u></u> |

State of Rhode Island and Providence Plantations
Statement of Net Assets
Proprietary Funds
June 30, 2003
(Expressed in Thousands)

| | Business-type Activities-- Enterprise Funds | | | | Governmental Activities |
|--|--|--------------------------------------|--------------------------------|-------------------|------------------------------------|
| | R.I. State Lottery | R.I. Convention Cener | Employment Security | Totals | Internal Service Funds |
| | | | | | |
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 10,417 | \$ 11,239 | \$ 1,523 | \$ 23,179 | \$ 5,549 |
| Funds on deposit with fiscal agent | | | 222,960 | 222,960 | |
| Investments | 294 | | | 294 | |
| Receivables (net) | 6,268 | 2,333 | 36,289 | 44,890 | 7,165 |
| Due from other funds | | | 19 | 19 | 3,242 |
| Due from other governments and agencies | | | 1,338 | 1,338 | |
| Inventories | 1,155 | | | 1,155 | 2,058 |
| Other assets | 327 | 877 | | 1,204 | 849 |
| Total current assets | <u>18,461</u> | <u>14,449</u> | <u>262,129</u> | <u>295,039</u> | <u>18,863</u> |
| Noncurrent assets: | | | | | |
| Investments | 45 | 17,174 | | 17,219 | |
| Capital assets - nondepreciable | | 38,032 | | 38,032 | |
| Capital assets - depreciable (net) | 1,838 | 168,403 | | 170,241 | 3,764 |
| Other assets | | 4,801 | | 4,801 | 668 |
| Total noncurrent assets | <u>1,883</u> | <u>228,410</u> | | <u>230,293</u> | <u>4,432</u> |
| Total assets | <u>20,344</u> | <u>242,859</u> | <u>262,129</u> | <u>525,332</u> | <u>23,295</u> |
| Liabilities | | | | | |
| Current Liabilities: | | | | | |
| Cash overdraft | | | | | 1,285 |
| Accounts payable | 12,643 | 3,797 | | 16,440 | 5,474 |
| Due to other funds | 940 | 2,928 | 1,036 | 4,904 | 1,666 |
| Due to other governments and agencies | | | 1,671 | 1,671 | |
| Loans from other funds | | | | | 100 |
| Accrued expenses | | 4,413 | | 4,413 | |
| Deferred revenue | 1,001 | 768 | | 1,769 | |
| Other current liabilities | 334 | | | 334 | 1,940 |
| Notes payable | | 153 | | 153 | |
| Bonds payable | | 7,685 | | 7,685 | |
| Obligations under capital lease | | | | | 400 |
| Obligation for unpaid prize awards | 6,006 | | | 6,006 | |
| Total current liabilities | <u>20,924</u> | <u>19,744</u> | <u>2,707</u> | <u>43,375</u> | <u>10,865</u> |
| Noncurrent Liabilities | | | | | |
| Deferred contract revenue | 11,875 | | | 11,875 | |
| Obligations under capital lease | | | | | 767 |
| Bonds payable | | 282,444 | | 282,444 | |
| Obligation for unpaid prize awards | 45 | | | 45 | |
| Total noncurrent liabilities | <u>11,920</u> | <u>282,444</u> | | <u>294,364</u> | <u>767</u> |
| Total liabilities | <u>32,844</u> | <u>302,188</u> | <u>2,707</u> | <u>337,739</u> | <u>11,632</u> |
| Net Assets | | | | | |
| Invested in capital assets, net of related deb | | (83,896) | | (83,896) | 2,597 |
| Restricted for: | | | | | |
| Capital Projects | | | | | |
| Debt | | 24,522 | | 24,522 | |
| Employment Insurance Program | | | 259,422 | 259,422 | |
| Unrestricted | (12,500) | 45 | | (12,455) | 9,066 |
| Total net assets | <u>\$ (12,500)</u> | <u>\$ (59,329)</u> | <u>\$ 259,422</u> | <u>\$ 187,593</u> | <u>\$ 11,663</u> |

State of Rhode Island and Providence Plantations
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2003
(Expressed in Thousands)

| | Business-type Activities-- Enterprise Funds | | | Totals | Governmental Activities |
|--|--|---------------------------------------|--------------------------------|-------------------|------------------------------------|
| | R.I. State Lottery | R.I. Convention Center | Employment Security | | Internal Service Funds |
| Operating revenues: | | | | | |
| Charges for services | \$ 1,290,406 | \$ 39,000 | \$ 142,439 | \$ 1,471,845 | \$ 98,279 |
| Grants | | | 45,712 | 45,712 | |
| Miscellaneous | | 610 | 1,268 | 1,878 | |
| Total operating revenues | 1,290,406 | 39,610 | 189,419 | 1,519,435 | 98,279 |
| Operating expenses: | | | | | |
| Personal services | 3,476 | 15,150 | | 18,626 | 13,945 |
| Supplies, materials, and services | 174,535 | 16,021 | | 190,556 | 80,839 |
| Prize awards | 876,438 | | | 876,438 | |
| Depreciation | 315 | 10,618 | | 10,933 | 799 |
| Benefits Paid | | | 255,672 | 255,672 | |
| Total operating expenses | 1,054,764 | 41,789 | 255,672 | 1,352,225 | 95,583 |
| Operating income (loss) | 235,642 | (2,179) | (66,253) | 167,210 | 2,696 |
| Nonoperating revenues (expenses): | | | | | |
| Interest revenue | 947 | 1,110 | 15,279 | 17,336 | 25 |
| Other nonoperating revenue | | | 5,354 | 5,354 | |
| Interest expense | | (17,583) | | (17,583) | (61) |
| Other nonoperating expenses | | | (6,913) | (6,913) | |
| Total nonoperating revenue (expenses) | 947 | (16,473) | 13,720 | (1,806) | (36) |
| Net income (loss) before transfers | 236,589 | (18,652) | (52,533) | 165,404 | 2,660 |
| Transfers in | | 17,351 | 1,622 | 18,973 | |
| Transfers out | (249,124) | (2,928) | (1,985) | (254,037) | (1,668) |
| Change in net assets | (12,535) | (4,229) | (52,896) | (69,660) | 992 |
| Total net assets - beginning | 35 | (55,100) | 312,318 | 257,253 | 10,671 |
| Total net assets - ending | \$ (12,500) | \$ (59,329) | \$ 259,422 | \$ 187,593 | \$ 11,663 |

State of Rhode Island and Providence Plantations
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2003
(Expressed in Thousands)

| | Business-type Activities-- Enterprise Funds | | | Governmental Activities | |
|--|--|------------------------------|------------------------|----------------------------|---------------------------|
| | R.I. State Lottery | R.I. Convention Center | Employment Security | Totals | Internal Service Funds |
| | | | | | |
| Cash flows from operating activities: | | | | | |
| Cash received from customers | \$ 1,297,212 | \$ 39,529 | \$ 140,973 | \$ 1,477,714 | \$ 100,110 |
| Cash received from grants | | | 45,712 | 45,712 | |
| Cash payments to suppliers for goods and services | (3,977) | (14,017) | | (17,994) | (81,446) |
| Cash payments to employees for services | (3,444) | (14,758) | | (18,202) | (14,050) |
| Cash payments to prize winners | (880,724) | | | (880,724) | |
| Cash payments for commissions | (167,312) | | | (167,312) | |
| Cash payments for benefits | | | (255,279) | (255,279) | |
| Other operating revenue (expense) | | | 1,268 | 1,268 | |
| Net cash provided by (used for) operating activities | 241,755 | 10,754 | (67,326) | 185,183 | 4,614 |
| Cash flows from noncapital financing activities: | | | | | |
| Loans from other funds | | | | | 2,050 |
| Loans to other funds | | | | | (714) |
| Repayment of loans to other funds | | | | | (3,738) |
| Operating transfers in | | 18,619 | 1,686 | 20,305 | |
| Operating transfers out | (250,326) | (2,928) | (917) | (254,171) | |
| Net transfers from (to) fiscal agent | | | 66,664 | 66,664 | |
| Negative cash balance implicitly financed | (212) | | | (212) | (337) |
| Other | 12,500 | | | 12,500 | |
| Net cash provided by (used for) noncapital financing activities | (238,038) | 15,691 | 67,433 | (154,914) | (2,739) |
| Cash flows from capital and related financing activities: | | | | | |
| Principal paid on capital obligations | | (7,621) | | (7,621) | (416) |
| Interest paid on capital obligations | | (15,165) | | (15,165) | (61) |
| Acquisition of capital assets | (877) | (8,923) | | (9,800) | (326) |
| Proceeds from bonds | | 1,134 | | 1,134 | |
| Net cash provided by (used for) capital and related financing activities | (877) | (30,575) | | (31,452) | (803) |
| Cash flows from investing activities: | | | | | |
| Proceeds from sale and maturity of investments | 691 | | | 691 | |
| Interest on investments | 286 | 1,123 | | 1,409 | 25 |
| Net cash provided by (used for) investing activities | 977 | 1,123 | | 2,100 | 25 |
| Net increase (decrease) in cash and cash equivalents | 3,817 | (3,007) | 107 | 917 | 1,097 |
| Cash and cash equivalents, July 1 | 6,600 | 14,246 | 1,416 | 22,262 | 4,452 |
| Cash and cash equivalents, June 30 | \$ 10,417 | \$ 11,239 | \$ 1,523 | \$ 23,179 | \$ 5,549 |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | | | | | |
| Operating income (loss) | 235,642 | (2,179) | (66,253) | 167,210 | 2,695 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | | | | |
| Depreciation | 315 | 10,618 | | 10,933 | 799 |
| Other revenue (expense) and operating transfer in (out) | | | 1,246 | 1,246 | |
| Net changes in assets and liabilities: | | | | | |
| Receivables, net | 1,326 | (123) | (2,766) | (1,563) | (19,808) |
| Inventory | (269) | | | (269) | 245 |
| Prepaid items | (10) | | | (10) | (373) |
| Other assets | 117 | | | 117 | |
| Due to / due from transactions | | | 447 | 447 | |
| Accounts and other payables | 3,766 | 1,506 | | 5,272 | 21,160 |
| Accrued expenses | (91) | 861 | | 770 | (105) |
| Deferred revenue | 219 | 71 | | 290 | |
| Prize awards payable | 740 | | | 740 | |
| Total adjustments | 6,113 | 12,933 | (1,073) | 17,973 | 1,918 |
| Net cash provided by (used for) operating activities | \$ 241,755 | \$ 10,754 | \$ (67,326) | \$ 185,183 | \$ 4,613 |

State of Rhode Island and Providence Plantations
Statement of Net Assets
Fiduciary Funds
June 30, 2003
(Expressed in Thousands)

| | Pension Trust | Private Purpose | |
|---|--------------------------|-----------------------------------|---------------|
| | | Touro Jewish Synagogue | Agency |
| Assets | | | |
| Cash and cash equivalents | \$ 3,427 | \$ 154 | \$ 18,541 |
| Receivables | | | |
| Contributions | 21,224 | | |
| Due from state for teachers | 14,873 | | |
| Miscellaneous | 3,185 | | |
| Total receivables | 39,282 | | |
| Investments, at fair value | | | |
| Equity in Short-Term Investment Fund | 2,091 | | |
| Equity in Pooled Trust | 5,361,720 | | |
| Plan specific investments | 22,850 | | |
| Other investments | | 1,734 | 65,500 |
| Total investments before lending activities | 5,386,661 | 1,734 | 65,500 |
| Invested securities lending collateral | 582,424 | | |
| Property and equipment, at cost, net of accumulated depreciation | | | |
| Line of Business System in Development | 15,115 | | |
| Computer Equipment | 302 | | |
| Total Property and Equipment | 15,417 | | |
| Total assets | 6,027,211 | 1,888 | 84,041 |
| Liabilities | | | |
| Securities lending liability | 582,424 | | |
| Accounts payable | 4,511 | | |
| Deposits held for others | | | 84,041 |
| Total liabilities | 586,935 | | 84,041 |
| Net assets held in trust for pension and other benefits | \$ 5,440,276 | \$ 1,888 | \$ |

State of Rhode Island and Providence Plantations
Statement of Changes in Fund Net Assets
Fiduciary Funds
For the Year Ended June 30, 2003
(Expressed in Thousands)

| | Pension Trust | Private Purpose Touro Jewish Synagogue |
|--|--------------------------|---|
| Additions | | |
| Contributions | | |
| Member contributions | \$ 148,198 | \$ |
| Employer contributions | 112,683 | |
| State contributions for teachers | 38,243 | |
| Interest on service credits purchased | 1,389 | |
| Total contributions | 300,513 | |
| Investment income | | |
| Net appreciation (depreciation) in fair value of investments | 15,599 | 36 |
| Interest | 91,858 | 56 |
| Dividends | 44,783 | |
| Other investment income | 16,653 | |
| | 168,893 | 92 |
| Less investment expense | 23,458 | |
| Net income from investing activities | 145,435 | 92 |
| Securities Lending | | |
| Securities lending income | 7,495 | |
| Less securities lending expense | 5,713 | |
| Net securities lending income | 1,782 | |
| Total net investment income | 147,217 | 92 |
| Total additions | 447,730 | 92 |
| Deductions | | |
| Benefits | | |
| Retirement benefits | 358,447 | |
| Cost of living adjustment | 83,698 | |
| SRA Plus (option) | 24,241 | |
| Supplemental benefits | 1,007 | |
| Death benefits | 2,743 | |
| Total benefits | 470,136 | |
| Refund of contributions | 6,570 | |
| Administrative expense | 5,006 | |
| Distribution | | 166 |
| Total deductions | 481,712 | 166 |
| Net increase (decrease) | (33,982) | (74) |
| Net assets held in trust for pension benefits | | |
| Net assets - beginning | 5,474,258 | 1,962 |
| Net assets - ending | \$ 5,440,276 | \$ 1,888 |

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

INDEX

| | Page |
|--|-------------|
| Note 1. Summary of Significant Accounting Policies | A-27 |
| Note 2. Budgeting and Budgetary Control..... | A-39 |
| Note 3. Cash, Cash Equivalents and Investments..... | A-40 |
| Note 4. Receivables | A-45 |
| Note 5. Intra-Entity Receivables and Payables..... | A-46 |
| Note 6. Capital Assets..... | A-47 |
| Note 7. Long-Term Obligations | A-48 |
| Note 8. Net Assets..... | A-58 |
| Note 9. Taxes | A-59 |
| Note 10. Operating Transfers | A-60 |
| Note 11. Operating Lease Commitments | A-60 |
| Note 12. Commitments | A-61 |
| Note 13. Contingencies..... | A-64 |
| Note 14. Employer Pension Plans | A-66 |
| Note 15. Postemployment Benefits | A-68 |
| Note 16. Deferred Compensation..... | A-69 |
| Note 17. Restatement of Net Assets and Fund Balance..... | A-69 |
| Note 18. Condensed Financial Statement Information..... | A-71 |
| Note 19. Risk Management | A-73 |
| Note 20. Special Item..... | A-73 |
| Note 21. Related Party Transactions | A-74 |
| Note 22. Subsequent Events | A-74 |

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

B. Reporting Entity

The accompanying financial statements include all funds of the State and its component units. GASB Statement No. 14, *The Financial Reporting Entity* defines component units as legally separate entities for which a primary government (the State) is financially accountable or, if not financially accountable, their exclusion would cause the State's financial statements to be misleading. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an entity's governing body and (1) the ability of the State to impose its will on that entity or (2) the potential for the entity to provide specific financial benefits to, or impose specific financial burdens on the State. The State has considered all agencies, boards, commissions, public benefit authorities and corporations, the State university and colleges and the Central Falls School District as potential component units. Audited financial statements of the individual component units can be obtained from their respective administrative offices.

Blended Component Units

These component units are entities, which are legally separate from the State, but are so intertwined with the State that they are in substance, the same as the State. They are reported as part of the State and blended into the appropriate funds.

State Lottery Fund (Lottery) - This fund is used to account for the revenues generated by the State Lottery Commission in conducting various lottery games. According to statute, earnings after allocation for prize awards and payment of expenses shall be transferred to the State's general fund. For more detailed information, a copy of the financial statements can be obtained by writing to the Office of The Financial Administrator, State Lottery Commission, 1425 Pontiac Avenue, Cranston, RI 02920.

Rhode Island Convention Center Authority (RICCA) - This Authority was created in 1987 to facilitate the construction and development of a convention center, parking garages and related facilities within the City of Providence. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Convention Center Authority, One West Exchange Street, Providence, RI 02903.

Rhode Island Refunding Bond Authority (RIRBA) - This authority was created by law for the purpose of loaning money to the State to provide funds to pay, redeem, or retire certain general obligation bonds. In fiscal 1998, the State abolished the R.I. Public Buildings

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

Authority (RIPBA) and assigned the responsibility for managing RIPBA's outstanding debt to the RIRBA. RIPBA was previously reported as a blended component unit. The RIRBA is authorized to issue bonds. Even though it is legally separate, the RIRBA is reported as if it were part of the primary government because it provides services entirely to the primary government. For more detailed information, a copy of the financial statements can be obtained by writing to the Deputy General Treasurer, Office of General Treasurer, 40 Fountain Street, Providence, RI 02903.

Rhode Island Economic Policy Council (RIEPC) - This council is a non-profit organization created by executive order in March 1995 and incorporated in January 1996. The purpose of the council is to work closely with State officials to identify issues facing the State's economy, to develop and recommend creative strategies and policies to address them, to advise the State legislature in policy matters relating to economic development, and to administer a program designed to foster private technology commercialization and plant and process modernization through research centers, higher education partnerships and cluster collaboratives. For more detailed information, a copy of the financial statements can be obtained by writing to the Executive Director, R.I. Economic Policy Council, 3 Davol Square, Box 185, Providence, RI 02903.

Tobacco Settlement Financing Corporation (TSFC) - This corporation was organized in June 2002 as a public corporation by the State. TSFC is legally separate but provides services exclusively to the State and therefore is reported as part of the primary government as a blended component unit. The purpose of the corporation is to purchase tobacco settlement revenues from the State. TSFC is authorized to issue bonds necessary to provide sufficient funds for carrying out its purpose. 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.

Discretely Presented Component Units

Discretely presented component units are reported in a separate column in the basic 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 or incomplete. These discretely presented component units serve or benefit those outside of the primary government. Discretely presented component units are:

University and Colleges - The Board of Governors for Higher Education has oversight responsibility for the University of Rhode Island, Rhode Island College and Community College of Rhode Island. The Board is appointed by the Governor with approval of the Senate. The university and colleges are funded through State appropriations, tuition, federal grants, private donations and grants. For more detailed information, a copy of the financial statements can be obtained by writing to Mr. Robert Weygand, Vice President For Administration, 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.

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

Central Falls School District - The Rhode Island General Assembly passed an act which provided for the State to assume an administrative takeover of the Central Falls School District. The Governor appointed a special State administrator who replaced the school committee. The State administrator reports to the Commissioner of Elementary and Secondary Education. The District's purpose is to provide elementary and secondary education to residents of the City of Central Falls. For more detailed information, a copy of the financial statements can be obtained by writing to the Central Falls School District, 21 Hadley Avenue, Central Falls, RI 02863.

Rhode Island Housing and Mortgage Finance Corporation (RIHMFC) - This Corporation, established in 1973, was created in order to expand the supply of housing available to persons of low and moderate income and to stimulate the construction and rehabilitation of housing and health care facilities in the State. It has the power to issue notes and bonds to achieve its corporate purpose. 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.

Rhode Island Student Loan Authority (RISLA) - This Authority, established in 1981, was created in order to provide a statewide student loan program through the acquisition of student loans. It has the power to issue bonds and notes, payable solely from its revenues. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Student Loan Authority, 560 Jefferson Boulevard, Warwick, RI 02886.

Rhode Island Turnpike and Bridge Authority (RITBA) - This Authority was created by the General Assembly as a body corporate and politic, with powers to construct, acquire, maintain and operate bridge projects as defined by law. 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.

Rhode Island Economic Development Corporation (RIEDC) - 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, which will promote economic development. It has the power to issue tax-exempt industrial development bonds to accomplish its corporate purpose. The RIEDC has a subsidiary corporation, the R. I. Airport Corporation, that manages the State's six airports. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Economic Development Corporation, One West Exchange Street, Providence, RI 02903.

Narragansett Bay Commission (NBC) - This Commission was created for the purposes of acquiring, planning, constructing, extending, improving, operating and maintaining publicly owned wastewater treatment facilities. NBC receives contributed capital from the State to upgrade its facilities. For more detailed information, a copy of the financial statements can be obtained by writing to the Narragansett Bay Commission, One Service Road, Providence, RI 02905.

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

Rhode Island Health and Educational Building Corporation (RIHEBC) - This Corporation has the following purposes: (1) to assist in providing financing for education facilities for colleges and universities operating in the State; (2) to assist hospitals in the State in the financing of health care facilities; (3) to assist stand-alone, non-profit assisted-living and adult daycare facilities; (4) to assist in financing a broad range of non-profit health care providers; and (5) to assist in financing non-profit secondary schools and child care centers. RIHEBC issues bonds, notes and leases which are special obligations of RIHEBC payable from revenues derived from the projects financed or other moneys of the participating education institution or health care institution. The bonds, notes and leases do not constitute a debt or pledge of the faith and credit of RIHEBC or the State and accordingly have not been reported in the accompanying financial statements. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Health and Educational Building Corporation, 170 Westminster Street, Suite 1200, Providence, RI 02903.

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. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Resource Recovery Corporation, 65 Shun Pike, Johnston, RI 02919.

Rhode Island Depositors Economic Protection Corporation (DEPCO) - This Corporation was created in 1991 to assist in protecting the interests of depositors of certain financial institutions in the State which had been closed when their private deposit insurer failed, thereby leaving those institutions without deposit insurance as required by statute. DEPCO is empowered to acquire all or a portion of the assets of the closed institutions thereby aiding the prompt repayment of the deposit liabilities of the closed institutions. DEPCO has the power to issue negotiable bonds and notes to achieve its corporate purpose. DEPCO ceased operations in January 2003. For more detailed information, a copy of the financial statements can be obtained by writing to the State of Rhode Island, Department of Administration, DEPCO, One Capitol Hill, Providence, R.I. 02903.

Rhode Island Higher Education Assistance Authority (RIHEAA) - This Authority was created by law in 1977 for the dual purpose of guaranteeing loans to students in eligible institutions and administering other programs of post secondary student assistance. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, R.I. Higher Education Assistance Authority, 560 Jefferson Boulevard, Warwick, RI 02886.

Rhode Island Public Transit Authority (RIPTA) - This Authority was established in 1964 to acquire any mass motor bus transportation system if that system has previously filed a petition to discontinue its service and further, if RIPTA determines it is in the public interest to continue such service. Revenues of RIPTA include operating assistance grants from the federal and State governments. For more detailed information, a copy of their financial statements can be obtained by writing to the Finance Department, R.I. Public Transit Authority, 265 Melrose Street, Providence, RI 02907.

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

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. 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, One West Exchange Street, Providence, RI 02903.

Rhode Island Clean Water Finance Agency (RICWFA) - This Agency was established in 1991 for the purpose of providing financial assistance in the form of loans to municipalities, sewer commissions and waste water management districts in the State for the construction or upgrading of water pollution abatement projects. RICWFA receives capital grants from the State and federal governments and is authorized to issue revenue bonds and notes. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Clean Water Finance Agency, 235 Promenade Street, Suite 119, Providence, RI 02908.

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. Any losses realized in excess of the fund balance would be funded by 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, One West Exchange Street, Providence, RI 02903.

Rhode Island Water Resources Board Corporate (RIWRBC) - This Board was created by law to foster and guide the development of water resources including the establishment of water supply facilities and lease these facilities to cities, towns, districts, and other municipal, quasi-municipal or private corporations engaged in the water supply business in the State. RIWRBC is authorized to issue revenue bonds which are payable solely from revenues generated by the lease of its facilities or the sale of water. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Water Resources Board Corporate, 100 North Main Street, Providence, RI 02903.

Rhode Island Public Telecommunications Authority (RIPTCA) - This Authority owns and operates a non-commercial educational television station in the State. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Public Telecommunications Authority, 50 Park Lane, Providence, RI 02907-3124.

Rhode Island Children's Crusade for Higher Education (RICCHE) - This is a Rhode Island nonprofit corporation formed for the purpose of fostering the education of economically disadvantaged youth through scholarship awards, summer jobs programs, and mentoring programs for parents and students. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Children's Crusade for Higher Education, The 134 Center, Suite 111, 134 Thurbers Avenue, Providence, RI 02905.

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

Rhode Island Underground Storage Tank Review Board (RIUSTRB) – The Board provides a mechanism for Rhode Island underground storage tank owners, including city, town and State facilities, to comply with the financial responsibility requirements established by the US Environmental Protection Agency. For more detailed information, a copy of the financial statements can be obtained by writing to the Rhode Island Underground Storage Tank Review Board, 235 Promenade Street, Suite 455, Providence, RI 02908.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets 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 Assets presents the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt. This category reflects the portion of net assets associated with capital assets, net of accumulated depreciation and reduced by outstanding bonds and other debt that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets. This category results when constraints are externally imposed on net assets use by creditors, grantors or contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets. This category represents net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but those 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 clearly identifiable with a specific function. 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.

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 all enterprise funds are reported as

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

separate columns in the fund financial statements, with nonmajor funds being combined into a single column.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues and related receivables are recognized as soon as they are both measurable and available, i.e., earned and collected within the next 12 months. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due.

In accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*, the focus in the fund financial statements is on major and nonmajor funds rather than on fund type. Statement No. 34 defines the general fund as a major fund and management determined that the intermodal surface transportation fund should be reported as a major fund. Other governmental funds and enterprise funds are evaluated on these criteria:

- Total assets, liabilities, revenues, or expenditures/expenses of that fund are at least 10% of the respective total for all funds of that type, and
- Total assets, liabilities, revenues, or expenditures/expenses of that fund are at least 5% of the same respective total for all funds being evaluated.

The State reports the following major 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, and bond proceeds that are used in maintenance, upgrading, and construction of the State's highway system.

R.I. Temporary Disability Insurance Fund. This fund accounts for the employee tax on wages that are levied to pay benefits to covered employees who are out of work for an extended period of time due to a non-job-related illness.

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

Bond Capital. This fund accounts for the proceeds of the bonds issued and the related capital expenditures not required to be accounted for in another capital projects fund.

The State reports the following major proprietary funds:

State Lottery Fund. The State Lottery Fund operates games of chance for the purpose of generating resources for the State's General Fund.

Rhode Island Convention Center Authority (RICCA) - This Authority was created in 1987 to facilitate the construction and development of a convention center, parking garages and related facilities within the City of Providence on behalf of the State.

Employment Security Fund. This fund accounts for the State's unemployment compensation benefits. 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.

Additionally, the State reports the following fund types:

Governmental Fund Types:

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

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

Debt Service Fund. This fund accounts for resources obtained and used for the payment of interest and principal on bonds that are funded primarily through taxes.

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

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

Proprietary Fund Types:

Internal Service Funds. These funds account for fleet management, workers' compensation, unemployment compensation, industrial prison operations, computer and related data processing services, surplus property, telecommunications and other utilities, purchasing, and records maintenance.

Fiduciary Fund Types:

Pension Trust Funds. These funds account for the activities of the Employees' Retirement System, Municipal Employees' Retirement System, State Police Retirement Benefit Trust, and Judicial Retirement Benefit Trust, which accumulate resources for pension benefit payments to qualified employees.

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

Agency Funds. These funds account for assets held by the State pending distribution to others or pledged to the State as required by statute.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund Accounting*, in the absence of specific guidance from GASB pronouncements, pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989 have been followed.

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 this definition are reported as nonoperating revenues and expenses.

E. Cash and Cash Equivalents

Cash represents amounts in demand deposit accounts with financial institutions. Cash equivalents are highly liquid investments with maturity of three months or less at the time of purchase.

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 Assets. Cash overdrafts, if any, are reported as to due to other funds along with the applicable due from other funds.

F. Funds on Deposit with Fiscal Agent

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

Funds on deposit with fiscal agent in the capital projects funds and enterprise fund are the unexpended portion of certificates of participation and funds held by the United States Treasury Department for the payment of unemployment benefits, respectively.

G. Investments

Investments are generally stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. Short-term investments are stated at amortized cost, which approximates fair value.

The pension trust funds may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on the asset and liability positions of foreign investments. The gains or losses on these contracts are included in income in the period in which the exchange rates change. Gains and losses on contracts which hedge specific foreign currency denominated commitments are deferred and recognized in the period in which the transaction is completed. By policy, no more than 50% of actively managed foreign equity securities (at fair value) may be hedged into the base currency (U.S. dollars).

H. Receivables

Receivables are stated net of estimated allowances for uncollectible amounts, which are determined, based upon past collection experience.

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, interfund services, provided and used between different functional categories, have not been eliminated in order to avoid distorting the direct costs and program revenues of the applicable functions. 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.

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

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. Inventories of university and colleges are stated at the lower of cost (first-in, first-out and retail inventory method) or market, and 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 all land, buildings (over \$100,000), equipment and infrastructure assets (e.g., roads, bridges, and similar assets) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The State defines equipment acquisitions as capital assets when the initial, individual cost (value, if donated, forfeited or seized) is more than \$5,000 (amount not rounded) and the estimated useful life is more than one year. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

The estimates of historical costs of land, buildings, and improvements were derived by factoring price levels from the current period to the time of acquisition. In cases where the acquisition date was not determinable, the date of acquisition was estimated. Infrastructure constructed prior to July 1, 2001 has not been reported. This information will be included in future reports. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction of capital facilities is not capitalized.

Capital assets utilized in the governmental funds are recorded as capital outlay expenditures in the governmental fund financial statements. Depreciation is recorded in the government-wide financial statements, as well as the proprietary funds and component units financial statements. Capital assets of the primary government and its component units are depreciated using the straight-line method over the assets' estimated useful life.

Capital assets of the primary government are depreciated over the following estimated useful lives:

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

| Assets | Years |
|-----------------------------|---------------|
| Buildings | 20-50 |
| Land improvements | 20 |
| Infrastructure | 30 |
| Leasehold improvements | Term of Lease |
| Leasehold land improvements | Term of Lease |
| Building renovations | 10-20 |
| Trailers | 10 |
| Furniture and equipment | 3-10 |
| Computer systems | 5 |
| Motor vehicles | 3-10 |

M. Bonds Payable

In governmental fund types, bond discounts/premiums and issuance costs are recognized in the current period; bond proceeds are recorded net of these amounts. Bond discounts, premiums and issuance costs in the governmental activities are deferred and amortized over the term of the bonds using the straight-line method. For proprietary fund types and component units bond discounts, premiums and issuance costs are generally deferred and amortized over the term of the bonds using the straight-line method for issuance costs and the interest method for discounts and premiums. Bond discounts and premiums are presented as an adjustment to the face amount of bonds payable.

The R.I. Convention Center Authority has entered into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

N. Obligations under Capital Leases

The construction and acquisition of certain State office buildings, campus facilities and other public facilities, as well as certain equipment acquisitions, have been financed through bonds and notes issued by the R.I. Refunding Bond Authority, the R.I. Economic Development Corporation, or by a trustee pursuant to a lease/purchase agreement with the State (See Note 7(D)).

O. Accrued Liabilities

Accrued liabilities generally represent accrued salary and fringe benefits in the governmental fund types and accrued interest payable, accrued salaries and accrued vacation and sick leave in the proprietary fund types.

P. 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. For governmental fund types, such

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

obligations are recognized when paid and for proprietary fund types, they are recorded as fund liabilities.

Q. Fund Balances

Reserved fund balances represent amounts which are (1) not appropriable for expenditure or (2) legally segregated for a specific future use.

Designated fund balances represent amounts segregated to indicate management's tentative plans or intent for future use of financial resources.

R. Changes in Presentation

The R.I. General Laws were amended giving the R.I. Underground Storage Tank Financial Responsibility Fund separate legal status; therefore, the fund was reclassified from a special revenue fund to a discretely presented component unit.

The Tobacco Settlement Financing Corporation early implemented the GASB Technical Bulletin, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*. This bulletin made it clear that the corporation should be a blended component unit; therefore the corporation was reclassified from a discretely presented component unit to a special revenue fund.

Note 2. Budgeting and Budgetary Control

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund and certain special revenue funds. Preparation and submission of the budget is governed by both the State Constitution and the Rhode Island General Laws. The budget, as enacted by the General Assembly and signed by the Governor, contains a complete plan of estimated revenues (general, federal and restricted), transfers in (general and restricted) and proposed expenditures.

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. Federal grant appropriations may also be limited by the availability of matching funds and may also require special approval from a federal agency before reallocating resources among programs.

Internal administrative and accounting budgetary controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations and the supervisory powers and functions exercised by management. Management cannot reduce the budget without special approval.

Unexpended general revenue appropriations lapse at the end of the fiscal year, unless the department/agency directors identify unspent appropriations related to specific

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

projects/purchases and request a reappropriation. If the requests are approved by the Governor, such amounts are reappropriated for the ensuing fiscal year and made immediately available for the same purposes as the former appropriations. Unexpended appropriations of the General Assembly and its legislative commissions and agencies may be reappropriated by the Joint Committee on Legislative Services. If the sum total of all departments and agencies general revenue expenditures exceeds the total general revenue appropriations, it is the policy of management to lapse all unexpended appropriations, except those of the legislative branch and the Justice Link program.

Note 3. Cash, Cash Equivalents and Investments

Cash

Primary Government

At June 30, 2003, the carrying amount of the State's cash deposits was \$50,222,000 and the bank balance was \$36,926,000. Of the bank balance, \$437,500 was covered by federal depository insurance. The remaining amount, \$36,488,500 was uninsured and uncollateralized. The carrying amount and bank balance include \$8,184,000 of certificates of deposit.

Fiduciary Trust Funds

At June 30, 2003, the carrying amount of the fiduciary trust funds' cash deposits was \$2,518,000 and the bank balance was \$2,278,000. The bank balance was covered by federal depository insurance. The carrying amount and the bank balance include \$1,500,000 of certificates of deposit.

Component Units

At June 30, 2003, the carrying amount of the component units' cash deposits was \$383,533,000 and the bank balance was \$387,302,000. Of the bank balance, \$14,956,000 was covered by federal depository insurance and \$70,850,000 was collateralized with investments held by a bank in a component unit's name. The remaining amount, \$301,496,000 was uninsured and uncollateralized.

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the primary government was required to be collateralized at June 30, 2003.

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

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."

Short-term cash equivalent type investments are made by the General Treasurer in accordance with guidelines established by the Commission. Investments of the pension trust funds are made by investment managers in accordance with the Commission's stated investment objectives and policies.

Investments of certain component units are not made at the direction of the Commission, but are governed by specific statutes or policies established by their governing body.

The State's investments (expressed in thousands) are categorized in the following table to give an indication of the level of risk assumed by the entity at June 30, 2003.

Category 1: Insured or registered, or securities held by the State or its agent in the State's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the State's name.

| Primary Government | Category | | | Fair Value |
|---|-------------------|-------------|------------------|-------------------|
| | 1 | 2 | 3 | |
| U.S. Government and and U.S. government agency securities | \$ 53,753 | \$ 0 | \$ 0 | \$ 53,753 |
| Money Market | 0 | 0 | 0 | 0 |
| Commercial Paper | 81,501 | 0 | 0 | 81,501 |
| Repurchase Agreements | 76,228 | 0 | 1,716 | 77,944 |
| Corporate Notes | 602 | 0 | 0 | 602 |
| Municipal Bonds | 0 | 0 | 17,174 | 17,174 |
| | <u>\$ 212,084</u> | <u>\$ 0</u> | <u>\$ 18,890</u> | <u>230,974</u> |
| Money Market Mutual Funds | | | | 203,071 |
| Investment Agreements | | | | 0 |
| Other | | | | 8,184 |
| | | | | <u>442,229</u> |
| Less amounts classified as cash equivalents | | | | 323,695 |
| Investments | | | | <u>\$ 118,534</u> |

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

| Fiduciary Funds | Category | | | Fair Value |
|--|---------------------|-----------------|-----------|---------------------|
| | 1 | 2 | 3 | |
| U.S. Government and agency securities | | | | |
| Not on security loan | \$ 318,535 | \$ | \$ | \$ 318,535 |
| On loan for securities collateral | 2,433 | | | 2,433 |
| Repurchase Agreements | 938 | | | 938 |
| Corporate Bonds | 715,529 | 106 | | 715,635 |
| Equity Securities | | 1,252 | | 1,252 |
| Not on security loan | 958,187 | | | 958,187 |
| On loan for securities collateral | 35 | | | 35 |
| Foreign Securities | | | | |
| Not on security loan | 875,889 | | | 875,889 |
| On loan for securities collateral | 1,007 | | | 1,007 |
| | <u>\$ 2,872,553</u> | <u>\$ 1,358</u> | <u>\$</u> | <u>2,873,911</u> |
| Money Market Mutual Funds | | | | 172,474 |
| Real Estate and Venture Capital Limited Partnerships | | | | 310,924 |
| Investments held by broker-dealers under securities loans with cash collateral | | | | 562,091 |
| Securities lending short-term collateral investment pool | | | | 582,424 |
| Investments of Statutory Deposits Held in Trust | | | | 84,041 |
| Other | | | | 1,470,059 |
| | | | | <u>6,055,924</u> |
| Less amounts classified as cash equivalents | | | | 19,605 |
| Investments | | | | <u>\$ 6,036,319</u> |

| Component Units | Category | | | Fair Value |
|---|-------------------|-------------------|-------------------|-------------------|
| | 1 | 2 | 3 | |
| U.S. Government and agency securities | \$ 229,590 | \$ 170,600 | \$ 71,881 | \$ 472,071 |
| Money Market | 11,159 | 0 | 52,404 | 63,563 |
| Commercial Paper | 0 | 0 | 0 | 0 |
| Repurchase Agreements | 40,064 | 3,041 | 20,178 | 63,283 |
| Corporate Bonds | 1,663 | 0 | 2,602 | 4,265 |
| Corporate Notes | 0 | 0 | 0 | 0 |
| Equity Securities | 0 | 1,405 | 6,255 | 7,660 |
| Investment Agreements | 5,220 | 0 | 0 | 5,220 |
| Other | 200 | 0 | 0 | 200 |
| | <u>\$ 287,896</u> | <u>\$ 175,046</u> | <u>\$ 153,320</u> | <u>616,262</u> |
| Money Market Mutual Funds | | | | 32,907 |
| Investment Agreements | | | | 688,862 |
| Other | | | | 4,659 |
| | | | | <u>1,342,690</u> |
| Less amounts classified as cash equivalents | | | | 367,946 |
| Investments | | | | <u>\$ 974,744</u> |

Derivatives and Other Similar Investments

Primary Government

Some of the State of Rhode Island Employees' Retirement System's (System) investment managers are allowed to invest in certain derivative type transactions, including forward foreign currency transactions, futures contracts and mortgage-backed securities. Through the commingled funds, the System also indirectly holds derivative type instruments. Information

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

on the extent of the use, and holdings of derivative securities by the commingled funds is not readily available.

Forward Foreign Currency Contracts – The System may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. These contracts involve risk in excess of the amount reflected in the System’s Statements of Plan Net Assets. The face or contract amount in U.S. dollars reflects the total exposure the System has in that particular currency contract. By policy, no more than 50% of actively managed Foreign Equity securities (at fair value) may be hedged into the base currency (US Dollars). 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 may use futures to manage its exposure to the stock, money market, and bond markets and the fluctuations in interest rates and currency values. 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 from changes in the value of the underlying instruments, if there is an illiquid secondary market for the contracts, or if the counterparties do not perform under the contract terms.

Mortgage-Backed Securities – The System invests in various mortgage-backed securities, such as collateralized mortgage obligations (CMO), interest-only and principal-only (PO) strips. They are reported in aggregate as U.S. Government and Agency Securities in the disclosure of custodial credit risk. 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 (IO) and principal-only strips (PO) 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.

Short Sales – The commingled funds may sell a security they do not own in anticipation of a decline in the fair value of that security. Short sales may increase the risk of loss to the commingled funds when the price of a security underlying the short sale increases and the commingled funds is subject to a higher cost to purchase the security in order to cover the position.

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

Securities Lending

Policies of the State Investment Commission permit use of investments to enter into securities lending transactions. The System has contracted with State Street Bank & Trust Company (SSB) as third party securities lending agent to lend the System's debt and equity securities for cash, securities and sovereign debt of foreign countries as collateral at 102% of the market value of the domestic securities on loan and 105% of the market value of the international securities on loan. There are no restrictions on the amount of loans that can be made. Securities on loan at year-end for cash collateral are presented as not categorized in the preceding table. Securities on loan for noncash collateral are classified according to the category for the collateral. The contract with the lending agent requires them to indemnify the System if the borrowers fail to return the securities. Either the System or the borrower can terminate all securities loans on demand. The cash collateral received on security loans was invested in the lending agent's short-term investment pool for an average duration of 64 days and a weighted average maturity of 252 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The System is not permitted to pledge or sell collateral securities received unless the borrower defaults. There were no losses during the fiscal year resulting from default of the borrower or lending agent.

At June 30, 2003, System's management believes the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers do not exceed the amounts the borrowers owe the System. The securities on loan at year-end were \$565,565,715 (fair value), and the collateral received for those securities on loan was \$586,117,017 (fair value).

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

Note 4. Receivables

Receivables at June 30, 2003 (expressed in thousands) consist of the following:

| | Taxes | Accounts | Accrued Interest | Notes and Loans | Allowance for Uncollectibles | Total Receivables |
|--|-------------------|-------------------|---------------------|---------------------|------------------------------------|----------------------|
| Governmental Activities: | | | | | | |
| General | \$ 228,255 | \$ 86,604 | \$ | \$ 2,700 | \$ (104,374) | \$ 213,185 |
| Intermodal Surface Transportation | 12,695 | | | | (323) | 12,372 |
| R.I. Temporary Disability | 50,465 | 904 | | | (2,283) | 49,086 |
| Other Governmental | | 9 | | | | 9 |
| Internal Service | | 7,165 | | 668 | | 7,833 |
| Total - governmental activities | \$ 291,415 | \$ 94,682 | \$ | \$ 3,368 | \$ (106,980) | \$ 282,485 |
| Amounts not expected to be collected in the subsequent year and recorded as deferred revenue | | | | | | |
| General | \$ 5,250 | \$ 8,327 | | | | |
| Intermodal Surface Transportation | | 15,140 | | | | |
| Business-type activities: | | | | | | |
| State Lottery | \$ | \$ 6,601 | \$ | \$ | \$ (333) | \$ 6,268 |
| Convention Center | | 2,337 | 130 | | (134) | 2,333 |
| Employment Security | 33,757 | 12,390 | | | (9,858) | 36,289 |
| Total - business-type activities | \$ 33,757 | \$ 21,328 | \$ 130 | \$ | \$ (10,325) | \$ 44,890 |
| Component Units | \$ | \$ 126,895 | \$ 29,695 | \$ 2,136,037 | \$ (49,477) | \$ 2,243,150 |

Component Units

Loans receivable of the R.I. Housing and Mortgage Finance Corporation are secured by a first lien on real and personal property and, in some instances, are federally insured. Loans receivable of the R.I. Student Loan Authority are insured by the R.I. Higher Education Assistance Authority, which in turn has a reinsurance agreement with the federal government. The R.I. Clean Water Finance Agency provides loans to municipalities, sewer commissions, or wastewater management districts in the State for constructing or upgrading water pollution abatement projects.

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

Note 5. Intra-Entity Receivables and Payables

Intra-entity receivables and payables, as of June 30, 2003, are the result of operations and expected to be reimbursed within the fiscal year. They are summarized below (expressed in thousands):

| | Interfund Receivable | Interfund Payable |
|--|-------------------------|----------------------|
| Governmental Funds | | |
| Major Funds | | |
| General Fund | \$ 65,000 | \$ 20,519 |
| Intermodal Surface Transportation Fund | 10,586 | 7,146 |
| RI Temporary Disability Insurance | 2 | 1,320 |
| Bond Capital | 7,955 | 20,437 |
| Other | | |
| Tobacco Settlement Finance Corporation | | 601 |
| Tobacco Settle Trust Fund | | 28,500 |
| Debt Service Fund | | 282 |
| Cops | 3 | 1,432 |
| Total Governmental | 83,546 | 80,237 |
| Proprietary Funds | | |
| Enterprise | | |
| RI Lottery | | 940 |
| RI Convention Center Authority | | 2,928 |
| Employment Security Trust Fund | 19 | 1,036 |
| Total Enterprise | 19 | 4,904 |
| Internal Service | | |
| Assessed Fringe Benefits | | 519 |
| Central Utilities | 295 | 37 |
| Energy Revolving | 158 | 189 |
| Information Processing | 769 | 652 |
| Central Mail | 2 | 7 |
| Centrex | 4 | 9 |
| Howard Communications | | 2 |
| Central Pharmacy | 766 | 19 |
| Central Laundry | 81 | 29 |
| Automotive Maintenance | | 96 |
| Central Distribution Center | 385 | 33 |
| Correctional Industries | 782 | 57 |
| Records Center | | 17 |
| Total Internal Service | 3,242 | 1,666 |
| Totals | \$ 86,807 | \$ 86,807 |

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

Note 6. Capital Assets

The capital asset activity of the reporting entity consists of the following (expressed in thousands):

Primary Government

Governmental Activities

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|-------------------|-------------------|---------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 373,186 | \$ 11,343 | \$ (1,950) | \$ 382,579 |
| Construction in progress | 52,193 | 57,345 | (6,657) | 102,881 |
| Total capital assets not being depreciated | <u>425,379</u> | <u>68,688</u> | <u>(8,607)</u> | <u>485,460</u> |
| Capital assets being depreciated: | | | | |
| Land improvements | 3,209 | 392 | | 3,601 |
| Buildings | 369,453 | 4,674 | | 374,127 |
| Building Improvements | 195,860 | 2,589 | | 198,449 |
| Furniture and equipment | 137,163 | 13,089 | (1,328) | 148,924 |
| Infrastructure | 118,311 | 106,179 | | 224,490 |
| Total capital assets being depreciated | <u>823,996</u> | <u>126,923</u> | <u>(1,328)</u> | <u>949,591</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | 1,808 | 170 | | 1,978 |
| Buildings | 123,085 | 7,177 | | 130,262 |
| Building Improvements | 89,803 | 9,846 | | 99,649 |
| Furniture and equipment | 96,310 | 13,875 | (1,264) | 108,921 |
| Infrastructure | 1,972 | 5,713 | | 7,685 |
| Total accumulated depreciation | <u>312,978</u> | <u>36,781</u> | <u>(1,264)</u> | <u>348,495</u> |
| Total capital assets being depreciated, net | <u>511,018</u> | <u>90,142</u> | <u>(64)</u> | <u>601,096</u> |
| Governmental activities capital assets, net | <u>\$ 936,397</u> | <u>\$ 158,830</u> | <u>\$ (8,671)</u> | <u>\$ 1,086,556</u> |

Certain beginning balances were restated due to errors and/or omissions. The amounts reported above for infrastructure are only the additions for the fiscal year ended June 30, 2002 and subsequent fiscal years. As provided for in GASB Statement No. 34, the State opted to take advantage of the transition period and retroactively report its major general infrastructure assets in the fiscal year ended June 30, 2006.

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

| | |
|--|------------------|
| General government | \$ 4,943 |
| Human services | 11,328 |
| Education | 2,325 |
| Public safety | 8,692 |
| Natural resources | 1,795 |
| Transportation | 7,700 |
| Total depreciation expense - governmental activities | <u>\$ 36,783</u> |

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

Business-Type Activities

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|---------------|-------------------|-------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 38,032 | \$ | \$ | \$ 38,032 |
| Construction in progress | 1,336 | | (1,336) | |
| Total capital assets not being depreciated | 39,368 | | (1,336) | 38,032 |
| Capital assets being depreciated: | | | | |
| Buildings | 227,336 | 2,412 | | 229,748 |
| Machinery and equipment | 18,466 | 8,774 | (3,669) | 23,571 |
| Total capital assets being depreciated | 245,802 | 11,186 | (3,669) | 253,319 |
| Less accumulated depreciation | 76,148 | 10,594 | (3,664) | 83,078 |
| Total capital assets being depreciated, net | 169,654 | 592 | (5) | 170,241 |
| Business-type activities capital assets, net | <u>\$ 209,022</u> | <u>\$ 592</u> | <u>\$ (1,341)</u> | <u>\$ 208,273</u> |

Discretely Presented Component Units

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|-------------------|---------------------|---------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 74,024 | \$ 21,517 | \$ (10,576) | \$ 84,965 |
| Construction in progress | 208,373 | 91,795 | (109,916) | 190,252 |
| Total capital assets not being depreciated | 282,397 | 113,312 | (120,492) | 275,217 |
| Capital assets being depreciated: | | | | |
| Land improvements | 828,581 | 112,527 | (1,435) | 939,673 |
| Buildings | 75,653 | 25,674 | (1,554) | 99,773 |
| Machinery and equipment | 211,477 | 16,969 | (9,780) | 218,666 |
| Infrastructure | 255,966 | 22,728 | | 278,694 |
| Total capital assets being depreciated | 1,371,677 | 177,898 | (12,769) | 1,536,806 |
| Less accumulated depreciation for: | | | | |
| Buildings | 281,143 | 29,399 | (53) | 310,489 |
| Land improvements | 42,150 | 10,987 | | 53,137 |
| Machinery and equipment | 112,340 | 21,005 | (9,415) | 123,930 |
| Infrastructure | 77,202 | 5,400 | | 82,602 |
| Total accumulated depreciation | 512,835 | 66,791 | (9,468) | 570,158 |
| Total capital assets being depreciated, net | 858,842 | 111,107 | (3,301) | 966,648 |
| Total capital assets, net | <u>\$ 1,141,239</u> | <u>\$ 224,419</u> | <u>\$ (123,793)</u> | <u>\$ 1,241,865</u> |

Note 7. Long-Term Obligations

Long-term obligations include bonds, notes and loans payable, obligations under capital leases, compensated absences, and other long-term liabilities.

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

A. Bonds Payable

At June 30, 2003, future debt service requirements were as follows (expressed in thousands):

| Fiscal Year Ending June 30 | Primary Government | | | | Component Units | |
|-------------------------------------|-------------------------|---------------------|-------------------|-------------------|---------------------|---------------------|
| | Governmental Activities | | Proprietary Type | | Principal | Interest |
| | Principal | Interest | Principal | Interest | | |
| 2004 | \$ 52,822 | \$ 82,070 | \$ 7,685 | \$ 14,393 | \$ 210,466 | \$ 118,583 |
| 2005 | 55,221 | 79,503 | 9,380 | 14,159 | 151,568 | 109,399 |
| 2006 | 54,848 | 76,649 | 9,825 | 13,719 | 240,799 | 102,020 |
| 2007 | 54,532 | 73,924 | 10,290 | 13,259 | 77,965 | 95,603 |
| 2008 | 50,102 | 71,122 | 10,775 | 12,776 | 77,815 | 90,848 |
| 2009-2013 | 286,928 | 315,959 | 62,175 | 55,716 | 366,209 | 404,292 |
| 2014-2018 | 203,535 | 244,657 | 77,080 | 39,216 | 424,205 | 312,707 |
| 2019-2023 | 182,470 | 207,111 | 98,255 | 19,259 | 406,696 | 214,471 |
| 2024-2028 | | 167,686 | 24,540 | 2,456 | 334,844 | 119,354 |
| 2029-2033 | 168,260 | 157,380 | | | 396,165 | 49,387 |
| 2034-2038 | | 116,156 | | | 427,700 | 15,531 |
| 2039-2043 | 371,700 | 92,925 | | | | |
| | <u>\$ 1,480,418</u> | <u>\$ 1,685,142</u> | <u>\$ 310,005</u> | <u>\$ 184,953</u> | <u>\$ 3,114,432</u> | <u>\$ 1,632,195</u> |

Primary Government

Current interest bonds of the State are serial bonds with interest payable semi-annually and multi-modal variable rate demand bonds. Capital appreciation bonds are designated as College and University Savings Bonds. The accreted interest is recognized as a current year expense in the governmental activities on the statement of activities. These bonds mature from 2006 to 2009 with all interest payable at maturity.

Included in the current interest bonds is \$27,965,000 of general obligation multi-modal variable rate demand bonds maturing in fiscal year 2020. These bonds were initially issued in the weekly rate mode but can be changed by the issuer (the State) to a daily, commercial paper or term rate mode. The interest rate is determined either weekly or daily based on the mode; interest is paid monthly. The owners of the bonds in a weekly mode can require the State (acting through its remarketing and tender agents) to repurchase the bonds. The remarketing agent is authorized to use its best efforts to resell any purchased bonds by adjusting the interest rate offered. The State has entered into a standby bond purchase agreement (liquidity facility) with the tender agent and a commercial bank (the bank). The remarketing agent is required to offer for sale all bonds properly tendered for purchase. In the event the remarketing agent is unable to remarket tendered bonds, the standby bond purchase agreement provides that the bank agrees to purchase any bonds from time to time in an amount not to exceed the principal amount plus accrued interest up to 37 days at an interest rate not to exceed 12% per annum, subject to the terms and provisions of the liquidity facility. This agreement has been extended through July 2004. The State is required to pay the bank at an interest rate based on its prime lending rate or the federal funds rate plus 1/2 of 1 percent, whichever is higher. The standby bond purchase agreement remains in effect until the payment in full of the principal and interest on all bonds purchased by the bank.

Revenue bonds of the R.I. Refunding Bond Authority (RIRBA) are secured by lease rentals payable by the State pursuant to lease agreements relating to projects financed by the authority and leased to the State. Proceeds from the RIRBA bonds have been used (1) to

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

loan funds to the State to effect the advance refunding of general obligation bonds issued by the State in 1984; (2) to finance construction and renovation of certain buildings, and (3) to finance acquisition of equipment used by various State agencies.

In June 2002, the Tobacco Settlement Financing Corporation (TSFC), a blended component unit, issued \$685,390,000 of Tobacco Asset-Backed Bonds (Bonds) that were used to purchase the State's future rights in the Tobacco Settlement Revenues under the Master Settlement Agreement and the Consent Decree and Final Judgment. As stated in the bond indenture, the Bonds are payable as to principal and interest solely out of the assets of the TSFC pledged for such purpose; neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal or of the interest on the Bonds; the Bonds do not constitute an indebtedness of the State or any political subdivision of the State; the Bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC; the Bonds do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof and the State has no obligation or intention to satisfy any deficiency or default of any payment of the Bonds. The TSFC has no taxing power.

In fiscal year 2002, several governmental entities had created component units similar to the TSFC. These entities were not consistent as to the inclusion of the component unit in their Comprehensive Annual Reports (CAFRs) with GASB Statement No. 14, *The Financial Reporting Entity* as the only guidance to a rather unique situation. Therefore, there was a lack of comparability amongst the CAFRs. GASB issued Technical Bulletin, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, which, amongst other things, made it clear that the TSFC should be blended rather than discretely presented.

Revenue bonds of the R.I. Convention Center Authority (RICCA) were issued to (a) refund bonds and notes, (b) pay construction costs, (c) pay operating expenses, (d) pay interest on revenue bonds prior to completion of construction, (e) fund a debt service reserve and (f) pay costs of issuance. The revenue bonds are secured by all rents receivable, if any, under a lease and agreement between the RICCA and the State covering all property purchased by the RICCA. It also covers a mortgage on facilities and land financed by the proceeds of the revenue bonds and amounts held in various accounts into which bond proceeds were deposited. Minimum annual lease payments by the State are equal to the gross debt service of RICCA. In the event of an operating deficit (excluding depreciation), annual lease payments may be increased by the amount of the deficit. The obligation of the State to pay such rentals is subject to and dependent upon annual appropriations of such payments being made by the Rhode Island General Assembly for such purpose. Those appropriations are made in connection with the State's annual budgetary process and are therefore dependent upon the State's general financial resources and factors affecting such resources.

A summary of general obligation bonds authorized by the voters and unissued (expressed in thousands) at June 30, 2003 is shown below.

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

| | Authorized and Unissued July 1 | Authorized | Issued | Extinguished | Authorized and Unissued June 30 |
|---|---|-------------------|------------------|--------------|--|
| General Obligation Bonds Supported by Taxes: | | | | | |
| Capital Development Plan - 1986 | \$ 5 | \$ | \$ | \$ 5 | \$ |
| Capital Development Plan - 1988 | 465 | | 465 | | |
| Capital Development Plan - 1989 | 3,506 | | 570 | | 2,936 |
| Capital Development Plan - 1990 | 13,320 | | 4,820 | | 8,500 |
| Capital Development Plan - 1994 | 8,115 | | 6,765 | | 1,350 |
| Capital Development Plan - 1996 | 24,063 | | 6,565 | | 17,498 |
| Capital Development Plan - 1998 | 18,475 | | 3,500 | | 14,975 |
| Capital Development Plan - 2000 | 92,985 | | 52,235 | | 40,750 |
| Capital Development Plan - 2002 | | 132,500 | | | 132,500 |
| R.I. Economic Development Fund | 5 | | | 5 | |
| Narragansett Bay Water Quality Management District Commission Fund | 790 | | | | 790 |
| Clean Water Act Environmental Trust Fund | 3,840 | | 465 | | 3,375 |
| Open Space and Recreational Area Fund | 203 | | | | 203 |
| Drinking Water Protection Fund | 3,415 | | | | 3,415 |
| Clean Water Finance Agency - Water Pollution Revolving Loan Fund | 13,960 | | 1,755 | | 12,205 |
| General Obligation Bonds Supported by Taxes | <u>183,147</u> | <u>132,500</u> | <u>77,140</u> | <u>10</u> | <u>238,497</u> |
| R. I. Industrial-Recreational Building Authority | 80,000 | | | | 80,000 |
| Total | <u>\$ 263,147</u> | <u>\$ 132,500</u> | <u>\$ 77,140</u> | <u>\$ 10</u> | <u>\$ 318,497</u> |

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.

The amount of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority is limited by mortgage balances that it has insured, \$17,233,551 at June 30, 2003 (See Note 21). The insured mortgages are guaranteed by the State.

See Note 13 for information concerning contingent liabilities relating to "Moral Obligation" bonds.

Component Units

Revenue bonds of the University of Rhode Island (URI), Rhode Island College (RIC), and Community College of Rhode Island (CCRI) were issued under trust indentures and are collateralized by a pledge of revenues from the facilities financed. The facilities include housing, student union (including bookstores) and dining operations. 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 a loan and trust agreement between the R.I. Health and Educational Building Corporation (RIHEBC) (a proprietary component unit) and the Board of Governors for Higher Education acting for URI, RIC, and CCRI. The agreement provides 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.

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

Bonds of the R.I. Housing and Mortgage Finance Corporation (RIHMFC) are special obligations of RIHMFC, payable from the revenue, prepayments and all the funds and accounts pledged under the various bond resolutions to the holders of the bonds. The proceeds of the bonds were generally used to acquire mortgage loans which are secured principally by a first lien upon real property and improvements.

The R.I. Student Loan Authority issued tax exempt Student Loan Revenue Bonds that are secured by eligible student loans, the monies in restricted funds established by the trust indenture and all related income. The proceeds of the issuance and operating cash were used to refund bonds and to originate and purchase eligible student loans.

The R.I. Economic Development Corporation (RIEDC) has bonds outstanding referred to as Airport Revenue Bonds. They were issued to finance the construction and related costs of certain capital improvements at T.F. Green State Airport. The proceeds of the bonds were loaned to the R.I. Airport Corporation, a subsidiary and component unit of RIEDC. The remainder of bonds outstanding comprise the financing to purchase land and make land improvements at Island Woods Industrial Park in Smithfield, R.I. and to acquire land, make improvements and renovations of a building and parking lot (The Fleet National Bank Project).

The proceeds of the revenue bonds of the R.I. Clean Water Finance Agency provide funds to make low interest loans to municipalities in the State and quasi-state agencies to finance or refinance the costs of construction or rehabilitation of water pollution abatement projects.

Bonds of the Narragansett Bay Commission (NBC) represent the NBC's portion of the State's general obligation bonds. Debt service on NBC's portion is recovered through charges levied for services provided to users of its facilities. These bonds are guaranteed by the State.

Bonds of the R.I. Water Resources Board Corporate were issued to provide financing to various cities, towns, private corporations and companies engaged in the sale of potable water and the water supply business.

B. Notes Payable

Notes payable (expressed in thousands) at June 30, 2003 are as follows:

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

Component Units

| | |
|---|----------|
| Rhode Island College note payable to the federal government with interest at 5.5% payable in semi-annual installments of principal and interest through 2024. | \$ 2,167 |
| R.I. Housing and Mortgage Finance Corporation bank notes, 1.39% to 5.46% interest, payable through 2006. | 74,000 |
| R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 6.75% interest, payable through 2005 | 171 |
| R.I. Resource Recovery Corporation notes payable through 2004 with interest at 4.5% | 1,865 |
| | 78,203 |
| Less: current payable | (74,052) |
| | \$ 4,151 |

C. Loans Payable

Component Units

Loans payable represent liabilities of the Narragansett Bay Commission (NBC) to the R.I. Clean Water Finance Agency (RICWFA) (\$137,313,922). The loans payable to the RICWFA are for projects financed by that agency. The University of Rhode Island (URI) has an outstanding loan from the Rhode Island State Energy Office for \$251,341 to finance the installation of energy conservation measurers in various buildings. It also includes Community College of Rhode Island's (CCRI) loan in the amount of \$237,054 from the Energy Revolving Loan Fund (an internal service fund). In addition, CCRI entered into an agreement with the Quonset Point Facility and is liable for a loan in the amount of \$306,543 to pay for leasehold improvements.

D. Obligations Under Capital Leases

Primary Government

The State has entered into capital lease agreements 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, 2003 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 noncancelable lease terms in excess of one year as of June 30, 2003.

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

| Fiscal Year Ending June 30 | COPS | Other | Total |
|--|-------------------|-----------------|-------------------|
| 2004 | \$ 14,027 | \$ 1,922 | \$ 15,949 |
| 2005 | 12,874 | 1,922 | 14,796 |
| 2006 | 10,858 | 1,922 | 12,780 |
| 2007 | 11,772 | | 11,772 |
| 2008 | 11,820 | | 11,820 |
| 2009 - 2013 | 48,400 | | 48,400 |
| 2014 - 2018 | 32,499 | | 32,499 |
| 2019 - 2023 | 6,766 | | 6,766 |
| 2024 - 2028 | | | 0 |
| Total future minimum lease payments | <u>149,016</u> | <u>5,766</u> | <u>154,782</u> |
| Amount representing interest | (40,511) | (825) | (41,336) |
| Present value of future minimum lease payments | <u>\$ 108,505</u> | <u>\$ 4,941</u> | <u>\$ 113,446</u> |

Component Units

The University of Rhode Island (URI), Rhode Island College (RIC), Community College of Rhode Island (CCRI), and R.I. Public Telecommunications Authority (RIPTCA) obligations under capital leases consist, primarily, of construction of facilities and equipment acquisitions financed by the R.I. Refunding Bond Authority, a blended component unit.

Capital lease obligations of the R.I. Airport Corporation (RIAC), a subsidiary and component unit of the R.I. Economic Development Corporation (RIEDC), are for annual payments to the State equal to the principal and interest for airport related general obligation bonds issued by the State.

The following is a summary of the material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2003.

| Fiscal Year Ending June 30 | URI | RIC | CCRI | RIEDC | RIPTCA | NBC |
|--|------------------|---------------|-----------------|------------------|-----------------|---------------|
| 2004 | \$ 1,827 | \$ 64 | \$ 156 | \$ 4,592 | \$ 998 | \$ 178 |
| 2005 | 1,737 | 64 | 156 | 4,170 | 683 | 148 |
| 2006 | 1,569 | 64 | 156 | 3,848 | 505 | 78 |
| 2007 | 1,457 | 64 | 156 | 3,635 | 863 | 52 |
| 2008 | 1,446 | 63 | 156 | 2,633 | 976 | 35 |
| 2009 - 2013 | 6,356 | 42 | 782 | 11,624 | 756 | |
| 2014 - 2018 | 6,319 | | 782 | 3,552 | | |
| 2019 - 2023 | 2,517 | | 782 | 78 | | |
| 2024 - 2028 | | | 156 | | | |
| Total future minimum lease payments | <u>23,228</u> | <u>361</u> | <u>3,282</u> | <u>34,132</u> | <u>4,781</u> | <u>491</u> |
| Amount representing interest | (6,981) | (86) | (1,419) | (8,036) | (615) | (56) |
| Present value of future minimum lease payments | <u>\$ 16,247</u> | <u>\$ 275</u> | <u>\$ 1,863</u> | <u>\$ 26,096</u> | <u>\$ 4,166</u> | <u>\$ 435</u> |

E. Compensated Absences

State employees are granted vacation and sick leave in varying amounts based upon years of service. At the termination of service, the employee is paid for accumulated unused vacation leave. Also, the employee is entitled to payment of a percentage of accumulated sick leave at

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

retirement. The State calculates the liability for accrued sick leave for only those employees that are eligible for retirement. Payment is calculated at their then-current rate of pay.

F. Other Long-Term Liabilities

Income on invested general obligation bond proceeds, determined to be arbitrage earnings in accordance with federal regulations, has been included in long-term debt . These amounts are generally payable to the federal government five years after the bond issuance date.

The long-term debt portion of violent crimes' claims is included in long-term debt. Also included is an advance from the Federal Highway Authority Right of Way Revolving Fund that will be used to acquire land and rights-of-way for the Quonset access road project. The amount included for negotiated settlements represents the amount due to correctional officers and is payable over three years. Retainage payable is also included in other long-term debt since the related construction projects are not expected to be completed in the subsequent fiscal period. Finally, an amount due to the federal government is being reported as long-term debt because the payment schedule coincides with the repayment of a long-term loan issued to a private employer.

G. Changes in Long-Term Debt

During the fiscal year ended June 30, 2003, the following changes (expressed in thousands) occurred in long-term debt:

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

Primary Government

| | Balance July 1 | Additions | Reductions | Balance June 30 | Amounts Due Within One Year | Amounts Due Thereafter |
|---|---------------------|-------------------|---------------------|---------------------|-----------------------------------|------------------------------|
| Governmental activities | | | | | | |
| General obligation bonds payable: | | | | | | |
| Current interest bonds | \$ 682,434 | \$ 139,905 | \$ (100,050) | \$ 722,289 | \$ 36,847 | \$ 685,442 |
| Capital appreciation bonds | 610 | | | 610 | | 610 |
| Accreted interest on capital appreciation bonds | 4,411 | 1,334 | | 5,745 | | 5,745 |
| Deferred costs | 3,121 | 7,502 | (167) | 10,456 | | 10,456 |
| | <u>690,576</u> | <u>148,741</u> | <u>(100,217)</u> | <u>739,100</u> | <u>36,847</u> | <u>702,253</u> |
| Revenue bonds - RIRBA | 133,105 | 67,625 | (100,025) | 100,705 | 15,975 | 84,730 |
| Deferred costs | | 7,346 | (343) | 7,003 | | 7,003 |
| Tobacco Settlement Asset-Backed Bonds | 685,390 | | | 685,390 | | 685,390 |
| Deferred costs | (34,393) | (275) | 839 | (33,829) | | (33,829) |
| | <u>1,474,678</u> | <u>223,437</u> | <u>(199,746)</u> | <u>1,498,369</u> | <u>52,822</u> | <u>1,445,547</u> |
| Bonds payable | <u>112,665</u> | <u>3,890</u> | <u>(8,050)</u> | <u>108,505</u> | <u>8,970</u> | <u>99,535</u> |
| Certificates of Participation (COP) | 6,480 | | (1,539) | 4,941 | 1,591 | 3,350 |
| Other capital leases | 119,145 | 3,890 | (9,589) | 113,446 | 10,561 | 102,885 |
| Obligations under capital leases | 54,647 | 48,952 | (45,097) | 58,502 | 42,898 | 15,604 |
| Compensated absences | 40,008 | 5,966 | (9,064) | 36,910 | 6,423 | 30,487 |
| Other long-term liabilities | <u>\$ 1,688,478</u> | <u>\$ 282,245</u> | <u>\$ (263,496)</u> | <u>\$ 1,707,227</u> | <u>\$ 112,704</u> | <u>\$ 1,594,523</u> |
| Business type activities | | | | | | |
| Revenue bonds | \$ 319,435 | \$ 58,285 | \$ (67,715) | \$ 310,005 | \$ 7,685 | \$ 302,320 |
| Add: bond premium | | 4,566 | | 4,566 | | 4,566 |
| Less: deferred amounts | | | | | | |
| Issuance discounts | 6,191 | | (509) | 5,682 | | 5,682 |
| On refunding | 20,559 | 280 | (2,079) | 18,760 | | 18,760 |
| | <u>292,685</u> | <u>62,571</u> | <u>(65,127)</u> | <u>290,129</u> | <u>7,685</u> | <u>282,444</u> |
| Bonds payable | <u>1,153</u> | | <u>(1,000)</u> | <u>153</u> | <u>153</u> | |
| Other long-term liabilities | <u>\$ 293,838</u> | <u>\$ 62,571</u> | <u>\$ (66,127)</u> | <u>\$ 290,282</u> | <u>\$ 7,838</u> | <u>\$ 282,444</u> |

Certain beginning balances were restated because of errors, omissions and/or changes in the presentation of the basic financial statements.

H. Defeased Debt

In prior years, the State and its component units defeased certain general obligation bonds, revenue bonds and certificates of participation (COP) by placing the proceeds of the new bonds or COP, or other sources, in irrevocable trusts to provide for all future debt service payments on the old bonds or COP. Accordingly, the trust account assets and the liabilities for the defeased bonds or COP are not included in the basic financial statements. On June 30, 2003, the following bonds outstanding (expressed in thousands) are considered defeased:

| | Amount |
|---|------------|
| Primary government: | |
| General Obligation Bonds | |
| (includes \$155,000 of NBC) | \$ 327,879 |
| Certificates of Participation | 3,565 |
| Component Units: | |
| R.I. Clean Water Finance Agency | 5,725 |
| R.I. Depositors Economic Protection Corporation | 350,435 |
| R.I. Economic Development Corporation | 28,820 |
| R.I. Turnpike And Bridge Authority | 37,550 |

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

In December 2002, the state issued \$62,765,000 Consolidated Capital Development Loan of 2002, Refunding Series C, with interest rates ranging from 1.60% to 3.92%, maturing from 2003 through 2014. The proceeds were used to advance refund \$66,370,000 of 1993 and 1994 Series A Bonds. The net proceeds from the sale of the refunding bonds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded bonds. The advance refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the Statement of Net Assets. The refunding decreased total debt service payments over the next 11 years by \$4,200,300 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$4,107,978.

On May 1, 2003, Rhode Island Refunding Bond Authority (RIRBA), a blended component unit, issued \$67,625,000 in revenue bonds dated April 1, 2003 with the interest rates ranging from 3.0% to 5.0% as part of the advance refunding of \$84,910,000 of outstanding 1993 Series A bonds with interest rates ranging from 5.0% to 5.25%. The net proceeds of \$71.7 million (including issuance premiums and after payment of \$700 thousand for underwriting fees, insurance and other costs of issuance) plus an additional \$16.4 million available from the Debt Service Reserve Fund established for the 1993 Series A bonds were used to purchase U.S. Government Securities. These securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service on the 1993 Series A bonds including a call premium of 102%. As a result, the Series A bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$4,610,613. RIRBA completed the advance refunding to reduce its total debt service payments by \$2,811,239 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$2,862,523.

On June 5, 2003 the 1993 Series A bonds were called and redeemed with the proceeds of the securities placed in the irrevocable trust.

I. Conduit Debt

The R.I. Industrial Facilities Corporation, the R.I. Health and Educational Building Corporation and the R.I. Economic Development 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

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

conduit debt outstanding on June 30, 2003 was \$85,000,000, \$1,304,676,331 and \$352,605,000 respectively. Certain issues of conduit debt are moral obligations of the State and the cumulative amounts outstanding are disclosed in Note 13.

Note 8. Net Assets

Government-Wide Unrestricted Net Assets

| | Governmental Funds | |
|---------------------------------|-----------------------|---|
| Deficit | \$ (1,053,961) | |
| General Revenue | 42,634 | Unrestricted balance |
| Appropriations carried forward: | | |
| General Revenues | 7,347 | General revenues carried forward for original purpose |
| Restricted Revenues | 27,727 | Restricted revenues carried forward for original purpose |
| Other | 10,484 | Principally capital accounts carried forward for original purpose |
| Special Revenue | 25,403 | ISTEA, Tobacco Settlement Trust, R.I. DTI Fund |
| Capital Projects Fund | 70,153 | RI Economic Policy Council |
| Permanent Fund | 837 | Committed for capital projects |
| Internal Service Funds | 9,066 | Permanent School |
| Unrestricted Net Assets | <u>\$ (860,310)</u> | Unrestricted balance of all Internal Service Funds |

Changes in General Fund Reserved Fund Balances

The State maintains certain reserves within the General Fund in accordance with the General Laws. These reserves accumulate in the General Fund until withdrawn by statute or used for the intended purposes pursuant to the enabling legislation.

| | Reserved Fund Balance July 1, | Additions | Reductions | Reserved Fund Balance June 30 |
|---------------------------------|-------------------------------------|-------------------|---------------------|-------------------------------------|
| State Budget Reserve Account | \$ 82,024 | \$ 55,905 | \$ (54,281) | \$ 83,648 |
| Appropriations carried forward | | | | |
| General revenue | 7,812 | 7,347 | (7,812) | 7,347 |
| Departmental restricted revenue | 36,280 | 27,727 | (36,186) | 27,821 |
| Operating transfers in | 6,645 | 10,484 | (6,411) | 10,718 |
| Total | <u>\$ 132,761</u> | <u>\$ 101,463</u> | <u>\$ (104,690)</u> | <u>\$ 129,534</u> |

The State maintains a budget reserve in the general fund. Annually, 2% of general revenues and opening surplus are set aside in this reserve account. Amounts in excess of 3% of the total general revenues and opening surplus are transferred to the bond capital fund to be used for capital projects, debt reduction or debt service. The reserve account, or any portion thereof, may be appropriated in the event of an emergency involving the health, safety or welfare of the citizens of the State or in the event of an unanticipated deficit in any given fiscal year. Such appropriations must be approved by a majority of each chamber of the General Assembly.

Appropriations carried forward can only be used for the same purpose as intended in the original budget as enacted by the General Assembly.

Note 9. Taxes

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

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

| | Taxes |
|---|--------------|
| General Fund | |
| Personal Income Tax | \$ 816,175 |
| General Business Taxes: | |
| Business Corporation Tax | 56,506 |
| Non-resident Contractor Tax | 81 |
| Franchise Tax | 6,402 |
| Gross Earnings Tax-Public Utilities | 76,178 |
| Income Tax-Financial Institutions | 9,804 |
| Tax on Insurance Companies | 51,358 |
| Tax on Deposits-Banking Institutions | 1,698 |
| Health Care Provider Assessment | 8,462 |
| Nursing Facilities Provider Assessments | 20,014 |
| Sub-total - General Business Taxes | 230,503 |
| Sales and Use Taxes: | |
| Sales and Use Tax | 767,663 |
| Providence Place Sales Tax | 11,391 |
| Motor Vehicle Tax | 44,563 |
| Rental Vehicle Surcharge | 2,696 |
| Fuel Use Tax on Motor Carriers | 1,042 |
| Cigarette Tax | 92,635 |
| Smokeless Tobacco Tax | 1,775 |
| Alcoholic Beverage Import Fees | 10,030 |
| Tax on Mfg. of Beers, Liquors, etc. | 29 |
| Sub-total - Sales and Use Taxes | 931,824 |
| Other Taxes: | |
| Inheritance Tax | 24,401 |
| Simulcast Wagering | 3,086 |
| Jai Alai - Pari-mutuel Betting | 38 |
| Jai Alai - Tax on Breakage | 2 |
| Dog Racing - Pari-mutuel Betting | 1,786 |
| Dog Racing - Tax on Breakage | 27 |
| Realty Transfer Tax | 9,770 |
| Mobile Home Conveyance Tax | 12 |
| Sub-total - Other Taxes | 39,122 |
| Total - General Fund | 2,017,624 |
| R.I. Temporary Disability Fund | 178,247 |
| Intermodal Surface Transportation Fund | |
| Gasoline | 139,458 |
| Total Taxes | \$ 2,335,329 |

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

Note 10. Operating Transfers

Operating transfers for the fiscal year ended June 30, 2003 are presented below (expressed in thousands):

Fund Financial Statements

| | Transfers | Description |
|-----------------------------------|------------|----------------------------------|
| Governmental activities | | |
| Major Funds | | |
| General Fund | | |
| Major Funds | | |
| Intermodal Surface Transportation | \$ 58,308 | Debt service |
| Bond Capital | 44,079 | Debt service |
| Temporary Disability | 1,225 | Operating assistance |
| Nonmajor Funds | | |
| Tobacco Settlement Financing Corp | 52,749 | Operating assistance |
| Tobacco Settlement Trust Fund | 113,500 | Operating assistance |
| Debt Service | 241 | Debt service |
| Business-Type Activities | | |
| Lottery | 249,124 | Net income |
| Convention Center | 2,928 | Excess debt service |
| Employment Security | 1,985 | Net income |
| ISTEA Fund | | |
| Bond Capital | 44,130 | Infrastructure |
| Bond Capital | | |
| General Fund | 54,141 | Debt service or capital projects |
| Nonmajor Fund | | |
| Economic Policy Council | | |
| General Fund | 2,675 | Operating assistance |
| Total Governmental Activities | 625,085 | |
| Business-Type Activities | | |
| Employment Security | | |
| Assessed Fringe Benefits | 1,622 | Operating assistance |
| Convention Center | | |
| General Fund | 17,351 | Debt service |
| Total operating transfers | \$ 644,058 | |

Note 11. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately \$13,660,000 for the fiscal year ended June 30, 2003

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.

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

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, 2003:

| Fiscal Year Ending June 30 | | |
|-------------------------------|----|--------|
| 2004 | \$ | 13,770 |
| 2005 | | 12,827 |
| 2006 | | 9,868 |
| 2007 | | 6,327 |
| 2008 | | 4,780 |
| 2009 - 2013 | | 15,913 |
| 2014 - 2018 | | 9,038 |
| 2019 - 2023 | | 2,006 |
| Total | \$ | 74,529 |

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

Note 12. Commitments

Encumbrances outstanding for the governmental funds were not available at fiscal year end.

The R.I. Economic Development Corporation (RIEDC) entered into several agreements with Providence Place Group Limited Partnership (PPG). The agreements state the terms by which the State shall perform with regard to a shopping mall, parking garage and related offsite improvements developed by PPG. The authority to enter into these agreements was provided in legislation passed by the General Assembly and signed by the Governor. This legislation further provided for payments to the developer, during the first 20 years only, of an amount equal to the lesser of (a) two-thirds of the amount of sales tax generated from retail transactions occurring at or within the mall or (b) \$3,680,000 in the first five years and \$3,560,000 in years 6 through 20.

The Employees' Retirement System of Rhode Island has contracted with a systems integration firm to design and build a new pension administration system. The total cost to the System is estimated at \$17.8 million, of which \$17.2 million has been recorded in Property and Equipment. The remaining cost is estimated at \$.6 million. Full implementation is expected by the fourth quarter of fiscal 2004. This will be financed in the same manner as other administrative expenses of the System.

The R.I. Convention Center Authority (RICCA) has entered into management contracts with vendors under which these vendors will provide various services relating to the operation of the convention center, parking garages, and hotel. In addition, RICCA has entered into a licensing agreement with a major hotel chain that permits the hotel to use its name, trademark, reservation system and other services.

During May 2003, the Lottery entered into a 20-year master contract with its gaming systems provider granting them the right to be the exclusive provider of information technology

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

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.

Component Units

The R.I. Airport Corporation (RIAC), a subsidiary and component unit of RIEDC, was obligated for completion of certain airport improvements under commitments of approximately \$5,138,000 which is expected to be funded from current available resources and future operations.

The Narragansett Bay Commission has entered into various engineering and construction contracts for the design and improvement of its facilities as part of a capital improvement program. Commitments under these contracts aggregated approximately \$200,775,000 at June 30, 2003.

The R.I. Resource Recovery Corporation's (RIRRC) currently licensed landfill consists of areas known as Phases I, II, III, and IV. The capacity of Phase I was reached in May 1993. The capacity of Phases II and III was reached in December 2002.

Phase IV consists of four eleven-acre cells of which two cells began accepting refuse in September 2000. To date, \$30,933,781 has been expended on permitting and engineering costs related to Phase IV, and other costs associated with readying the area for use, including relocation of a brook. Costs incurred in connection with the acquisition and development of Phase V total \$1,401,589 at June 30, 2003.

The Environmental Protection Agency (EPA) established closure and postclosure care requirements for municipal solid waste landfills as a condition for the right to operate a landfill in the current period. Based on RIRRC's engineers and independent engineering studies, it is estimated that these costs of closure and postclosure activities for Phase I, II, III and IV will be approximately \$43,035,000. The liability at June 30, 2003 is approximately \$38,270,000, with \$4,765,000 remaining to be recognized. RIRRC recognizes an expense and a liability for these costs based on landfill capacity used to date. Based on the estimates of RIRRC's engineers, approximately 66% of capacity of Phase IV has been used to date, and it is expected that full capacity will be reached in September 2004. Amounts provided for closure and postclosure are based on current costs. These costs may be adjusted each year due to changes in the closure and postclosure care plan, inflation or deflation, technology, or applicable laws and regulations. RIRRC has designated investments in the amount of \$16,822,257 to meet the financial requirements of closure and postclosure costs, and plans to increase these designated investments each year to enable it to pay the costs as they are incurred.

In prior years, the EPA issued administrative orders requiring the RIRRC to conduct environmental studies of the landfill and undertake various plans of action. Additionally, in 1986, the landfill was named to the EPA's Superfund National Priorities List. The majority of the studies were completed and were submitted to the EPA for review. During 1996, the RIRRC entered into a consent decree with the EPA concerning remedial actions taken by the RIRRC for groundwater contamination. The consent decree, which was approved by the

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

U.S. District Court on October 2, 1996, requires the establishment of a trust fund in the amount of \$27,000,000 for remedial purposes. The trust is included in restricted assets held in trust on RIRRC's balance sheet. As of June 30, 2003, the market value of the trust was \$26,969,876. The present value of the estimated remaining total expenditures relating to groundwater contamination that will be required as a result of the consent decree is estimated to be approximately \$21,866,000 and is recorded in the financial statements, net of the amount included in the trust fund.

RIRRC is required by the R.I. Department of Environmental Management to restore certain wetlands which are located at the Central Landfill. Total costs incurred for this project are approximately \$6,200,000. As of June 30, 2003, the project was substantially complete and awaiting DEM approval.

RIRRC is committed, under various contracts and agreements, for a materials recovery facility and a methane gas collection-flare system.

In addition, RIRRC is required to grant funds to municipalities to assist them in organizing source separation and recycling programs in their communities.

RIRRC has entered into an agreement with the City of Cranston to furnish sewer and water services to RIRRC's Johnston facilities in exchange for payments by RIRRC.

The R.I. Housing and Mortgage Finance Corporation had loan commitments of \$46,446,000 under various loan programs at June 30, 2003.

The R.I. Turnpike and Bridge Authority has entered into various contracts for maintenance of its bridges. At June 30, 2003 remaining commitments on these contracts approximated \$1,100,000.

The R.I. Public Transit Authority is committed under construction contracts in the amount of \$7,012,877 at June 30, 2003.

The R.I. Higher Education Assistance Authority is required to return to the federal government \$1,116,117 as it's share of Reserve Funds pursuant to the 1998 reauthorization of the Higher Education Act recall from guaranty agencies. The Authority's share is payable in three installments due on September 1, 2002, 2006 and 2007, respectively. The first installment was paid on August 30, 2002. As of June 30, 2003, the amount outstanding is \$736,637 and recorded in the Federal Fund.

The University of Rhode Island, Rhode Island College and Community College of Rhode Island have begun a technology modernization of core administration systems. This is being accomplished system wide through the Office of Higher Education and will be financed over a seven-year period beginning in fiscal year 2000 at a cost of \$3,700,000, \$2,200,000, and \$2,500,000, respectively.

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

The R.I. Children's Crusade has estimated its cost of scholarships for currently enrolled students to be \$25,600,000 of which \$13,200,000 will be funded by investments and \$12,400,000 to be funded by pledged scholarships.

Note 13. Contingencies

Primary Government

The State is involved in various civil lawsuits which could result in monetary loss to the State. The lawsuits are in various developmental stages, some to the point that a favorable decision, with no or minimal loss is anticipated, others, where the outcome and amount of loss, if any, cannot be determined and others which are still in the discovery stage.

In June 2002, the Tobacco Settlement Financing Corporation (Corporation), a blended component unit, issued revenue bonds that are the sole obligation of the Corporation. The bonds are asset-backed instruments that are secured solely by the Tobacco Settlement Revenues (TSR's) receivable by the Corporation. The State sold to the Corporation its future rights in the (TSR's) under the Master Settlement Agreement and the Consent Decree and Final Judgement (the MSA). When the Corporation's obligations with the bonds have been fulfilled, the TSR's will revert back to the State.

The Corporation's rights to receive TSR's are expected to produce funding for its obligations. The TSR payments are dependent on a variety of factors, which include:

- the financial capability of the participating cigarette manufacturers to pay TSR's;
- future cigarette consumption which impacts the TSR payment; and
- future legal and legislative challenges against the tobacco manufacturers and the master settlement agreement that provides for the TSR payments.

Litigation has been filed against tobacco manufacturers as well as certain states and public entities. The lawsuits allege, among other claims, that the Master Settlement Agreement (MSA) violates provisions of the U.S. Constitution, state constitutions, federal antitrust and civil rights laws, state consumer protection laws; these actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. The lawsuits seek to prevent the states from collecting any monies under the MSA, and/or a determination that prevents the tobacco manufacturers from collecting MSA payments through price increases to cigarette consumers. In addition, class action lawsuits have been filed in jurisdictions alleging violations of state Medicaid agreements. To date, no such lawsuits have been successful. The enforcement of the terms of the MSA may continue to be challenged in the future. In the event of an adverse court ruling, the corporation may not have adequate financial resources to service its debt obligations.

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

Federal Grants

The State receives significant amounts of federal financial assistance under grant agreements which specify the purpose of the grant and conditions under which the funds may be used. Generally, these grants are subject to audit. Any disallowances as a result of these audits become a liability of the State. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

Moral Obligation Bonds

Some component units issue bonds with bond indentures requiring capital reserve funds. Moneys in the capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bond holder(s). These bonds are considered "moral obligations" of the State when the General Laws require the executive director to submit to the Governor the amount needed to restore each capital reserve fund to its minimum funding requirement and the Governor is required to include the amount in the annual budget. At June 30, 2003 the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had \$209,862,722 and \$68,421,242 respectively, in "moral obligation" bonds outstanding. Certain of the RIEDC bonds are economic development revenue bonds whereby the State will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the State anticipates paying approximately \$1,000,000 of the debt on the related economic development revenue bonds in fiscal year 2004.

Component Units

R.I. Student Loan Authority

The R.I. Student Loan Authority (RISLA) maintains letters of credit in the original stated amount of \$31,940,000 on its January 1995 weekly adjustable interest rate bonds and the originally stated amount of \$69,203,000 on its April 1996 Series I, II and III variable rate bonds. The letters of credit obligate the letter of credit provider to pay to the trustee an amount equal to principal and interest on the bonds when the same becomes due and payable (whether by reason of redemption, acceleration, maturity or otherwise) and to pay the purchase price of the bonds tendered or deemed tendered for purchase but not remarketed. The RISLA also maintained a standby letter of credit in the original stated amount of \$30,000,000 on its March 2000 issue. The 2000 series bonds were refunded in 2003. The letters of credit will expire on the earliest to occur: a) July 28, 2004, for the January 1995 and April 1996 issue, and March 15, 2003 for the March 2000 issue; b) the date the letter of credit is surrendered to the letter of credit provider; c) when an alternative facility is substituted for the letter of credit; d) when the bonds commence bearing interest at a fixed rate; e) when an event of default has occurred or f) when no amount becomes available to the trustee under the letter of credit.

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

R.I. Public Transit Authority

The R.I. Public Transit Authority has a \$2,000,000 line of credit with a financial institution. The line of credit is due on demand with interest payable at a floating rate at the financial institution's base rate or fixed rate options at the financial institution's cost of funds plus 2.00%. No amount was due under this line of credit at June 30, 2003

R.I. Children's Crusade for Higher Education

The R.I. Children's Crusade for Higher Education has a \$500,000 line of credit agreement that expires on December 31, 2003. Interest is payable monthly at the prime rate. The outstanding balance as of June 30, 2003 was \$400,000. Subsequent to June 30, 2003, the line of credit agreement was modified to increase the credit available to \$850,000.

Note 14. Employer Pension Plans

Plan Descriptions

The State, through the Employees' Retirement System (System), administers four defined benefit pension plans. Three of these plans; the Employees' Retirement System (ERS), a cost-sharing multiple-employer defined benefit pension plan and the Judicial Retirement Benefits Trust (JRBT) and the State Police Retirement Benefits Trust (SPRBT), single-employer defined benefit pension plans; cover most State employees. The State does not contribute to the Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan. The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to State employees, which is subject to amendment by the general assembly, is established by the General Laws as listed below. In addition to the State, there are 40 local public school entities that are members of the ERS. The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained by writing to the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903.

Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the System 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 contributions are due. 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. Dividend income is recorded on the ex-dividend date. The gains or losses on foreign currency exchange contracts are included in income in the period in which the exchange

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

rates change. Gains and losses on contracts which hedge specific foreign currency denominated commitments are deferred and recognized in the period in which the transaction is completed. Investment transactions are recorded on a trade date basis.

Method Used to Value Investments

Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale. The fair value of fixed income and domestic and international stocks are generally based on published market prices and quotations from national security exchanges and securities pricing services. Real estate is primarily valued on appraisals by independent appraisers or as adjusted by the general partner. Other securities and investments, which are not traded on a national security exchange, are valued by the respective fund manager. Commingled funds consist primarily of institutional equity index funds. The fair value of the commingled funds is based on the reported share value of the respective fund. Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded.

Funding Policy and Annual Pension Cost

The State's annual pension cost (expressed in thousands) for the current year and related information for each plan is listed below. The most recent actuarial information may be found in the separately issued audit report referred to above.

| | Employees' Retirement System | State Police Retirement Benefits Trust | Judicial Retirement Benefits Trust |
|---|--|--|---|
| Contribution rates: | | | |
| State | 7.68% | 27.48% | 33.42% |
| Plan members - state employees | 8.75% | 8.75% | 8.75% |
| State contribution for teachers | 4.63% and 5.04% | | |
| Annual pension cost | \$83,566 | \$2,257 | \$1,657 |
| Contributions made - state employees | \$45,323 | \$2,257 | \$1,657 |
| Contributions made - teachers | \$38,243 | | |
| Actuarial valuation date | June 30, 2000 | June 30, 2000 | June 30, 2000 |
| Actuarial cost method | Entry Age Normal | Entry Age Normal | Entry Age Normal |
| Amortization method | Level Percent of Payroll - Closed 29 years | Level Percent of Payroll - Closed 29 years | Level Percent of Payroll - Closed 29 years |
| Equivalent Single Remaining Amortization Period | 5 Year Smoothed Market | 5 Year Smoothed Market | 5 Year Smoothed Market |
| Asset valuation method | | | |
| Actuarial Assumptions: | | | |
| Investment rate of return | 8.25% | 8.25% | 8.25% |
| Projected salary increases | 4.25% to 14.25% | 5% to 15.00% | 5.50% |
| Inflation | 3.00% | 3.00% | 3.00% |
| Cost-of-living adjustments | 3% compounded annually | \$1,500 per annum | 3% of original retirement, compounding varies |
| Level of benefits established by: | | | |
| General Law(s) | 36-8 to 10 | 42-28-22.1 | 8-3-16, 8-8-10.1, 8-8.2-7 and 28-30-18.1 |

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

Three-Year Trend Information

| | Year Ending | Annual Pension Cost (APC) (In Thousands) | Percentage of APC Contributed | Net Pension Obligation |
|--|----------------|---|-------------------------------------|------------------------------|
| Employees' Retirement System | 6/30/01 | \$ 79,906 | 100% | \$ 0 |
| | 6/30/02 | 62,565 | 100% | 0 |
| | 6/30/03 | 83,566 | 100% | 0 |
| State Police Retirement Benefits Trust | 6/30/01 | 1,820 | 100% | 0 |
| | 6/30/02 | 2,405 | 100% | 0 |
| | 6/30/03 | 2,257 | 100% | 0 |
| Judicial Retirement Benefits Trust | 6/30/01 | 1,164 | 100% | 0 |
| | 6/30/02 | 1,458 | 100% | 0 |
| | 6/30/03 | 1,657 | 100% | 0 |

Other

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 with the Teachers' Insurance and Annuity Association. Total expenditures by the institutions for such annuity contracts amounted to \$11,987,537 during the year ended June 30, 2003.

The R.I. Public Transit Authority has two pension plans that cover employees meeting certain eligibility requirements. Employer contribution paid in fiscal year 2003 was \$3,966,633. At January 1, 2003, the most recent valuation date, the total pension benefit obligation was \$42,044,519 and net assets available for benefits were \$20,179,970.

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

Note 15. Postemployment Benefits

In accordance with the General Laws, postretirement health care benefits are provided to State employees who retire on or after July 1, 1989. The benefits in general cover medical and hospitalization costs for pre-Medicare retirees and a Medicare supplement for Medicare-eligible retirees. The State provides a subsidy for all recipients equal to the difference between the retiree premium and the active premium. This subsidy cost approximately \$4.3 million in FY 2003. Additionally the State provides an additional benefit based upon years of service. The State's share varies with years of service and ranges from 50% for retirees with 10-15 years of service to 100% for retirees with 35 years of service. During fiscal year 2003, the State contributed 1.07% of covered payroll for postretirement healthcare benefits. The contribution rates are not actuarially determined. Postretirement health care expenses for the fiscal year ended June 30, 2003 were \$6,003,011 net of retirees' contributions for the 4,031 retirees receiving benefits.

In addition to the pension benefits described above, expenditures of \$957,504 were recognized for postretirement benefits provided under early retirement incentive programs (an average of \$1,046 for each of the 915 retirees covered by the plans).

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

The above plans are financed on a pay-as-you-go basis.

Note 16. Deferred Compensation

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) 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. Benefit payments are not available to employees earlier than the calendar year in which the participant attains age 70½, termination, retirement, 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 financial statements.

Note 17. Restatement of Net Assets and Fund Balance

Certain beginning balances were restated as listed below (expressed in thousands).

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

| | Beginning Net Assets | Changes | Beginning Net Assets as Restated |
|-------------------------|---------------------------|---------------------|--|
| Entity-wide | | | |
| Governmental Activities | | | |
| RIUSTFR | \$ 1,096 | \$ (1,096) | \$ |
| TSFC | | 108,074 | 108,074 |
| Restated debt | | (663,547) | (663,547) |
| Errors and omissions | | 2,027 | 2,027 |
| Other | 443,000 | | 443,000 |
| | <u>\$ 444,096</u> | <u>\$ (554,542)</u> | <u>\$ (110,446)</u> |
| Component Units | | | |
| RIEDC | \$ 228,054 | \$ 2,556 | \$ 230,610 |
| RIUSTFR | | 846 | 846 |
| RIWRBC | (1,526) | 356 | (1,170) |
| TSFC | 1,312 | (1,312) | |
| Other | 1,168,660 | | 1,168,660 |
| | <u>\$ 1,396,500</u> | <u>\$ 2,446</u> | <u>\$ 1,398,946</u> |
| | Beginning Fund Balance | Changes | Beginning Fund Balance as Restated |
| Governmental Funds | | | |
| RIUSTFR | \$ 1,096 | \$ (1,096) | \$ |
| TSFC | | 108,074 | 108,074 |
| Other | 512,968 | | 512,968 |
| | <u>\$ 514,064</u> | <u>\$ 106,978</u> | <u>\$ 621,042</u> |

The R.I. General Laws were amended giving the RI Underground Storage Tank Financial Responsibility Fund (RIUSTFR) separate legal status; therefore, the fund was reclassified from a special revenue fund to a discretely presented component unit.

The Tobacco Settlement Financing Cooperation (TSFC) early implemented the GASB Technical Bulletin, *Tobacco Settlement Recognition and Financial Entity Issues*. This bulletin made it clear that the corporation should be a blended component unit; therefore the corporation was reclassified from a discretely presented component unit to a special revenue fund. The difference in net assets and fund balance for the TSFC occurs because the component unit financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

The RIEDC and RIWRBC corrected prior year transactions.

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

Note 18. Condensed Financial Statement Information

The condensed financial statement information for the discretely presented component units is presented (expressed in thousands) in the following schedules:

| | RIHMFC | RISLA | RITBA | RIEDC | RIUSTFR | NBC |
|---|--------------|------------|-----------|------------|----------|-----------|
| Other assets | \$ 2,049,891 | \$ 966,819 | \$ 38,221 | \$ 191,619 | \$ 1,301 | \$ 46,676 |
| Capital assets - nondepreciable | | | 5,391 | 76,908 | | 138,399 |
| Capital assets - depreciable (net) | | 490 | 56,024 | 259,858 | 66 | 191,196 |
| Due from primary government | | | | 678 | 48 | 217 |
| Long term debt | 1,563,634 | 883,563 | 37,314 | 272,740 | | 150,830 |
| Other liabilities | 236,697 | 24,070 | 3,202 | 20,475 | 483 | 18,883 |
| Due to primary government | | | | 24 | | |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 17,850 | 490 | 24,101 | 142,492 | 66 | 178,411 |
| Restricted | 166,732 | 56,791 | 5,653 | 74,039 | 835 | 71 |
| Unrestricted | 64,978 | 2,395 | 29,366 | 19,293 | 31 | 28,293 |
| Operating expenses | 97,588 | 32,465 | 4,186 | 43,455 | 4,458 | 24,122 |
| Depreciation, depletion, and amortization | 5,584 | 913 | 979 | 15,196 | 3 | 5,981 |
| Program revenue | 82,749 | 36,460 | 11,800 | 58,730 | 4,527 | 44,952 |
| Net program (expense) revenue | (20,423) | 3,082 | 6,635 | 79 | 66 | 14,849 |
| Interest revenue | 29,326 | 1,937 | 2,374 | 5,708 | 15 | 260 |
| Gain (loss) on sale of assets | | | | (493) | 4 | |
| Net increase in fair value of investments | | (4) | 42 | | | |
| Miscellaneous | | | (1,856) | (14,506) | | (4,296) |
| Capital contributions | | | | 4,756 | | 1,665 |
| Transfers from primary government | | | | 11,563 | | |
| Transfers (to) primary government | | | | (1,893) | | |
| Change in net assets | 8,903 | 5,015 | 7,195 | 5,214 | 85 | 12,478 |
| Beginning net assets | 240,657 | 54,661 | 51,925 | 230,610 | 847 | 194,297 |
| Ending net assets | 249,560 | 59,676 | 59,120 | 235,824 | 932 | 206,775 |

| | RIHEBC | RIRRC | DEPCO | RIHEAA | RIPTA | RIIFC |
|---|-----------|-----------|---------|-----------|-----------|----------|
| Other assets | \$ 10,830 | \$ 92,410 | \$ | \$ 19,250 | \$ 10,434 | \$ 1,273 |
| Capital assets - nondepreciable | | 15,626 | | 194 | 12,840 | |
| Capital assets - depreciable (net) | 123 | 53,673 | | 1,436 | 80,570 | |
| Due from primary government | | | | | 2,389 | |
| Long term debt | | 20,835 | | | | |
| Other liabilities | 102 | 67,785 | | 1,508 | 15,856 | 676 |
| Due to primary government | | 3,000 | | | 647 | |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 123 | 50,329 | | 1,630 | 93,411 | |
| Restricted | | (14,667) | | 14,808 | | |
| Unrestricted | 10,728 | 34,427 | | 2,934 | (3,681) | 597 |
| Operating expenses | 1,011 | 44,458 | 249 | 13,046 | 67,285 | 27 |
| Depreciation, depletion, and amortization | 15 | 16,361 | | 212 | 7,677 | |
| Program revenue | 1,369 | 54,603 | 914 | 11,657 | 37,254 | |
| Net program (expense) revenue | 343 | (6,216) | 665 | (1,601) | (37,708) | (27) |
| Interest revenue | 125 | 2,854 | 14 | 485 | 68 | 7 |
| Gain (loss) on sale of assets | | (316) | | | (10) | |
| Net increase in fair value of investments | | | | | | |
| Miscellaneous | | (965) | | | (12) | |
| Capital contributions | | | | | 6,013 | |
| Transfers from primary government | | | | 6,018 | 29,055 | |
| Transfers (to) primary government | | (6,000) | (9,319) | | (409) | |
| Change in net assets | 468 | (10,643) | (8,640) | 4,902 | (3,003) | (20) |
| Beginning net assets | 10,383 | 80,732 | 8,640 | 14,470 | 92,733 | 617 |
| Ending net assets | 10,851 | 70,089 | | 19,372 | 89,730 | 597 |

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

| | <u>RICWFA</u> | <u>RIIRBA</u> | <u>RIWRBC</u> | <u>RIPTCA</u> | <u>RICCHE</u> |
|---|---------------|---------------|---------------|---------------|---------------|
| Other assets | \$ 543,785 | \$ 4,672 | \$ 25,704 | \$ 2,094 | \$ 24,366 |
| Capital assets - nondepreciable | | 181 | | 821 | |
| Capital assets - depreciable (net) | 53 | 425 | | 3,492 | 66 |
| Due from primary government | | | 8 | | |
| Long term debt | 289,665 | | 24,831 | 4,386 | |
| Other liabilities | 7,319 | 2,858 | 1,425 | 1,295 | 27,669 |
| Due to primary government | | | | 295 | |
| Net assets: | | | | | |
| Invested in capital assets, net of related debt | 53 | 606 | | (941) | 66 |
| Restricted | 240,609 | | (1,062) | | |
| Unrestricted | 6,192 | 1,814 | 518 | 1,372 | (3,303) |
| Operating expenses | 14,445 | 85 | 53 | 3,304 | 7,489 |
| Depreciation, depletion, and amortization | 145 | 14 | 125 | 650 | 46 |
| Program revenue | 43,716 | 207 | 1,562 | 2,271 | 9,297 |
| Net program (expense) revenue | 29,126 | 108 | 1,384 | (1,683) | 1,762 |
| Interest revenue | | 46 | 289 | 7 | 307 |
| Gain (loss) on sale of assets | | | | | |
| Net increase in fair value of investments | | | (6) | | |
| Miscellaneous | | | (1,041) | (239) | |
| Capital contributions | | | | | |
| Transfers from primary government | 2,675 | | | 1,939 | |
| Transfers (to) primary government | | | | | |
| Change in net assets | 31,801 | 154 | 626 | 24 | 2,069 |
| Beginning net assets | 215,053 | 2,266 | (1,170) | 407 | (5,306) |
| Ending net assets | 246,854 | 2,420 | (544) | 431 | (3,237) |

| | <u>URI</u> | <u>RIC</u> | <u>CCRI</u> | <u>CFSD</u> | <u>Totals</u> |
|---|------------|------------|-------------|-------------|---------------|
| Other assets | \$ 81,284 | \$ 24,547 | \$ 9,136 | \$ 5,142 | \$ 4,149,454 |
| Capital assets - nondepreciable | 12,381 | 6,947 | 5,479 | 50 | 275,217 |
| Capital assets - depreciable (net) | 237,776 | 46,369 | 32,415 | 2,616 | 966,648 |
| Due from primary government | | | | 900 | 4,240 |
| Long term debt | 129,484 | 20,768 | 11,605 | 1,886 | 3,411,541 |
| Other liabilities | 45,296 | 16,000 | 4,778 | 2,980 | 499,357 |
| Due to primary government | | | 1,069 | | 5,035 |
| Net assets: | | | | | |
| Invested in capital assets, net of related debt | 137,310 | 38,059 | 31,839 | 2,665 | 718,560 |
| Restricted | 18,326 | 7,723 | 3,220 | 493 | 573,571 |
| Unrestricted | 1,023 | (4,687) | (5,481) | 684 | 187,493 |
| Operating expenses | 298,432 | 92,950 | 77,929 | 43,025 | 870,062 |
| Depreciation, depletion, and amortization | 12,123 | 5,255 | 2,458 | 104 | 73,841 |
| Program revenue | 224,787 | 49,879 | 37,921 | 8,216 | 722,871 |
| Net program (expense) revenue | (85,768) | (48,326) | (42,466) | (34,913) | (221,032) |
| Interest revenue | | | | 73 | 43,895 |
| Gain (loss) on sale of assets | | | | | (815) |
| Net increase in fair value of investments | 797 | 548 | 128 | | 1,505 |
| Miscellaneous | (5,703) | (827) | (298) | | (29,743) |
| Capital contributions | 29,834 | 7,355 | 4,108 | | 53,731 |
| Transfers from primary government | 81,990 | 43,469 | 39,601 | 34,448 | 250,758 |
| Transfers (to) primary government | | | | | (17,621) |
| Change in net assets | 21,150 | 2,219 | 1,073 | (392) | 80,678 |
| Beginning net assets | 135,509 | 38,876 | 28,505 | 4,234 | 1,398,946 |
| Ending net assets | 156,659 | 41,095 | 29,578 | 3,842 | 1,479,624 |

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

Significant transactions between primary government and component units

| | Revenue (Expenses) | Description |
|--|-----------------------|---|
| Governmental activities | | |
| General Fund | | |
| R.I. Higher Education Assistance Authority | \$ (6,017) | Operating assistance |
| R.I. Economic Development Corporation | (11,564) | Operating assistance |
| University of Rhode Island | (82,916) | Educational assistance |
| Rhode Island College | (42,362) | Educational assistance |
| Community College of Rhode Island | (39,601) | Educational assistance |
| Central Falls School District | (34,430) | Educational assistance |
| ISTEA Fund | | |
| R.I. Public Transit Corporation | (34,107) | Operating assistance |
| Capital Projects | | |
| University of Rhode Island | (21,391) | Construction, improvement or purchase of assets |
| Rhode Island College | (6,850) | Construction, improvement or purchase of assets |
| Total Governmental Activities | <u>\$ (279,238)</u> | |

Note 19. Risk Management

The State is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; employee injury; and natural disasters.

The State has entered into agreements with commercial insurance companies for comprehensive insurance coverage on State property to protect the State against loss from fire and other risks. Furthermore, the State is required by the General Laws to provide insurance coverage on all motor vehicles owned by the State and operated by State employees in the sum of \$100,000 per person and \$300,000 per accident for personal injury and \$20,000 for property damage. The State also contracts with various insurance carriers and health maintenance organizations to provide health care benefits to employees.

The State is self-insured for risks of loss related to torts. Tort claims are defended by the State's Attorney General and, when necessary, appropriations are provided to pay claims.

The State is self-insured for various risks of loss related to work related injuries of State employees. The State maintains the Assessed Fringe Benefits Fund, an internal service fund that services, among other things, workers' compensation claims. Funding is provided through a fringe benefit rate applied to State payrolls on a pay-as-you-go basis.

There are no funds reserved for pending claims or incurred but not reported liabilities.

Note 20. Special Item

Funds available in the Rhode Island Refunding Bond Authority's (RIRBA), a blended component unit, Debt Service Reserve Fund were used to defease RIRBA 1993 Series A Bonds. RIRBA had previously entered into an agreement with the financial institution to restructure its Debt Service Fund assets. The agreement provided for (1) an "upfront" payment to the RIRBA, (2) a liquidity facility, and (3) the purchase of specific investments at the maturity of original Debt Service Reserve Fund investments. This agreement was

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

terminated by mutual consent in connection with the refunding transaction. As a result of the early termination of the agreement, RIRBA received \$1,250,497 in satisfaction and release of the agreement. RIRBA, also recognized investment income of \$259,009 which represents the balance of the “upfront” payment which had been previously deferred. Early termination of the investment agreement also created an arbitrage rebate liability on the 1993 Series A Bonds in the amount of \$1,199,404.

Note 21. Related Party Transactions

Funds held by the University of Rhode Island Foundation for the future use of the university and its faculty and students are not reflected in the accompanying financial statements. Funds held at June 30, 2003 amounted to \$71,075,898. Distributions of \$10,837,820 during the fiscal year ended June 30, 2003 are included in private and capital gift revenue of the university.

Funds held by the Rhode Island College Foundation for the future use of the college and its faculty and students are not reflected in the accompanying financial statements. Funds held at June 30, 2003 amounted to approximately \$8,400,000. Distributions of \$428,000 during the fiscal year ended June 30, 2003 are included in private and capital gift revenue of the university.

The R.I. Industrial-Recreational Building Authority is authorized to insure mortgages and first security agreements for companies conducting business in the State, granted by financial institutions and the R.I. Industrial Facilities Corporation.

The State entered into a lease and operating agreement (the agreement) with the R.I. Airport Corporation (RIAC) a subsidiary of the R.I. Economic Development Corporation providing for the lease and/or transfer from the State to the RIAC all real, personal, and tangible property; intangible property, including accounts receivable, contract rights, choices in action, licenses, permits, grants, and entitlements; and all other assets of the State used or used primarily in connection with the administration, maintenance, management, regulation, operation, improvement, development or use of the State's six airports and other air facilities. RIAC agrees to reimburse the State for principal and interest payments for certain airport related General Obligation Bonds. The term of the agreement is 35 years beginning July 1, 1993, with annual rent of \$1.00.

Note 22. Subsequent Events

Primary Government – Governmental Activities

In April 2004, Moody's downgraded the ratings assigned to the debt obligations of the Tobacco Settlement Financing Corporation, a blended component unit, along with all other tobacco securitization debts of other jurisdictions. This action by the Moody's reflects the potential result of heightened litigation risks facing cigarette manufacturers, increasing

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

competition from discounted brands, and the expectation of continuing declines in domestic cigarette consumption, as well as other factors.

In December 2003, the State issued \$200,000,000 of tax anticipation notes. The interest rates ranging from 1.75% to 2.00% with maturity in June 2004. Repayment was made in June 2004.

In February 2004, the State issued \$65,830,000 of refunding bonds with interest rates ranging from 1.50% to 5.00%. Maturity dates are from August 2004 to August 2015. The proceeds of the refunding bonds were used to advance refund \$65,935,000 of the State's general obligation bonds.

In February 2004, the State issued \$79,770,000 of general obligation bonds with interest rates ranging from 2.00% to 5.00% with maturity dates of February 2005 through February 2023.

In August 2004, the State issued \$58,910,000 of lease participation certificates with interest rates ranging from 2.00% to 5.00%. Maturity dates are from October 2005 to October 2023.

Primary Government - Business-Type Activities

Component Units

In July 2003, the R.I. Turnpike and Bridge Authority issued taxable refunding revenue bonds in the amount of \$35,765,000 to refund Series 1997 revenue bonds.

In July 2003, the R.I. Health and Education Building Corporation issued \$33,950,000 in Higher Education Revenue Refunding Bonds on behalf the Board of Governors for Higher Education.

In August 2003, the R.I. Housing and Mortgage Finance Corporation issued \$33,460,000 in Housing Bonds.

In September 2003, the R.I. Housing and Mortgage Finance Corporation issued \$53,890,000 in Housing Bonds.

In October 2003, Narragansett Bay Commission issued \$40,000,000 in Revenue Bond Anticipation Notes which were repaid in May 2004.

In November 2003, the R.I. Housing and Mortgage Finance Corporation issued \$75,000,000 in Housing Bonds.

In November 2003, the R.I. Economic Development Corporation issued \$216,805,000 in Grant Anticipation Bonds and \$53,030,000 in Motor Fuel Revenue Bonds.

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2003

In November 2003, the R.I. Clean Water Finance Agency issued \$67,965,000 in Revenue Bonds.

In December 2003, the R.I. Clean Water Finance Agency issued \$26,995,000 in Revenue Bonds.

In December 2003, the R.I. Economic Development Corporation issued \$3,400,000 in Revenue Bonds.

In December 2003, the R.I. Housing and Mortgage Finance Corporation issued \$20,970,000 in Housing Bonds.

In January 2004, the R.I. Student Loan Authority issued \$100,000,000 in Revenue Bonds.

In March 2004, the R.I. Housing and Mortgage Finance Corporation issued \$78,145,000 in Housing Bonds.

In March 2004, the R.I. Clean Water Finance Agency issued \$40,170,000 in Revenue Bonds.

In March 2004, the R.I. Water Resource Board Corporation refunded \$7,847,700 in Revenue Bonds.

In March 2004, the R.I. Clean Water Finance Agency issued bond anticipation notes on behalf of a local community for \$7,719,000.

In April 2004, the Narragansett Bay Commission issued \$70,000,000 in multi-modal Revenue Bonds.

In June 2004, the R.I. Housing Mortgage Finance Corporation issued \$25,460,000 in housing bonds.

In August 2004, the R.I. Housing Mortgage Finance Corporation issued \$66,130,000 in housing bonds.

In March 2004, the R.I. Student Loan Authority sold approximately \$175,000,000 of federal student loans, all rights associated with the Authority's student loan originator business, and the Authority's fixed assets along with the assumption of certain operating liabilities. The proceeds of the sale were used to pay off \$175,000,000 in bond indebtedness.

Since June 30, 2003, the R.I. Health and Educational Building Corporation, The R.I. Economic Development Corporation and the R.I. Industrial Facilities Corporation have issued various conduit debt obligations, which are not obligations of the respective corporations or the State.

**State of Rhode Island
and Providence Plantations**

**REQUIRED SUPPLEMENTARY
INFORMATION**

June 30, 2003

State of Rhode Island and Providence Plantations

**Schedule of General Revenue
Budget and Actual**

General Fund

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousand)

| | Original Budget | Final Budget | Actual | Variance | Percent Variance |
|--------------------------------------|---------------------|---------------------|---------------------|-----------------|---------------------|
| PERSONAL INCOME TAX | \$ 826,419 | \$ 808,900 | \$ 813,341 | \$ 4,441 | 0.55% |
| GENERAL BUSINESS TAXES: | | | | | |
| Business Corporations | 46,100 | 64,000 | 56,416 | (7,584) | -11.85% |
| Franchise | 8,700 | | 6,402 | 6,402 | |
| Public Utilities Gross Earnings | 94,800 | 74,000 | 76,134 | 2,134 | 2.88% |
| Financial Institutions | 8,700 | 1,400 | 9,804 | 8,404 | 600.29% |
| Insurance Companies | 35,500 | 49,500 | 51,288 | 1,788 | 3.61% |
| Bank Deposits | 1,200 | 1,400 | 1,698 | 298 | 21.29% |
| Health Care Provider Assessment | 29,000 | 28,919 | 28,141 | (778) | -2.69% |
| SALES AND USE TAXES: | | | | | |
| Sales and Use | 778,210 | 778,200 | 777,365 | (835) | -0.11% |
| Motor Vehicle | 45,810 | 46,800 | 47,251 | 451 | 0.96% |
| Motor Fuel | 1,150 | 600 | 1,022 | 422 | 70.33% |
| Cigarettes | 98,900 | 96,500 | 94,379 | (2,121) | -2.20% |
| Alcohol | 10,000 | 10,000 | 10,059 | 59 | 0.59% |
| Controlled Substances | | | | | |
| OTHER TAXES: | | | | | |
| Inheritance and Gift | 22,000 | 30,000 | 24,352 | (5,648) | -18.83% |
| Racing and Athletics | 5,450 | 5,000 | 4,939 | (61) | -1.22% |
| Realty Transfer Tax | 8,100 | 8,800 | 9,781 | 981 | 11.15% |
| Total Taxes | 2,020,039 | 2,004,019 | 2,012,372 | 8,353 | 0.42% |
| DEPARTMENTAL RECEIPTS | | | | | |
| Licenses and Fees | 155,235 | | 159,140 | | |
| Fines and Penalties | 30,500 | | 33,629 | | |
| Sales and Services | 26,700 | | 31,408 | | |
| Miscellaneous | 58,551 | | 66,078 | | |
| Total Departmental Receipts | 270,986 | 288,693 | 290,255 | 1,562 | 0.54% |
| Total Taxes and Departmentals | 2,291,025 | 2,292,712 | 2,302,627 | 9,915 | 0.43% |
| OTHER SOURCES | | | | | |
| Gas Tax Transfer | 10,575 | 24,814 | 25,506 | 692 | 2.79% |
| Other Miscellaneous | 159,773 | 184,839 | 184,087 | (752) | -0.41% |
| Lottery | 237,700 | 238,500 | 236,540 | (1,960) | -0.82% |
| Unclaimed Property | 7,900 | 8,800 | 8,458 | (342) | -3.89% |
| Total Other Sources | 415,948 | 456,953 | 454,591 | (2,362) | -0.52% |
| Total General Revenues | \$ 2,706,973 | \$ 2,749,665 | \$ 2,757,218 | \$ 7,553 | 0.27% |

State of Rhode Island and Providence Plantations
Schedule of Expenditures and Other Financing Uses
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|-------------------------------------|----------------------------|-------------------------|---------------------------|---|
| Expenditures: | | | | |
| Department of Administration | | | | |
| Central Management | | | | |
| General Revenue Total | \$ 1,827 | \$ 2,074 | \$ 2,081 | \$ (7) |
| Federal Funds Total | 222 | 284 | 84 | 200 |
| Total - Central Management | 2,048 | 2,358 | 2,165 | 193 |
| Accounts & Control | | | | |
| General Revenue | 8,607 | 8,420 | 8,294 | 126 |
| RI e-Government Fund-RI-SAIL | 556 | 566 | 518 | 48 |
| Total-Accounts & Control | 9,163 | 8,986 | 8,812 | 174 |
| Budgeting | | | | |
| General Revenue Total | 2,128 | 2,128 | 2,052 | 76 |
| Total-Budgeting | 2,128 | 2,128 | 2,052 | 76 |
| Municipal Affairs | | | | |
| General Revenue Total | 1,197 | 1,237 | 1,229 | 8 |
| Federal Funds Total | 4,788 | 6,748 | 6,628 | 120 |
| Total-Municipal Affairs | 5,985 | 7,984 | 7,857 | 127 |
| Purchasing | | | | |
| General Revenue Total | 1,964 | 1,964 | 1,907 | 57 |
| Total-Purchasing | 1,964 | 1,964 | 1,907 | 57 |
| Auditing | | | | |
| General Revenue Total | 1,586 | 1,656 | 1,649 | 7 |
| Total-Auditing | 1,586 | 1,656 | 1,649 | 7 |
| Human Resources | | | | |
| Bridge Project-State Share | | | 1 | (1) |
| General Revenue Total | 6,862 | 7,177 | 7,054 | 123 |
| Federal Funds Total | | 62 | 9 | 53 |
| Total-Human Resources | 6,862 | 7,239 | 7,063 | 176 |
| Personnel Appeal Board | | | | |
| General Revenue Total | 116 | 116 | 100 | 16 |
| Total-Personnel Appeal Board | 116 | 116 | 100 | 16 |
| Taxation | | | | |
| Motor Fuel Tax Evasion Program | 9 | 56 | 14 | 42 |
| Temporary Disability Insurance | 613 | 532 | 681 | (149) |
| General Revenue Total | 16,250 | 17,074 | 16,643 | 431 |
| Federal Funds Total | 1,249 | 740 | 1,017 | (277) |
| Restricted Receipts Total | 509 | 1,294 | 1,228 | 66 |
| Total-Taxation | 18,630 | 19,696 | 19,583 | 113 |

State of Rhode Island and Providence Plantations
Schedule of Expenditures and Other Financing Uses
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

| | Original Budget | Final Budget | Actual Amounts | Variance with Final Budget |
|---|----------------------------|-------------------------|---------------------------|---|
| Registry of Motor Vehicles | | | | |
| Auto Emission CMAQ | 1 | 55 | 45 | 10 |
| General Revenue Total | 13,830 | 14,454 | 14,207 | 247 |
| RI e-Government Fund-OLIS Support-RMV System | 195 | 195 | 195 | |
| RI e-Government Fund-Digital License System | 592 | 592 | 467 | 125 |
| Federal Funds Total | | 908 | 278 | 630 |
| Restricted Receipts Total | 15 | 15 | 14 | 1 |
| Total-Registry of Motor Vehicles | 14,633 | 16,220 | 15,206 | 1,014 |
| Child Support | | | | |
| General Revenue Total | 3,341 | 3,405 | 3,408 | (3) |
| Federal Funds Total | 7,281 | 6,937 | 6,646 | 291 |
| Total-Child Support | 10,622 | 10,343 | 10,055 | 288 |
| Central Services | | | | |
| Lighting Conservation | 661 | 661 | 46 | 615 |
| General Revenue Totals | 11,570 | 11,534 | 12,024 | (490) |
| Energy Office Grants | 890 | 933 | 1,270 | (337) |
| Renewable Energy Grant | | 2,500 | 606 | 1,894 |
| Federal Funds Totals | 19,729 | 19,762 | 15,692 | 4,070 |
| Restricted Receipts Total | 1,132 | 1,088 | 562 | 526 |
| Total-Central Services | 33,982 | 36,479 | 30,199 | 6,280 |
| Office of Library & Information Service | | | | |
| Federal Highway-PL Systems Planning | 1,061 | 1,022 | 1,161 | (139) |
| Federal Highway-T2 Systems Planning | 128 | 128 | 147 | (19) |
| Air Quality Modeling | 20 | 20 | 19 | 1 |
| General Revenue Total | 2,387 | 2,586 | 2,547 | 39 |
| Federal Funds Total | 1,300 | 1,276 | 907 | 369 |
| Restricted Receipts Total | 5 | 5 | 3 | 2 |
| Total-Office of Library & Information Service | 4,900 | 5,037 | 4,785 | 252 |

State of Rhode Island and Providence Plantations
Schedule of Expenditures and Other Financing Uses
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

| | Original Budget | Final Budget | Actual Amounts | Variance with Final Budget |
|--|----------------------------|-------------------------|---------------------------|---|
| General | | | | |
| RICAP-State House Renovations (Phase 1) | 155 | 41 | 41 | |
| RICAP-State House Skylights and Roof Repairs | 584 | 347 | 273 | 74 |
| RICAP-State House Terrace/South Stairs | 1,019 | 1,019 | 624 | 395 |
| RICAP-Chapin Health Laboratory | 144 | 144 | | 144 |
| RICAP-Cranston Street Armory | 103 | 103 | 63 | 40 |
| RICAP-Cannon Building | 149 | 54 | | 54 |
| RICAP-Second State House Elevator | 12 | 12 | 7 | 5 |
| RICAP - Ladd Center-Infrastructure | 874 | | 36 | (36) |
| RICAP-Old State House | 100 | 100 | | 100 |
| RICAP-State Office Building | 247 | 247 | 15 | 232 |
| RICAP-Veterans Office Building | 250 | 250 | 14 | 236 |
| RICAP-Old Colony House | 215 | 215 | 67 | 148 |
| RICAP-Court Building-HVAC | 250 | | | |
| RICAP-Asset Inventor | 167 | 167 | 136 | 31 |
| RICAP-Washington County Government Center | 124 | 124 | 42 | 82 |
| RICAP-State House Security | | 541 | 471 | 70 |
| RICAP-State House Renovations - Phase II | 171 | 9 | 6 | 3 |
| RICAP-Board of Elections Building | 48 | 48 | | 48 |
| RICAP-Environmental Compliance | 1,185 | 1,185 | 233 | 952 |
| RICAP-Fox Point Hurricane Barrier | 50 | 50 | 50 | |
| RICAP - Facility Renovation ADA | 250 | | | |
| General Revenue Total | 9,546 | 11,270 | 10,805 | 465 |
| Contingency Fund | 2,922 | 1,312 | 793 | 519 |
| Economic Development | 6,477 | 6,477 | 6,463 | 14 |
| Centers of Excellence | 2,500 | 2,500 | 2,500 | |
| Housing Resources Commission | 3,605 | 3,605 | 3,607 | (2) |
| Race and Police Community Relations Commission | 276 | 277 | 215 | 62 |
| Motor Vehicle Excise Tax Payment | 101,248 | 100,207 | 101,269 | (1,062) |
| Property Valuation | 1,223 | 1,754 | 1,322 | 432 |
| General Revenue Sharing Program | 48,288 | 48,288 | 48,288 | |
| Payment in Lieu of Tax Exempt Properties | 18,152 | 18,152 | 18,152 | |
| Distressed Communities Relief Program | 7,600 | 7,467 | 8,142 | (675) |
| Resource Sharing and State Library Aid | 6,633 | 6,633 | 6,608 | 25 |
| Library Construction Aid | 2,333 | 2,162 | 2,163 | (1) |
| Restricted Receipts Total | 1,266 | 1,215 | 387 | 828 |
| Total-General | 218,163 | 215,970 | 212,793 | 3,177 |

State of Rhode Island and Providence Plantations
Schedule of Expenditures and Other Financing Uses
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

| | Original Budget | Final Budget | Actual Amounts | Variance with Final Budget |
|---|----------------------------|-------------------------|---------------------------|---|
| Debt Service Payments | | | | |
| DEM - Narragansett Bay Commission | 5,067 | 3,236 | 3,236 | |
| DEM - Wastewater Treatment | 4,369 | 4,394 | 4,394 | |
| DEM -Hazardous Waste | | 1,961 | 1,961 | |
| DEM - Debt Service Economic Development | | 1,277 | 1,277 | |
| DEM - Debt Service-Recreation | 4,500 | 7,426 | 7,426 | |
| RIPTA Debt Service | 921 | 409 | 409 | |
| MHRH Com Services | 6,466 | 4,759 | 4,759 | |
| MHRH Comm. Mental Health | 2,769 | 1,351 | 1,351 | |
| Transportation Debt Service | 41,266 | 26,959 | 26,805 | 154 |
| RIRBA-Third Rail Project - Quonset Point | 764 | 455 | 455 | |
| RIRBA - DLT Temporary Disability Insurance | 60 | 46 | 46 | |
| COPS - DLT Building - Other | 383 | 421 | 437 | (16) |
| COPS - Center General - Furniture - TDI | 2 | 75 | 35 | 40 |
| COPS - Pastore Center Telecomm - TDI | 19 | 22 | 23 | (1) |
| Debt - URI Education and General | 963 | 1,089 | 1,116 | (27) |
| Debt - URI housing Loan Funds | 1,846 | 1,752 | 1,881 | (129) |
| Debt - URI Dining Services | 265 | 267 | 266 | 1 |
| Debt - URI Health Services | 125 | 126 | 126 | |
| Debt - W. Alton Jones Service | 111 | 113 | 112 | 1 |
| Debt - URI Memorial Union | 98 | 98 | 98 | |
| Debt - URI Sponsored Research (Indirect Cost) | 101 | 101 | 100 | 1 |
| Debt - RIC Education and General | 297 | 297 | 470 | (173) |
| Debt - RIC Housing | 568 | 568 | 563 | 5 |
| Debt - RIC Student Center and Dining | 178 | 178 | 178 | |
| Debt - RIC Student Union | 255 | 217 | 221 | (4) |
| Debt - CCRI Bookstore | 177 | 177 | | 177 |
| RICAP-DEM Debt Service CWFA | 4,364 | 2,240 | 2,240 | |
| Debt Service Payments | 60,322 | 68,666 | 67,606 | 1,060 |
| Federal Funds | 1,545 | 1,259 | 1,241 | 18 |
| Restricted Receipts Total | 5,661 | 6,470 | 7,481 | (1,011) |
| Debt Service Special Account | | | 1,123 | (1,123) |
| Total - Debt Service Payments | 143,464 | 136,411 | 137,437 | (1,026) |
| Sheriffs | | | | |
| General Revenue Total | 13,038 | 13,659 | 13,222 | 437 |
| Total Sheriffs | 13,038 | 13,659 | 13,222 | 437 |
| Total-Department of Administration | 487,285 | 486,246 | 474,884 | 11,362 |

State of Rhode Island and Providence Plantations
Schedule of Expenditures and Other Financing Uses
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|----------------------------|-------------------------|---------------------------|---|
| Department of Business Regulation | | | | |
| Central Management | | | | |
| General Revenue Total | 1,490 | 1,555 | 1,556 | (1) |
| Total-Central Management | 1,490 | 1,555 | 1,556 | (1) |
| Banking Regulation | | | | |
| General Revenue Total | 1,481 | 1,569 | 1,583 | (14) |
| Total-Banking Regulation | 1,481 | 1,569 | 1,583 | (14) |
| Security Regulation | | | | |
| General Revenue Total | 648 | 741 | 730 | 11 |
| Total-Securities Regulation | 648 | 741 | 730 | 11 |
| Commercial Licensing and Regulation | | | | |
| General Revenue Total | 943 | 1,081 | 1,075 | 6 |
| Restricted Revenue Total | 100 | 100 | 11 | 89 |
| Total-Commercial Licensing and Regulation | 1,043 | 1,181 | 1,087 | 94 |
| Racing and Athletics | | | | |
| General Revenue Total | 593 | 645 | 631 | 14 |
| Total-Racing and Athletics | 593 | 645 | 631 | 14 |
| Insurance Regulation | | | | |
| General Revenue Total | 3,753 | 3,771 | 3,485 | 286 |
| Restricted Receipts Total | 492 | 492 | 392 | 100 |
| Total-Insurance Regulation | 4,245 | 4,262 | 3,877 | 385 |
| Board of Accountancy | | | | |
| General Revenue Total | 121 | 136 | 124 | 12 |
| Total-Board of Accountancy | 121 | 136 | 124 | 12 |
| Total-Department of Business Regulation | 9,622 | 10,089 | 9,589 | 500 |
| Department of Labor and Training | | | | |
| Central Management | | | | |
| General Revenue Total | 404 | 343 | 345 | (2) |
| Director of Workers' Compensation | 822 | 793 | 645 | 148 |
| Total-Central Management | 1,225 | 1,136 | 990 | 146 |
| Workforce Development Services | | | | |
| Reed Act-Rapid Job Development | 1,700 | 1,702 | 1,589 | 113 |
| Reed Act - Workforce Development | | 901 | 409 | 492 |
| Federal Funds Total | 19,961 | 22,188 | 18,348 | 3,840 |
| ES-Reemployment Program | 1,041 | 465 | 953 | (488) |
| Human Resource Investment Council | 12,307 | 9,069 | 7,859 | 1,210 |
| Job Development Fund DET Admin. | 40 | 63 | 73 | (10) |
| HRIC-Support Work/Rapid Job Entry | | 355 | | 355 |
| Total-Workforce Development Services | 35,049 | 34,742 | 29,231 | 5,511 |
| Workforce Regulation and Safety | | | | |
| General Revenue Total | 3,243 | 3,236 | 3,273 | (37) |
| Total-Workforce Regulation and Safety | 3,243 | 3,236 | 3,273 | (37) |

State of Rhode Island and Providence Plantations
Schedule of Expenditures and Other Financing Uses
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|----------------------------|-------------------------|---------------------------|---|
| Income Support | | | | |
| General Revenue Total | 2,765 | 2,848 | 2,849 | (1) |
| Federal Funds Total | 18,087 | 18,265 | 16,052 | 2,213 |
| Restricted Receipt Total | 1,091 | 1,560 | 1,466 | 94 |
| Total-Income Support | 21,943 | 22,674 | 20,367 | 2,307 |
| Injured Workers Services | | | | |
| Restricted Receipts Total | 9,291 | 9,995 | 9,394 | 601 |
| Total-Injured Workers Services | 9,291 | 9,995 | 9,394 | 601 |
| Labor Relations Board | | | | |
| General Revenue Total | 374 | 374 | 376 | (2) |
| Total-Labor Relations Board | 374 | 374 | 376 | (2) |
| Total-Department of Labor and Training | 71,125 | 72,157 | 63,631 | 8,526 |
| General Assembly | | | | |
| General Assembly | | | | |
| General Revenue Fund Total | 28,407 | 28,407 | 27,422 | 985 |
| Restricted Receipts Fund Total | 810 | 810 | 1,257 | (447) |
| Total-General Assembly | 29,216 | 29,217 | 28,678 | 539 |
| Office of the Lieutenant Governor | | | | |
| General Revenue Total | 806 | 806 | 795 | 11 |
| Total-Office of the Lieutenant Governor | 806 | 806 | 795 | 11 |
| Department of State | | | | |
| Administration | | | | |
| General Revenue Total | 1,162 | 1,175 | 1,253 | (78) |
| Total-Administration | 1,162 | 1,175 | 1,253 | (78) |
| Corporations | | | | |
| General Revenue Total | 1,536 | 1,627 | 1,598 | 29 |
| RI e-Gov Fund-UCC Automated System | 154 | 158 | 153 | 5 |
| Total-Corporations | 1,690 | 1,785 | 1,751 | 34 |
| State Archives | | | | |
| General Revenue Total | 285 | 295 | 299 | (4) |
| Federal Funds Total | | | (2) | 2 |
| Restricted Receipts total | 198 | 233 | 415 | (182) |
| Total-State Archives | 483 | 528 | 713 | (185) |
| Elections | | | | |
| General Revenue Total | 1,567 | 1,522 | 1,508 | 14 |
| Federal Funds Total | | 75 | 30 | 45 |
| Total-Elections | 1,567 | 1,597 | 1,538 | 59 |
| State Library | | | | |
| General Revenue Total | 712 | 711 | 717 | (6) |
| Total-State Library | 712 | 711 | 717 | (6) |

State of Rhode Island and Providence Plantations
Schedule of Expenditures and Other Financing Uses
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|----------------------------|-------------------------|---------------------------|---|
| Office of Public Information | | | | |
| General Revenue Total | 498 | 489 | 447 | 42 |
| Total-Office of Public Information | 498 | 489 | 447 | 42 |
| Total-Department of State | 6,113 | 6,285 | 6,418 | (133) |
| Treasury Department | | | | |
| Treasury | | | | |
| General Revenue Total | 2,720 | 2,759 | 2,761 | (2) |
| Federal Funds Total | 231 | 236 | 241 | (5) |
| Restricted Receipts Total | 13 | 8 | 8 | 8 |
| Total-Treasury | 2,964 | 3,003 | 3,003 | |
| State Retirement System | | | | |
| Administrative Expenses-State Retirement System | 9,260 | 8,664 | 6,955 | 1,709 |
| Retirement-Treasury Investment Operations | 576 | 589 | 534 | 55 |
| Total-State Retirement System | 9,836 | 9,253 | 7,489 | 1,764 |
| Unclaimed Property | | | | |
| Restricted Receipts Total | 9,039 | 14,174 | 14,775 | (601) |
| Total-Unclaimed Property | 9,039 | 14,174 | 14,775 | (601) |
| RI Refunding Bond Authority | | | | |
| General Revenue Total | 86 | 86 | 54 | 32 |
| Total-RI Refunding Bond Authority | 86 | 86 | 54 | 32 |
| Crime Victim Compensation Program | | | | |
| General Revenue Total | 712 | 673 | 683 | (10) |
| Federal Funds Total | 1,337 | 1,947 | 88 | 1,859 |
| Restricted Receipts Total | 1,757 | 1,600 | 1,703 | (103) |
| Total-Crime Victim Compensation Program | 3,805 | 4,219 | 2,474 | 1,745 |
| Total-Treasury Department | 25,730 | 30,736 | 27,795 | 2,941 |
| Boards for Design Professionals-PL | | | | |
| Boards For Professional Design | | | | |
| General Revenue Total | 379 | 424 | 440 | (16) |
| Total-Boards for Design Professionals-PL | 379 | 424 | 440 | (16) |
| Board of Elections | | | | |
| General Revenue Total | 2,149 | 2,246 | 2,247 | (1) |
| RI e-Government Fund-Electronic Campaign Finance | 3,260 | 858 | 871 | (13) |
| Total-Board Of Elections | 5,409 | 3,104 | 3,118 | (14) |
| Rhode Island Ethics Commission | | | | |
| General Revenue Total | 926 | 902 | 881 | 21 |
| Total-Rhode Island Ethics Commission | 926 | 902 | 881 | 21 |

State of Rhode Island and Providence Plantations
Schedule of Expenditures and Other Financing Uses
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|----------------------------|-------------------------|---------------------------|---|
| Office of the Governor | | | | |
| General Revenue Total | 6,163 | 6,363 | 6,206 | 157 |
| Total-Office Of Governor | 6,163 | 6,363 | 6,206 | 157 |
| Public Utilities Commission | | | | |
| General Revenue Total | 706 | 693 | 658 | 35 |
| Federal Funds Total | 67 | 67 | 64 | 3 |
| Restricted Receipts Total | 4,874 | 4,874 | 3,828 | 1,046 |
| Total-Public Utilities Commission | 5,646 | 5,633 | 4,550 | 1,083 |
| Rhode Island Commission on Women | | | | |
| General Revenue Total | 143 | 143 | 128 | 15 |
| Total-Rhode Island Commission on Women | 143 | 143 | 128 | 15 |
| Department of Children, Youth, and Families | | | | |
| Central Management | | | | |
| General Revenue Total | 7,586 | 7,876 | 8,213 | (337) |
| Federal Funds Total | 4,849 | 4,780 | 4,675 | 105 |
| Total-Central Management | 12,435 | 12,656 | 12,887 | (231) |
| Children's Behavioral Health Services | | | | |
| RICAP-Spurwink/RI | 114 | 114 | 81 | 33 |
| General Revenue Total | 23,294 | 22,357 | 23,204 | (847) |
| Federal Funds Total | 23,984 | 25,870 | 22,092 | 3,778 |
| Total-Children's Behavioral Health Services | 47,392 | 48,341 | 45,377 | 2,964 |
| Juvenile Correctional Services | | | | |
| RICAP-RI Training School Bathroom Renovation | 99 | 99 | 52 | 47 |
| General Revenue Total | 25,381 | 25,828 | 26,104 | (276) |
| Federal Funds Total | 3,342 | 3,130 | 3,095 | 35 |
| Restricted Receipts Total | 780 | 1,208 | 999 | 209 |
| Total-Juvenile Correctional Services | 29,602 | 30,264 | 30,250 | 14 |
| Child Welfare | | | | |
| Children's Trust Fund | 56 | 56 | 55 | 1 |
| Harmony Hill | | | | |
| General Revenues | 83,009 | 84,074 | 84,723 | (649) |
| Federal Funds Total | 60,198 | 61,686 | 62,182 | (496) |
| Restricted Receipts Total | 680 | 1,237 | 1,496 | (259) |
| Total-Child Welfare | 143,943 | 147,053 | 148,456 | (1,403) |
| Higher Education Incentive Grant | | | | |
| General Revenue Total | 206 | 208 | 208 | |
| Total-Higher Education Incentive Grants | 206 | 208 | 208 | |
| Total-Department of Children, Youth and Families | 233,578 | 238,522 | 237,180 | 1,342 |

State of Rhode Island and Providence Plantations
Schedule of Expenditures and Other Financing Uses
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|----------------------------|-------------------------|---------------------------|---|
| Department of Elderly Affairs | | | | |
| Intermodel Surface Transportation Fund | 4,700 | 4,670 | 4,956 | (286) |
| General Revenues Total | 13,489 | 13,727 | 13,856 | (129) |
| Safety and Care of the Elderly | 1 | 1 | | 1 |
| RIPAE | 13,343 | 13,107 | 13,478 | (371) |
| Federal Funds Total | 9,179 | 11,370 | 10,325 | 1,045 |
| Total-Department of Elderly Affairs | 40,712 | 42,875 | 42,615 | 260 |
| Department of Health | | | | |
| Central Management | | | | |
| Trauma Registry | 112 | 22 | 27 | (5) |
| General Revenues Total | 2,616 | 2,616 | 2,771 | (155) |
| Federal Funds Total | 2,297 | 5,331 | 4,233 | 1,098 |
| Restricted Receipts Total | 1,923 | 2,384 | 2,632 | (248) |
| Total-Central Management | 6,947 | 10,353 | 9,663 | 690 |
| State Medical Examiner | | | | |
| General Revenue Total | 1,747 | 1,788 | 1,705 | 83 |
| Total-State Medical Examiners | 1,747 | 1,788 | 1,705 | 83 |
| Family Health | | | | |
| General Revenues Total | 8,248 | 9,099 | 9,244 | (145) |
| Poison Control Center | 250 | 248 | 259 | (11) |
| Federal Funds Total | 29,901 | 35,608 | 33,700 | 1,908 |
| Restricted Receipts Total | 3,632 | 5,707 | 3,761 | 1,946 |
| Total-Family Health | 42,031 | 50,662 | 46,964 | 3,698 |
| Health Services Regulation | | | | |
| General Revenues Total | 4,466 | 4,466 | 4,582 | (116) |
| Hospital Care Consultant Report | 1 | | | |
| Federal Funds Total | 2,250 | 2,861 | 2,811 | 50 |
| Restricted Receipts Total | 541 | 423 | 385 | 38 |
| Total-Health Services Regulation | 7,257 | 7,750 | 7,778 | (28) |
| Environmental Health | | | | |
| General Revenue Total | 4,168 | 4,164 | 4,170 | (6) |
| Federal Funds Total | 8,079 | 3,564 | 2,869 | 695 |
| Restricted Receipts Total | 1,195 | 1,570 | 1,153 | 417 |
| Total-Environmental Health | 13,442 | 9,298 | 8,191 | 1,107 |
| Health Laboratories | | | | |
| General Revenue Total | 6,183 | 6,217 | 6,086 | 131 |
| Federal Funds Total | 947 | 1,843 | 1,461 | 382 |
| Total-Health Laboratories | 7,130 | 8,060 | 7,547 | 513 |

State of Rhode Island and Providence Plantations
Schedule of Expenditures and Other Financing Uses
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|----------------------------|-------------------------|---------------------------|---|
| Disease Prevention and Control | | | | |
| General Revenue Total | 4,833 | 5,008 | 5,282 | (274) |
| Smoking Cessation | 950 | 835 | 716 | 119 |
| Federal Funds Total | 12,442 | 14,315 | 13,660 | 655 |
| Restricted Receipts Total | 876 | 884 | 697 | 187 |
| Child Safety Program | 20 | 72 | 57 | 15 |
| Walkable Communities Initiative | 80 | 80 | | 80 |
| Total-Disease Prevention and Control | 19,201 | 21,195 | 20,411 | 784 |
| Total-Department of Health | 97,756 | 109,107 | 102,259 | 6,848 |
| Department of Human Services | | | | |
| Central Management | | | | |
| General Revenue Total | 6,639 | 6,494 | 5,989 | 505 |
| Federal Funds Total | 3,890 | 4,221 | 3,811 | 410 |
| Restricted Receipts Total | 2,107 | 2,204 | 2,368 | (164) |
| Total-Central Management | 12,635 | 12,919 | 12,168 | 751 |
| Individual and Family Support | | | | |
| RICAP Forand Building Exterior Window Panels | 154 | | | |
| RICAP-Veterans Home Roof | 140 | 140 | 140 | |
| General Revenue Total | 20,219 | 19,860 | 20,212 | (352) |
| Federal Funds Total | 52,601 | 52,157 | 48,157 | 4,000 |
| Restricted Receipts Total | 68 | 68 | 44 | 24 |
| Total-Individual and Family Support | 73,182 | 72,226 | 68,553 | 3,673 |
| Veterans' Affairs | | | | |
| General Revenue Total | 15,286 | 15,401 | 15,536 | (135) |
| Federal Funds Total | 5,142 | 7,144 | 5,302 | 1,842 |
| Restricted Receipts Total | 1,378 | 2,652 | 845 | 1,807 |
| Total-Veterans' Affairs | 21,806 | 25,197 | 21,683 | 3,514 |
| Health Care Quality, Financing and Purchases | | | | |
| General Revenue Total | 23,227 | 23,100 | 23,147 | (47) |
| Federal Funds Total | 33,034 | 38,840 | 36,604 | 2,236 |
| Restricted Receipts Total | 478 | 893 | 213 | 680 |
| Total-Health Care Quality, Financing & Purchase | 56,739 | 62,833 | 59,965 | 2,868 |
| Medical Benefits | | | | |
| General Revenue | | | | |
| Managed Care | 146,720 | 122,340 | 123,203 | (863) |
| Hospital | 90,179 | 97,241 | 90,568 | 6,673 |
| Other | 70,809 | 94,982 | 97,281 | (2,299) |
| Special Education | 14,372 | 16,415 | 15,434 | 981 |
| Nursing Facilities | 119,756 | 117,461 | 114,835 | 2,626 |
| General Revenue Total | 441,837 | 448,439 | 441,322 | 7,117 |

State of Rhode Island and Providence Plantations
Schedule of Expenditures and Other Financing Uses
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|----------------------------|-------------------------|---------------------------|---|
| Federal Funds | | | | |
| Managed Care | 180,381 | 156,682 | 159,418 | (2,736) |
| Hospitals | 109,436 | 115,759 | 111,603 | 4,156 |
| Nursing Facilities | 144,044 | 145,918 | 145,965 | (47) |
| Other | 85,038 | 118,717 | 122,778 | (4,061) |
| Special Education | 17,328 | 20,585 | 19,708 | 877 |
| Federal Funds Total | 536,227 | 557,661 | 559,471 | (1,810) |
| Restricted Receipts Total | 15 | 15 | 4 | 11 |
| Total-Medical Benefits | 978,079 | 1,006,115 | 1,000,797 | 5,318 |
| Supplemental Security Income Program | | | | |
| General Revenue Total | 28,296 | 26,954 | 27,157 | (203) |
| Total-Supplemental Security Income Program | 28,296 | 26,954 | 27,157 | (203) |
| Family Independence Program | | | | |
| TANF/Families Independence Program | 13,340 | 14,044 | 14,043 | 1 |
| Child Care | 56,176 | 51,516 | 51,516 | |
| Federal Funds Total | 83,976 | 91,837 | 91,342 | 495 |
| Total-Family Independence Program | 153,491 | 157,397 | 156,901 | 496 |
| State Funded Programs | | | | |
| General Public Assistance | 2,309 | 2,805 | 2,845 | (40) |
| Food Stamp Replacement for Legal Immigrants | 1,346 | 1,341 | 1,340 | 1 |
| Weatherization One-Time Payment | | | (7) | 7 |
| Citizen Participation Program | 50 | 50 | 50 | |
| Federal Funds Total | 66,888 | 65,864 | 67,038 | (1,174) |
| Total-State Funded Programs | 70,593 | 70,060 | 71,266 | (1,206) |
| Total-Department of Human Services | 1,394,821 | 1,433,699 | 1,418,490 | 15,209 |
| Department of Mental Health, Retardation and Hospitals | | | | |
| Central Management | | | | |
| General Revenue Total | 2,073 | 2,125 | 2,074 | 51 |
| Total-Central Management | 2,073 | 2,125 | 2,074 | 51 |
| Hospital & Community System Support | | | | |
| RICAP-Utilities Upgrade | 270 | 270 | 270 | |
| RICAP-Medical Center Rehabilitation | 491 | 699 | 699 | |
| RICAP-Utilities Systems Water Tanks and Pipes | | 145 | 145 | |
| RICAP-Central Power Plant Rehabilitation | 459 | | | |
| General Revenue Total | 19,334 | 20,033 | 21,615 | (1,582) |
| Total-Hospital & Community System Support | 20,553 | 21,147 | 22,729 | (1,582) |
| Service for the Developmentally Disabled | | | | |
| General Revenue Total | 99,005 | 97,521 | 96,001 | 1,520 |
| Pirovano Trust | 148 | 148 | 96 | 52 |
| Federal Funds Total | 118,662 | 119,213 | 117,568 | 1,645 |
| Total-Service for the Developmentally Disabled | 217,815 | 216,882 | 213,664 | 3,218 |

State of Rhode Island and Providence Plantations
Schedule of Expenditures and Other Financing Uses
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|----------------------------|-------------------------|---------------------------|---|
| Integrated Mental Health Services | | | | |
| General Revenue Total | 31,626 | 33,272 | 34,586 | (1,314) |
| Federal Funds Total | 30,520 | 32,128 | 32,933 | (805) |
| Total-Integrated Mental Health Services | 62,146 | 65,400 | 67,519 | (2,119) |
| Hospital & Community Rehabilitation Svcs | | | | |
| RICAP-Zambarano Buildings and Utilities | 97 | 97 | 58 | 39 |
| General Revenue Total | 51,569 | 50,136 | 52,053 | (1,917) |
| Federal Funds Total | 57,862 | 57,269 | 55,493 | 1,776 |
| Total-Hospital & Community Rehabilitation Svcs | 109,529 | 107,502 | 107,604 | (102) |
| Substance Abuse | | | | |
| RICAP-Asset Protection | 100 | 100 | 78 | 22 |
| General Revenues Total | 15,226 | 15,254 | 14,393 | 861 |
| Federal Funds Total | 13,396 | 13,582 | 11,173 | 2,409 |
| Restricted Receipts Total | 65 | 75 | 44 | 31 |
| Total-Substance Abuse | 28,787 | 29,012 | 25,688 | 3,324 |
| Total-Department of Mental Health, Retardation and Hospitals | 440,903 | 442,067 | 439,279 | 2,788 |
| Office of the Child Advocate | | | | |
| General Revenue Total | 495 | 493 | 535 | (42) |
| Federal Funds Total | 359 | 361 | 372 | (11) |
| Restricted Receipts Total | | 18 | 18 | 18 |
| Total-Office of the Child Advocate | 854 | 872 | 906 | (34) |
| Rhode Island Commission on Deaf and Hard of Hearing | | | | |
| Commission On Deaf and Hard Of Hearing | | | | |
| General Revenue Total | 261 | 261 | 216 | 45 |
| Total-Rhode Island Commission on Deaf and Hard of Hea | 261 | 261 | 216 | 45 |
| State Council on Developmental Disabilities | | | | |
| Federal Funds Total | 421 | 546 | 499 | 47 |
| Total-State Council on Developmental Disabilities | 421 | 546 | 499 | 47 |
| Governor's Commission on Disabilities | | | | |
| General Revenue Total | 321 | 482 | 518 | (36) |
| Federal Funds Total | 32 | 36 | 1 | 35 |
| Restricted Receipts Total | 71 | 57 | 9 | 48 |
| Total-Governor's Commission on Disabilities | 423 | 575 | 529 | 46 |
| Rhode Island Commission For Human Rights | | | | |
| General Revenue Total | 770 | 805 | 814 | (9) |
| Federal Funds Total | 409 | 388 | 347 | 41 |
| Total-Rhode Island Commission For Human Rights | 1,178 | 1,192 | 1,161 | 31 |

State of Rhode Island and Providence Plantations
Schedule of Expenditures and Other Financing Uses
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|----------------------------|-------------------------|---------------------------|---|
| Office of Mental Health Advocate | | | | |
| Office of Mental Health Advocate | | | | |
| General Revenue Total | 297 | 297 | 310 | (13) |
| Total-Office of Mental Health Advocate | 297 | 297 | 310 | (13) |
| Department of Elementary and Secondary Education | | | | |
| State Aid | | | | |
| State Support Local School Operations | 636,713 | 636,474 | 636,445 | 29 |
| Federal Funds Total | 2,013 | 3,299 | 2,757 | 542 |
| Total-State Aid | 638,726 | 639,772 | 639,202 | 570 |
| School Housing Aid | | | | |
| General Revenue Total | 33,422 | 38,232 | 38,232 | |
| Total-School Housing Aid | 33,422 | 38,232 | 38,232 | |
| Teachers' Retirement | | | | |
| General Revenue Total | 38,439 | 38,072 | 38,243 | (171) |
| Total-Teachers' Retirement | 38,439 | 38,072 | 38,243 | (171) |
| RI School for the Deaf | | | | |
| RICAP-School for the Deaf-Physical Education Fac | 284 | 284 | | 284 |
| General Revenue Total | 5,550 | 5,533 | 5,234 | 299 |
| Federal Funds Total | 1,221 | 1,300 | 936 | 364 |
| Restricted Receipts Total | | 1 | | 1 |
| Total-RI School for the Deaf | 7,054 | 7,119 | 6,170 | 949 |
| Davies Career and Technical School | | | | |
| RICAP - Davies Roof Repair | 225 | 225 | 8 | 217 |
| General Revenue Total | 10,714 | 10,714 | 10,343 | 371 |
| Federal Funds Total | 813 | 1,114 | 864 | 250 |
| Restricted Receipts Total | 165 | 174 | 104 | 70 |
| Total-Davies Career and Technical School | 11,918 | 12,227 | 11,319 | 908 |
| Program Operations | | | | |
| RICAP-Woonsocket Vocational HVAC | 7 | | | |
| RICAP-East Providence Vocational HVAC | 55 | 55 | 1 | 54 |
| RICAP-Hanley-HVAC | 64 | 64 | 63 | 1 |
| RICAP-State Owned Schools-Fire Alarm Systems | 93 | | | |
| RICAP-Hazardous Materials Storage/Dust | | | | |
| General Revenue Total | 14,573 | 14,498 | 14,238 | 260 |
| Federal Funds Total | 129,973 | 161,564 | 123,638 | 37,926 |
| Restricted Receipts Total | 1,089 | 1,153 | 1,116 | 37 |
| Total-Program Operations | 145,856 | 177,334 | 139,056 | 38,278 |
| Total-Department of Elementary and Secondary Education | 875,415 | 912,758 | 872,223 | 40,535 |
| Board Of Governors for Higher Education | | | | |
| General Revenue Fund Total | 169,438 | 169,616 | 169,454 | 162 |
| Federal Fund Total | 2,362 | 3,349 | 2,829 | 520 |

State of Rhode Island and Providence Plantations
Schedule of Expenditures and Other Financing Uses
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|----------------------------|-------------------------|---------------------------|---|
| Total-Board Of Governors for Higher Education | 171,800 | 172,965 | 172,283 | 682 |
| Rhode Island State Council On The Arts | | | | |
| Operating Support | 363 | 363 | 371 | (8) |
| Grants | 1,937 | 1,937 | 1,312 | 625 |
| Federal Funds Total | 616 | 609 | 576 | 33 |
| Restricted Receipts Total | 200 | 255 | (43) | 298 |
| Total-Rhode Island State Council On The Arts | 3,116 | 3,165 | 2,216 | 949 |
| Rhode Island Atomic Energy Commission | | | | |
| URI Sponsored Research | 145 | 144 | 145 | (1) |
| RICAP-Roof Replacement-North Bunker | 3 | | | |
| General Revenue Total | 640 | 672 | 669 | 3 |
| Federal Funds Total | 826 | 295 | (3) | 298 |
| Total-Rhode Island Atomic Energy Commission | 1,613 | 1,111 | 811 | 300 |
| Rhode Island Higher Education Assistance Authority | | | | |
| Needs Based Grant and Work Opportunities | 4,933 | 4,933 | 4,920 | 13 |
| Authority Operations and Other Grants | 1,084 | 1,084 | 1,097 | (13) |
| Total-Rhode Island Higher Education Assistance Authority | 6,017 | 6,017 | 6,017 | |
| Historical Preservation and Heritage Commission | | | | |
| General Revenue Total | 879 | 1,041 | 1,024 | 17 |
| Federal Funds Total | 535 | 535 | 545 | (10) |
| Restricted Receipts Total | 336 | 207 | 51 | 156 |
| Total-Historical Preservation and Heritage Commission | 1,750 | 1,782 | 1,620 | 162 |
| Rhode Island Public Telecommunications Authority | | | | |
| General Revenue Total | 1,292 | 1,292 | 1,121 | 171 |
| Total-Rhode Island Public Telecommunications Authority | 1,292 | 1,292 | 1,121 | 171 |
| Department of Attorney General | | | | |
| Criminal | | | | |
| General Revenue Total | 10,058 | 10,059 | 9,881 | 178 |
| Federal Funds Total | 1,557 | 1,610 | 1,469 | 141 |
| Restricted Receipts Total | 179 | 190 | 164 | 26 |
| Total-Criminal | 11,795 | 11,859 | 11,513 | 346 |
| Civil | | | | |
| General Revenue Total | 3,526 | 3,595 | 3,365 | 230 |
| Federal Funds Total | 76 | 61 | 61 | |
| Restricted Receipts Total | 452 | 449 | 418 | 31 |
| Total-Civil | 4,054 | 4,105 | 3,844 | 261 |

State of Rhode Island and Providence Plantations
Schedule of Expenditures and Other Financing Uses
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|----------------------------|-------------------------|---------------------------|---|
| Bureau of Criminal Identification | | | | |
| General Revenue Total | 655 | 773 | 718 | 55 |
| Federal Funds Total | 15 | 515 | 119 | 396 |
| Total-Bureau of Criminal Identification | 670 | 1,288 | 836 | 452 |
| General | | | | |
| General Revenue Total | 1,586 | 1,635 | 1,636 | (1) |
| Total-General | 1,586 | 1,635 | 1,636 | (1) |
| Total-Department of Attorney General | 18,104 | 18,887 | 17,829 | 1,058 |
| Department of Corrections | | | | |
| Central Management | | | | |
| General Revenue Total | 9,054 | 9,081 | 8,770 | 311 |
| Federal Funds Total | 324 | 324 | 28 | 296 |
| Total-Central Management | 9,378 | 9,405 | 8,799 | 606 |
| Parole Board | | | | |
| General Revenue Total | 892 | 920 | 925 | (5) |
| Total-Parole Board | 892 | 920 | 925 | (5) |
| Institutional Corrections | | | | |
| RICAP-Fire Code Safety Improvements | 649 | 649 | 443 | 206 |
| RICAP-Security Camera Installation | 113 | 113 | 61 | 52 |
| RICAP-HVAC Renovations-Maximum | 19 | 20 | 20 | |
| RICAP-Window Replacement-Women's | 473 | 473 | 410 | 63 |
| RICAP-Dix Expansion-Phase II | 19 | | 1 | (1) |
| RICAP-Reintegration Center State Match | 507 | 153 | 153 | |
| RICAP-Dix Expansion-State Match | 42 | | 22 | (22) |
| RICAP-General Renovations-Maximum | 626 | 626 | 6 | 620 |
| RICAP-Roof/Masonry Renovations-Women's | 328 | 328 | | 328 |
| RICAP-High Security Fire Alarm HVAC | 31 | 31 | | 31 |
| RICAP-Aquidneck & Prudence Cellblock Roofs | 61 | | | |
| RICAP-Perimeter/Security Upgrades | 132 | 132 | 18 | 114 |
| RICAP - Women's Bath Renovation | 160 | 195 | | 195 |
| RICAP - Dix Expansion Consolidation | | 61 | | 61 |
| General Revenue Total | 108,452 | 115,068 | 116,330 | (1,262) |
| Federal Funds Total | 10,079 | 7,521 | 2,944 | 4,577 |
| Restricted Receipts Total | 5,454 | 2,607 | 2,456 | 151 |
| Total-Institutional Corrections | 127,144 | 127,976 | 122,865 | 5,111 |
| Community Corrections | | | | |
| General Revenue Total | 10,909 | 11,131 | 11,072 | 59 |
| Federal Funds Total | 190 | 736 | 155 | 581 |
| Total-Community Corrections | 11,099 | 11,867 | 11,227 | 640 |
| Total-Department of Corrections | 148,512 | 150,168 | 143,816 | 6,352 |

State of Rhode Island and Providence Plantations
Schedule of Expenditures and Other Financing Uses
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|----------------------------|-------------------------|---------------------------|---|
| Judicial Department | | | | |
| Supreme Court | | | | |
| RICAP-Garrahy Judicial Complex Renovation | 4 | 4 | | 4 |
| RICAP-Garrahy Complex Roof Repair | 1 | | | |
| RICAP-Licht Exterior/Interior Refurbishment | | | | |
| RICAP - Murray Judicial Complex - Interior Refurbishn | 165 | 165 | 3 | 162 |
| RICAP-Fogarty Judicial Annex | 60 | 60 | 71 | (11) |
| General Revenue Total | 19,587 | 19,989 | 19,577 | 412 |
| Defense of Indigents | 1,550 | 1,650 | 2,041 | (391) |
| Federal Funds Total | 137 | 172 | 58 | 114 |
| Restricted Receipts Total | 840 | 832 | 772 | 60 |
| Total-Supreme Court | 22,345 | 22,872 | 22,522 | 350 |
| Superior Court | | | | |
| Federal Funds Total | 164 | 164 | 9 | 155 |
| General Revenue Total | 15,922 | 16,115 | 16,235 | (120) |
| Total-Superior Court | 16,087 | 16,279 | 16,243 | 36 |
| Family Court | | | | |
| General Revenue Total | 11,934 | 11,956 | 11,514 | 442 |
| Federal Funds Total | 2,019 | 2,789 | 2,957 | (168) |
| Restricted Receipts Total | 258 | 148 | 132 | 16 |
| Total-Family Court | 14,211 | 14,893 | 14,602 | 291 |
| District Court | | | | |
| General Revenue Total | 7,490 | 7,716 | 7,737 | (21) |
| Federal Funds Total | | 49 | 48 | 1 |
| Restricted Receipts Total | | 64 | 64 | |
| Total-District Court | 7,490 | 7,830 | 7,849 | (19) |
| Traffic Tribunal | | | | |
| General Revenue Total | 5,885 | 5,959 | 5,923 | 36 |
| Total-Traffic Tribunal | 5,885 | 5,959 | 5,923 | 36 |
| Worker's Compensation Court | | | | |
| Restricted Receipts Total | 5,646 | 5,638 | 5,592 | 46 |
| Total-Worker's Compensation Court | 5,646 | 5,638 | 5,592 | 46 |
| Justice Link | | | | |
| General Revenue Total | 1,475 | 417 | 812 | (395) |
| Federal Funds | 500 | 914 | 197 | 717 |
| Total-Justice Link | 1,975 | 1,332 | 1,009 | 323 |
| Total-Judicial Department | 73,639 | 74,804 | 73,741 | 1,063 |

State of Rhode Island and Providence Plantations
Schedule of Expenditures and Other Financing Uses
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|----------------------------|-------------------------|---------------------------|---|
| Militia of the State | | | | |
| National Guard | | | | |
| RICAP-Bristol Armory Rehabilitation | 200 | 200 | 10 | 190 |
| RICAP-Benefit St. Arsenal Rehabilitation | 193 | 63 | 1 | 62 |
| RICAP-Schofield Armory Rehabilitation | 168 | 100 | | 100 |
| RICAP-US Property and Finance Office-HVAC | | | 3 | (3) |
| RICAP-Warren Armory | 170 | 170 | 43 | 127 |
| RICAP - Warwick Armory Boiler | | 25 | | 25 |
| RICAP-Vehicle Exhaust Vent System | 1 | 1 | | 1 |
| RICAP - North Smithfield Armory | 5 | 5 | | 5 |
| General Revenue Total | 1,736 | 1,749 | 1,646 | 103 |
| RI e-Government Fnd-Distributed Tech Training | 18 | 18 | 17 | 1 |
| Federal Funds Total | 7,714 | 7,895 | 6,085 | 1,810 |
| Total-National Guard | 10,204 | 10,226 | 7,805 | 2,421 |
| Emergency Management | | | | |
| General Revenue Total | 455 | 607 | 541 | 66 |
| Federal Funds Total | 6,294 | 6,726 | 4,772 | 1,954 |
| Restricted Receipts Total | 123 | 183 | 114 | 69 |
| Total-Emergency Management | 6,872 | 7,515 | 5,428 | 2,087 |
| Total-Militia of the State | 17,076 | 17,741 | 13,233 | 4,508 |
| | | | | |
| E-911 Uniform Emergency Telephone System | | | | |
| General Revenue Total | 3,513 | 3,639 | 3,592 | 47 |
| RI e-Government Fund-GIS Database Development | 500 | 385 | 374 | 11 |
| Total-E-911 Uniform Emergency Telephone System | 4,013 | 4,024 | 3,966 | 58 |
| | | | | |
| Fire Safety Code Board of Appeal & Review | | | | |
| Fire Code Commission | | | | |
| General Revenue Total | 225 | 234 | 242 | (8) |
| Total-Fire Safety Code Board of Appeal & Review | 225 | 234 | 242 | (8) |
| | | | | |
| Division of Fire Safety | | | | |
| Fire Safety & Training Academy | | | | |
| General Revenue Total | 1,465 | 1,415 | 1,353 | 62 |
| Federal Funds Total | 101 | 354 | 152 | 202 |
| Total-Division of Fire Safety | 1,566 | 1,769 | 1,504 | 265 |
| | | | | |
| Commission on Judicial Tenure & Discipline | | | | |
| General Revenue Total | 109 | 144 | 112 | 32 |
| Total-Commission on Judicial Tenure & Discipline | 109 | 144 | 112 | 32 |

State of Rhode Island and Providence Plantations
Schedule of Expenditures and Other Financing Uses
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

| | Original Budget | Final Budget | Actual Amounts | Variance with Final Budget |
|---|----------------------------|-------------------------|---------------------------|---|
| Rhode Island Governor's Justice Commission | | | | |
| General Revenue Total | 172 | 172 | 166 | 6 |
| Federal Funds Total | 5,037 | 5,579 | 4,798 | 781 |
| Restricted Receipts Total | 90 | 90 | 12 | 78 |
| Total-Rhode Island Governor's Justice Commission | 5,299 | 5,841 | 4,976 | 865 |
| Municipal Police Training School | | | | |
| General Revenue Total | 351 | 351 | 344 | 7 |
| Federal Funds Total | | 65 | 19 | 46 |
| Total-Municipal Police Training Academy | 351 | 416 | 363 | 53 |
| Rhode Island State Police | | | | |
| RICAP - Barracks & Training Headquarters' | 100 | 100 | | 100 |
| RICAP-Headquarters Repair/Renovation | 126 | 19 | 19 | |
| Traffic Enforcement-Municipal Training | 217 | 217 | 159 | 58 |
| Lottery Commission Assistance | 112 | 121 | 110 | 11 |
| Road Construction Reimbursement | 2,175 | 1,830 | 1,739 | 91 |
| General Revenue Total | 37,835 | 38,588 | 38,383 | 205 |
| Federal Funds Total | 2,780 | 2,219 | 1,769 | 450 |
| Restricted Receipts Total | 147 | 335 | 193 | 142 |
| Total-Rhode Island State Police | 43,492 | 43,428 | 42,371 | 1,057 |
| Office of Public Defenders | | | | |
| General Revenue Total | 5,845 | 6,013 | 5,935 | 78 |
| Federal Funds Total | 356 | 483 | 376 | 107 |
| Total-Office of Public Defenders | 6,202 | 6,496 | 6,312 | 184 |
| Department of Environmental Management | | | | |
| Policy and Administration | | | | |
| DOT Recreational Projects | 26 | 26 | 92 | (66) |
| Blackstone Bikepath Design | 1,303 | 1,303 | 498 | 805 |
| RICAP-Dam Repair | 335 | 335 | 87 | 248 |
| General Revenue Total | 8,044 | 8,138 | 8,221 | (83) |
| Permanent Streamlining | | | | |
| Federal Funds Total | 2,932 | 2,432 | 230 | 2,202 |
| Restricted Receipts Total | 8,215 | 3,038 | 3,275 | (237) |
| Total-Policy and Administration | 20,856 | 15,273 | 12,403 | 2,870 |

State of Rhode Island and Providence Plantations
Schedule of Expenditures and Other Financing Uses
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

| | Original Budget | Final Budget | Actual Amounts | Variance with Final Budget |
|---|----------------------------|-------------------------|---------------------------|---|
| Natural Resources | | | | |
| RICAP-Westerly Boat Ramp | 1 | 1 | | 1 |
| RICAP-Fort Adams Rehabilitation | 250 | 250 | 250 | |
| RICAP-Recreational Facilities Improvement | 63 | 63 | 26 | 37 |
| RICAP-Galilee Piers | 352 | 352 | | 352 |
| RICAP-Newport Piers | 493 | 493 | 492 | 1 |
| RICAP-Boyd's Marsh Habitat Restoration | 70 | 70 | | 70 |
| General Revenue Total | 14,926 | 15,016 | 15,080 | (64) |
| Federal Funds Total | 12,872 | 11,488 | 8,055 | 3,433 |
| Restricted Receipts Total | 3,122 | 3,189 | 2,671 | 518 |
| Total-Natural Resources | 32,150 | 30,923 | 26,575 | 4,348 |
| Environmental Protection | | | | |
| Aquafund | | | | |
| General Revenue Total | 8,573 | 8,722 | 8,808 | (86) |
| Rose Hill | 1,020 | 500 | 202 | 298 |
| Federal Funds Total | 8,388 | 9,195 | 6,601 | 2,594 |
| Restricted Receipts Total | 2,963 | 3,313 | 3,264 | 49 |
| Total-Environmental Protection | 20,944 | 21,730 | 18,875 | 2,855 |
| Total-Department of Environmental Management | 73,950 | 67,926 | 57,853 | 10,073 |
| Coastal Resources Management Council | | | | |
| RICAP - South Coast Restoration Project | 145 | 145 | 145 | |
| RICAP -Allens Cove | 172 | 172 | | 172 |
| General Revenue Total | 1,695 | 1,580 | 1,464 | 116 |
| Federal Funds Total | 1,191 | 2,402 | 1,654 | 748 |
| Restricted Total | 250 | 4,750 | 3,353 | 1,397 |
| Total-Coastal Resources Management Council | 3,453 | 9,049 | 6,616 | 2,433 |
| Water Resources Board | | | | |
| RICAP-Big River Management Area | 74 | 74 | 49 | 25 |
| RICAP-Water Allocation Plan | 167 | 167 | 97 | 70 |
| RICAP-Supplemental Water Supplies Development | 39 | 39 | | 39 |
| General Revenue Total | 991 | 1,057 | 1,037 | 20 |
| Federal Total | 500 | 500 | 173 | 327 |
| Restricted Receipts Total | 754 | 754 | 597 | 157 |
| Total-Water Resources Board | 2,525 | 2,592 | 1,953 | 639 |
| Total expenditures | 4,319,286 | 4,424,727 | 4,301,736 | 122,991 |

State of Rhode Island and Providence Plantations
Schedule of Expenditures and Other Financing Uses
Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

| | Original Budget | Final Budget | Actual Amounts | Variance with Final Budget |
|--|----------------------------|-------------------------|---------------------------|---|
| Other financing uses: | | | | |
| Transfers to other funds | | 54,697 | 54,141 | 556 |
| Total expenditures and other financing uses | <u>\$ 4,319,286</u> | <u>\$ 4,479,424</u> | <u>\$ 4,355,877</u> | <u>\$ 123,547</u> |
| General revenue funds total | \$ 2,672,345 | \$ 2,699,033 | \$ 2,690,324 | \$ 8,709 |
| Federal grants funds total | 1,438,271 | 1,528,619 | 1,433,410 | 95,209 |
| Restricted funds total | 94,555 | 101,441 | 91,403 | 10,038 |
| Other funds total | 114,117 | 95,633 | 86,599 | 9,034 |
| | <u>\$ 4,319,288</u> | <u>\$ 4,424,726</u> | <u>\$ 4,301,736</u> | <u>\$ 122,990</u> |

State of Rhode Island and Providence Plantations
Schedule of Revenues, Other Financing Sources, Expenditures, and Other Financing Uses
Budget and Actual
Intermodal Surface Transportation Fund
For the Year Ended June 30, 2003
(Expressed in Thousands)

| | Original Budget | Final Budget | Actual Amounts | Variance with Final Budget |
|---|----------------------------|-------------------------|---------------------------|---|
| Revenues: | | | | |
| Taxes | \$ 141,000 | \$ 141,000 | \$ 139,458 | \$ (1,542) |
| Departmental restricted revenue | 43,506 | 18,935 | 2,400 | (16,535) |
| Federal grants | 192,779 | 192,806 | 153,197 | (39,609) |
| Other revenues | 8,003 | 5,000 | 5,199 | 199 |
| Total revenues | <u>385,288</u> | <u>357,741</u> | <u>300,254</u> | <u>(57,487)</u> |
| Other financing sources: | | | | |
| Operating transfers in | | | 44,130 | 44,130 |
| Total revenues and other financing sources | <u>385,288</u> | <u>357,741</u> | <u>344,384</u> | <u>(13,357)</u> |
| Expenditures: | | | | |
| Central Management | | | | |
| Gasoline Tax | 3,150 | 3,097 | 3,251 | (154) |
| Federal Funds | 4,326 | 4,353 | 4,328 | 25 |
| Total - Central Management | <u>7,476</u> | <u>7,450</u> | <u>7,579</u> | <u>(129)</u> |
| Management and Budget | | | | |
| Gasoline Tax | 1,957 | 1,965 | 1,129 | 836 |
| Total - Management and Budget | <u>1,957</u> | <u>1,965</u> | <u>1,129</u> | <u>836</u> |
| Infrastructure - Engineering | | | | |
| Gasoline Tax | 39,316 | 40,330 | 37,519 | 2,811 |
| RICAP - RIPTA Land and Buildings | 1,715 | 2,075 | | 2,075 |
| State Infrastructure Bank | 1,000 | 1,000 | | 1,000 |
| State Match - Bond Funds | | | 17,221 | (17,221) |
| Land Sale Revenue | 8,003 | 5,000 | 1,037 | 3,963 |
| Federal Funds | 188,453 | 188,453 | 159,793 | 28,660 |
| Restricted Receipts | 42,506 | 17,935 | 25,859 | (7,924) |
| Total - Infrastructure - Engineering | <u>280,993</u> | <u>254,793</u> | <u>241,429</u> | <u>13,364</u> |
| Infrastructure - Maintenance | | | | |
| Gasoline Tax | 39,615 | 40,780 | 44,742 | (3,962) |
| Total - Infrastructure - Maintenance | <u>39,615</u> | <u>40,780</u> | <u>44,742</u> | <u>(3,962)</u> |
| Total Expenditures | <u>330,041</u> | <u>304,988</u> | <u>294,879</u> | <u>10,109</u> |
| Other financing uses: | | | | |
| Transfers to other funds | | | 57,416 | (57,416) |
| Total expenditures and other financing uses | <u>\$ 330,041</u> | <u>\$ 304,988</u> | <u>\$ 352,295</u> | <u>\$ (47,307)</u> |

State of Rhode Island and Providence Plantations
Schedule of Revenues and Expenditures
Budget and Actual
Rhode Island Temporary Disability Insurance Fund
For the Year Ended June 30, 2003
(Expressed in Thousands)

| | Original Budget | Final Budget | Actual Amounts | Variance With Final Budget |
|--|----------------------------|-------------------------|---------------------------|---|
| Revenues: | | | | |
| Taxes | \$ 162,666 | \$ 162,595 | \$ 178,247 | \$ 15,652 |
| Other revenues | | | 983 | 983 |
| Total revenues | <u>162,666</u> | <u>162,595</u> | <u>179,230</u> | <u>16,635</u> |
| Expenditures: | | | | |
| Department of Labor and Training | | | | |
| Income Support | | | | |
| Temporary Disability Insurance Fund | 162,415 | 162,351 | 158,980 | 3,371 |
| Total - Income Support | <u>162,415</u> | <u>162,351</u> | <u>158,980</u> | <u>3,371</u> |
| Total - Department of Labor and Training | <u>162,415</u> | <u>162,351</u> | <u>158,980</u> | <u>3,371</u> |
| Treasury Department | | | | |
| Temporary Disability Insurance Fund | 251 | 244 | 158 | 86 |
| Total - Treasury Department | <u>251</u> | <u>244</u> | <u>158</u> | <u>86</u> |
| Total Expenditures | <u>\$ 162,666</u> | <u>\$ 162,595</u> | <u>\$ 159,138</u> | <u>\$ 3,457</u> |

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
June 30, 2003
(Expressed in thousands)

Employees' Retirement System

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age - (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a) / c) |
|--------------------------------|--|--|--|------------------------------|-----------------------------|--|
| 6/30/2002 | 5,907,680 | 8,141,130 | 2,233,450 | 72.6% | 1,378,905 | 162.0% |
| 6/30/2001 | 6,026,141 | 7,768,536 | 1,742,395 | 77.6% | 1,287,476 | 135.3% |
| 6/30/2000 | 5,859,719 | 7,234,787 | 1,375,068 | 81.0% | 1,220,833 | 112.6% |

State Police Retirement Benefits Trust

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age - (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a) / c) |
|--------------------------------|--|--|--|------------------------------|-----------------------------|--|
| 6/30/2002 | 17,770 | 23,527 | 5,757 | 75.5% | 10,933 | 52.7% |
| 6/30/2001 | 14,386 | 16,650 | 2,264 | 86.4% | 9,139 | 24.8% |
| 6/30/2000 | 11,336 | 13,917 | 2,581 | 81.5% | 8,917 | 28.9% |

Judicial Retirement Benefits Trust

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age - (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a) / c) |
|--------------------------------|--|--|--|------------------------------|-----------------------------|--|
| 6/30/2002 | 11,129 | 16,243 | 5,114 | 68.5% | 4,738 | 107.9% |
| 6/30/2001 | 9,190 | 12,026 | 2,836 | 76.4% | 4,092 | 69.3% |
| 6/30/2000 | 7,375 | 9,720 | 2,345 | 75.9% | 3,533 | 66.4% |

State of Rhode Island and Providence Plantations
Notes to Required Supplementary Information
June 30, 2003

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund and certain special revenue funds. Preparation and submission of the budget is governed by both the State Constitution and the Rhode Island General Laws. The budget, as enacted by the General Assembly and signed by the Governor, contains a complete plan of estimated revenues (general, federal and restricted), transfers in (general and restricted) and proposed expenditures.

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. Federal grant appropriations may also be limited by the availability of matching funds and may also require special approval from a federal agency before reallocating resources among programs.

Internal administrative and accounting budgetary controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations and the supervisory powers and functions exercised by management. Management cannot reduce the budget without special approval.

Unexpended general revenue appropriations lapse at the end of the fiscal year, unless the department/agency directors identify unspent appropriations related to specific projects/purchases and request a reappropriation. If the requests are approved by the Governor, such amounts are reappropriated for the ensuing fiscal year and made immediately available for the same purposes as the former appropriations. Unexpended appropriations of the General Assembly and its legislative commissions and agencies may be reappropriated by the Joint Committee on Legislative Services. If the sum total of all departments and agencies general revenue expenditures exceeds the total general revenue appropriations, it is the policy of management to lapse all unexpended appropriations, except those of the legislative branch and the Justice Link program.

The original budget includes the amounts in the applicable appropriation act, general revenue appropriations carried forward by the Governor, the unexpended balances in the R.I Capital Fund projects and any unexpended balances designated by the General Assembly.

Schedule of Expenditures
of Federal Awards



Schedule of Expenditures of
Federal Awards

Table of Contents

| | <u>PAGE</u> |
|---|-------------|
| Schedule of Expenditures of Federal Awards | B-1 |
| Notes to Schedule of Expenditures of Federal Awards | B-12 |

Note: See page A-1 for *Independent Auditor's Report on Basic Financial Statements and Supplementary Schedule of Expenditures of Federal Awards*

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2003

| Federal Grantor Program Title | CFDA Number | Total Expenditures |
|---|----------------|-----------------------|
| U.S. Department of Agriculture | | |
| Inspection Grading and Standardization | 10.162 | \$ 434,061 |
| Very Low to Moderate Income Housing Loans (See Note 2) | 10.410 | 110,000 |
| Rural Housing Preservation Grants | 10.433 | 60,260 |
| Food Donation (See Note 2) | 10.550 | 4,627,007 |
| Food Stamp Cluster: | | |
| Food Stamps | 10.551 | 67,022,322 |
| State Administrative Matching Grants for Food Stamp Program | 10.561 | 6,560,522 |
| Child Nutrition Cluster: | | |
| School Breakfast Program | 10.553 | 3,791,657 |
| National School Lunch Program | 10.555 | 18,775,919 |
| Special Milk Program for Children | 10.556 | 92,345 |
| Summer Food Service Program for Children | 10.559 | 861,865 |
| Special Supplemental Nutrition Program for Women, Infants, and Children (See Note 4) | 10.557 | 18,266,462 |
| Child and Adult Care Food Program | 10.558 | 6,372,885 |
| State Administrative Expenses for Child Nutrition | 10.560 | 558,637 |
| Nutrition Service Incentive | 10.564 | 239 |
| Emergency Food Assistance Cluster: | | |
| Emergency Food Assistance Program (Administrative Costs) | 10.568 | 202,074 |
| Nutrition Services Incentive | 10.570 | 707,947 |
| WIC Farmers' Market Nutrition Program | 10.572 | 318,077 |
| Team Nutrition Grants | 10.574 | 136,164 |
| Cooperative Forestry Assistance | 10.664 | 1,318,524 |
| Watershed Surveys and Planning | 10.906 | 172,500 |
| | | \$ 130,389,467 |
| U.S. Department of Commerce | | |
| Economic Development - Support for Planning Organizations | 11.302 | \$ 44,663 |
| Public Works and Economic Development Cluster: | | |
| Economic Adjustment Assistance (See Note 2) | 11.307 | 12,965,337 |
| Interjurisdictional Fisheries Act of 1986 | 11.407 | 74,614 |
| Coastal Zone Management Administration Awards | 11.419 | 1,628,023 |
| Coastal Zone Management Estuarine Research Reserves | 11.420 | 920,854 |
| Marine Fisheries Initiative (B) | 11.433 | 232,209 |
| Unallied Management Projects | 11.454 | 106,644 |
| Coastal Services Center | 11.473 | 25,866 |
| Atlantic Coastal Fisheries Cooperative Management Act (B) | 11.474 | 84,758 |
| | | \$ 16,082,968 |
| U.S. Department of Defense | | |
| Procurement Technical Assistance for Business Firms | 12.002 | \$ 196,009 |
| State Memorandum of Agreement Program for the Reimbursement of Technical Services | 12.113 | 215,638 |
| Federal Grants - Rhode Island National Guard | N/A | 4,538,794 |
| | | \$ 4,950,441 |
| U.S. Department of Housing and Urban Development | | |
| Interest Reduction Payments - Rental and Cooperative Housing for Lower Income Families | 14.103 | \$ 955,197 |
| Mortgage Insurance - Homes (See Note 2) | 14.117 | 28,724,542 |
| Property Improvement Loan Insurance for Improving All Existing Structures and Building of New Nonresidential Structures (See Note 2) | 14.142 | 454,824 |

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2003

| Federal Grantor Program Title | CFDA Number | Total Expenditures |
|--|----------------|-----------------------|
| Section 8 Project-Based Cluster: | | |
| Section 8 New Construction and Substantial Rehabilitation | 14.182 | 89,816,267 |
| Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation | 14.856 | 517,912 |
| Home Equity Conversion Mortgages (See Note 2) | 14.183 | 7,167,063 |
| Community Development Block Grants/State's Program | 14.228 | 6,267,502 |
| Emergency Shelter Grants Program | 14.231 | 300,253 |
| Supportive Housing Program | 14.235 | 3,764,251 |
| Shelter Plus Care | 14.238 | 528,951 |
| HOME Investment Partnerships Program | 14.239 | 5,477,910 |
| Housing Opportunities for Persons with AIDS | 14.241 | 650,914 |
| Community Development Block Grants/Brownfields Economic Development Initiative (B) | 14.246 | 640,914 |
| Fair Housing Assistance Program - State and Local | 14.401 | 215,680 |
| Section 8 Housing Choice Vouchers | 14.871 | 6,569,961 |
| Lead Based Paint Hazard Control in Privately-Owned Housing | 14.900 | 325,983 |
| Total U.S. Department of Housing and Urban Development | | \$ 152,378,124 |
| U.S. Department of Interior | | |
| Fish and Wildlife Cluster: | | |
| Sport Fish Restoration | 15.605 | \$ 3,111,037 |
| Wildlife Restoration | 15.611 | 918,395 |
| Coastal Wetlands Planning, Protection and Restoration Act | 15.614 | 244 |
| Clean Vessel Act | 15.616 | 40,321 |
| Historic Preservation Fund Grants-In-Aid | 15.904 | 545,283 |
| Outdoor Recreation - Acquisition, Development and Planning | 15.916 | 205,494 |
| Total U.S. Department of Interior | | \$ 4,820,774 |
| U.S. Department of Justice | | |
| Law Enforcement Assistance - Narcotics and Dangerous Drugs - Laboratory Analysis | 16.001 | \$ 15,625 |
| Offenders Reentry Program | 16.202 | 4,271 |
| Law Enforcement Assistance-Discretionary Grant | 16.501 | 100,100 |
| Juvenile Accountability Incentive Block Grants | 16.523 | 1,675,920 |
| Juvenile Justice and Delinquency Prevention - Allocation to States | 16.540 | 971,503 |
| Juvenile Justice and Delinquency Prevention - Special Emphasis | 16.541 | (87) |
| National Institute for Juvenile Justice and Delinquency Prevention | 16.542 | 382,613 |
| Victims of Child Abuse | 16.547 | 45,867 |
| Title V - Delinquency Prevention Program | 16.548 | 29,485 |
| State Justice Statistics Program for Statistical Analysis Centers | 16.550 | 90,141 |
| National Criminal History Improvement Program (NCHIP) | 16.554 | 118,736 |
| National Institute of Justice Research, Evaluation, and Development Project Grants | 16.560 | (10,262) |
| Crime Laboratory Improvement-Combined Offender DNA | | |
| Index System Backlog Reduction | 16.564 | 38,176 |
| Crime Victim Assistance | 16.575 | 1,326,000 |
| Crime Victim Compensation | 16.576 | 87,689 |
| Byrne Formula Grant Program | 16.579 | 2,457,748 |
| Edward Byrne Memorial State and Local Law Enforcement Assistance | | |
| Discretionary Grants Program | 16.580 | 153,091 |
| Drug Court Discretionary Grant Program | 16.585 | 558,348 |
| Violent Offender Incarceration and Truth in Sentencing Incentive Grants | 16.586 | 484,802 |
| Violence Against Women Formula Grants | 16.588 | 1,304,593 |
| Grants to Encourage Arrest Policies and Enforcement of Protection Orders | 16.590 | 89,621 |
| Local Law Enforcement Block Grants Program | 16.592 | 11,558 |
| Residential Substance Abuse Treatment for State Prisoners | 16.593 | 216,138 |
| State Identification Systems Grant Program | 16.598 | 25,322 |

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2003

| Federal Grantor Program Title | CFDA Number | Total Expenditures |
|--|----------------|-----------------------|
| State Criminal Alien Assistance Program | 16.606 | 1,806,353 |
| Community Prosecution and Project Safe Neighborhoods | 16.609 | 60,826 |
| Closed-Circuit Televising of Child Victims of Abuse | 16.611 | 144,636 |
| Public Safety Partnership and Community Policing Grants | 16.710 | 56,579 |
| Enforcing Underage Drinking Laws Program | 16.727 | 283,927 |
| National Incident Based Reporting System | 16.733 | 104,278 |
| Total U.S. Department of Justice | | \$ 12,633,597 |
| U.S. Department of Labor | | |
| Labor Force Statistics | 17.002 | \$ 770,502 |
| Compensation and Working Conditions | 17.005 | 10,360 |
| Employment Services Cluster: | | |
| Employment Service | 17.207 | 4,115,217 |
| Disabled Veterans' Outreach Program (DVOP) | 17.801 | 267,822 |
| Local Veterans' Employment Representative Program | 17.804 | 307,016 |
| Unemployment Insurance (See Note 5) | 17.225 | 273,285,823 |
| Senior Community Service Employment Program: | 17.235 | 466,962 |
| Trade Adjustment Assistance - Workers | 17.245 | 2,387,343 |
| Employment and Training Assistance - Dislocated Workers | 17.246 | (35,780) |
| Employment Services and Job Training Pilots - Demonstration and Research | 17.249 | (290,462) |
| Welfare-to-Work Grants to States and Localities | 17.253 | 2,446,400 |
| Workforce Investment Act | 17.255 | 1,287,285 |
| WIA Cluster: | | |
| WIA Adult Program | 17.258 | 2,850,954 |
| WIA Youth Activities | 17.259 | 2,881,304 |
| WIA Dislocated Workers | 17.260 | 3,569,630 |
| Employment and Training Administration Pilots, Demonstrations, and Research Projects | 17.261 | 95,836 |
| Consultation Agreements | 17.504 | 383,225 |
| Total U.S. Department of Labor | | \$ 294,799,437 |
| U.S. Department of Transportation | | |
| Airport Improvement Program | 20.106 | \$ 11,199,120 |
| Highway Planning and Construction Cluster: | | |
| Highway Planning and Construction | 20.205 | 156,506,585 |
| Motor Carrier Safety | 20.217 | 671,183 |
| Local Rail Freight Assistance | 20.308 | 71,714 |
| Federal Transit Cluster: | | |
| Federal Transit - Capital Investment Grants | 20.500 | 14,645 |
| Federal Transit - Formula Grants | 20.507 | 15,705,886 |
| Federal Transit - Metropolitan Planning Grants | 20.505 | 262,289 |
| Federal Transit - Managerial Training Grants | 20.503 | 372,654 |
| Formula Grants for Other Than Urbanized Areas (A) | 20.509 | 1,278,557 |
| Capital Assistance Program for Elderly Persons and Persons with Disabilities | 20.513 | 3,358,519 |
| State Planning and Research | 20.515 | (1,569) |
| Highway Safety Cluster: | | |
| State and Community Highway Safety | 20.600 | 4,306,825 |
| Safety Incentive Grants of Use of Seatbelts | 20.604 | 27,936 |
| Pipeline Safety | 20.700 | 64,116 |
| Interagency Hazardous Materials Public Sector Training and Planning Grants | 20.703 | 29,284 |
| Freight Rail Improvement Project | None | 10,938,899 |
| Total U.S. Department of Transportation | | \$ 204,806,643 |

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2003

| Federal Grantor Program Title | CFDA Number | Total Expenditures |
|---|----------------|-----------------------|
| Equal Opportunity Employment Commission | | |
| Employment Discrimination - State and Local Fair Employment Practices Agency Contracts | 30.002 | \$ 131,601 |
| Total Equal Opportunity Employment Commission | | \$ 131,601 |
| Federal Mediation and Conciliation Service | | |
| Labor Mediation and Conciliation | 34.001 | \$ 8,929 |
| Total Federal Mediation and Conciliation Service | | \$ 8,929 |
| General Services Administration | | |
| Donation of Federal Surplus Personal Property (See Note 2) | 39.003 | \$ 262,216 |
| Total General Services Administration | | \$ 262,216 |
| National Foundation on the Arts and the Humanities | | |
| Promotion of the Arts - Partnership Agreements | 45.025 | \$ 553,108 |
| Promotion of the Arts - Leadership Initiatives | 45.026 | 22,520 |
| Promotion of the Humanities - Federal/State Partnership | 45.129 | (103) |
| Institute of Museum and Library Services | 45.301 | 629,579 |
| Total National Foundation on the Arts and the Humanities | | \$ 1,205,104 |
| National Science Foundation | | |
| Education and Human Resources | 47.076 | \$ 2,622 |
| Total National Science Foundation | | \$ 2,622 |
| U.S. Department of Veteran's Affairs | | |
| Grants to States for Construction of State Home Facilities | 64.005 | \$ 1,373 |
| Veterans State Nursing Home Care | 64.015 | 4,849,091 |
| Veterans Housing - Guaranteed and Insured Loans (See Note 2) | 64.114 | 4,153,559 |
| All-Volunteer Force Educational Assistance | 64.124 | 36,768 |
| State Cemetery Grants | 64.203 | 451,660 |
| Total U.S. Department of Veteran's Affairs | | \$ 9,492,451 |
| Environmental Protection Agency | | |
| Air Pollution Control Program Support | 66.001 | \$ 1,587,407 |
| State Indoor Radon Grants | 66.032 | 18,382 |
| Water Pollution Control - State and Interstate Program Support | 66.419 | 1,324,072 |
| State Public Water System Supervision | 66.432 | 533,667 |
| State Underground Water Source Protection | 66.433 | 66 |
| National Estuary Program | 66.456 | 194,591 |
| Capitalization Grants for Clean Water State Revolving Funds | 66.458 | 20,901,939 |
| Nonpoint Source Implementation Grants | 66.460 | 1,436,099 |
| Water Quality Cooperative Agreements | 66.463 | 164,980 |
| Wastewater Operator Training Grant Program (Technical Assistance) | 66.467 | 2,441 |
| Capitalization Grants for Drinking Water State Revolving Fund | 66.468 | 5,317,001 |
| Beach Monitoring and Notification Program Implementation Grants | 66.472 | 118,321 |
| Environmental Protection-Consolidated Research | 66.500 | 164,354 |
| Environmental Protection Consolidated Grants - Program Support | 66.600 | 131,090 |
| Surveys, Studies, Investigations and Special Purpose Grants | 66.606 | 3,198,540 |
| State Information Grants | 66.608 | 17,499 |

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2003

| Federal Grantor Program Title | CFDA Number | Total Expenditures |
|---|----------------|-----------------------|
| Innovative Community Partnership | 66.651 | 2,775 |
| Consolidated Pesticide Enforcement Cooperative Agreements | 66.700 | 359,431 |
| TSCA Title IV State Lead Grants - Certification of Lead-Based Paint Professionals | 66.707 | 242,887 |
| Pollution Prevention Grants Program | 66.708 | 37,795 |
| Hazardous Waste Management State Program Support | 66.801 | 607,383 |
| Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements | 66.802 | 688,512 |
| Leaking Underground Storage Tank Trust Fund Program | 66.805 | 963,139 |
| Chemical Emergency Preparedness and Prevention (CEPP) Technical Assistance Grants Program (B) | 66.810 | (4,222) |
| Total Environmental Protection Agency | | <u>\$ 38,008,149</u> |
| U.S. Department of Energy | | |
| State Energy Program | 81.041 | \$ 645,219 |
| Weatherization Assistance for Low-Income Persons | 81.042 | 1,176,857 |
| Office of Science Financial Assistance Program | 81.049 | (8,696) |
| Regional Biomass Energy Programs | 81.079 | 4,983 |
| University Nuclear Science and Reactor Support | 81.114 | 6,138 |
| Total U.S. Department of Energy | | <u>\$ 1,824,501</u> |
| U.S. Department of Education | | |
| Adult Education - State Grant Program | 84.002 | \$ 2,644,658 |
| Bilingual Education | 84.003 | 15,895 |
| Civil Rights Training and Advisory Services | 84.004 | 1,299 |
| Student Financial Assistance Cluster: (See Note 6) | | |
| Federal Supplemental Educational Opportunity Grants | 84.007 | 2,520,076 |
| Federal Family Education Loans (See Note 2) | 84.032 | 63,051,292 |
| Federal Work-Study Program | 84.033 | 1,710,645 |
| Federal Perkins Loan Program-Federal Capital Contributions (See Note 2) | 84.038 | 13,831,321 |
| Federal Pell Grant Program | 84.063 | 16,940,168 |
| Title I Grants to Local Educational Agencies | 84.010 | 30,887,568 |
| Migrant Education - State Grant Program | 84.011 | 130,720 |
| Title I Program for Neglected and Delinquent Children | 84.013 | 305,521 |
| Special Education Cluster: | | |
| Special Education - Grants to States | 84.027 | 27,633,205 |
| Special Education - Preschool Grants | 84.173 | 1,699,546 |
| Federal Family Education Loans (Guaranty Agency) (See Note 2) | 84.032 | 2,881,778 |
| TRIO Cluster: | | |
| TRIO-Student Support Services | 84.042 | 586,767 |
| TRIO-Talent Search | 84.044 | 431,117 |
| TRIO-Upward Bound | 84.047 | 570,143 |
| TRIO-Educational Opportunity Centers | 84.066 | 675,096 |
| Vocational Education - Basic Grants to States | 84.048 | 6,008,756 |
| Leveraging Educational Assistance Partnership | 84.069 | 228,948 |
| Fund for the Improvement of Postsecondary Education | 84.116 | 697,113 |
| Rehabilitation Services -Vocational Rehabilitation Grants to States | 84.126 | 8,519,229 |
| Rehabilitation Long Term Training | 84.129 | 12,471 |
| National Institute on Disability and Rehabilitation Research | 84.133 | 1,407 |
| Secondary Education and Transitional Services for Handicapped Youth | 84.158 | 73,676 |
| Immigrant Education | 84.162 | 10,846 |
| State Grants for Strengthening the Skills of Teachers and Instruction in Mathematics, Science, Foreign Language, and Computer Learning | 84.164 | 3,145 |
| Magnet Schools Assistance | 84.165 | 7,568 |

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2003

| Federal Grantor Program Title | CFDA Number | Total Expenditures |
|--|----------------|-----------------------|
| Independent Living - State Grants | 84.169 | 297,308 |
| Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind | 84.177 | 213,752 |
| Special Education - Grants for Infants and Families With Disabilities | 84.181 | 2,772,517 |
| Safe and Drug-Free Schools and Communities - National Programs | 84.184 | 36,849 |
| Byrd Honors Scholarships | 84.185 | 114,000 |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186 | 2,284,470 |
| Supported Employment Services for Individuals with Severe Disabilities | 84.187 | 440,051 |
| Bilingual Education - Professional Development | 84.195 | 102,725 |
| Education for Homeless Children and Youth | 84.196 | 102,073 |
| Even Start - State Educational Agencies | 84.213 | 1,238,458 |
| Fund for the Improvement of Education | 84.215 | 556,000 |
| Private Schools-Capital Expenses | 84.216 | 18,723 |
| Assistive Technology | 84.224 | 442,612 |
| Program Improvement for Children With Disabilities | 84.233 | 79,627 |
| Tech-Prep Education | 84.243 | 702,194 |
| Goals 2000 - State and Local Education Systemic Improvement Grants | 84.276 | 193,569 |
| School to Work Opportunities | 84.278 | 1,356,070 |
| Eisenhower Professional Development State Grants | 84.281 | 2,019,882 |
| Charter Schools | 84.282 | 969,950 |
| Twenty-First Century Community Learning Centers | 84.287 | 568,555 |
| Innovative Education Program Strategies | 84.298 | 1,849,776 |
| Technology Innovation Challenge Grants | 84.303 | 286,804 |
| Education Technology State Grants | 84.318 | 1,029,692 |
| Special Education - Research and Innovation to Improve Services and Results for Children with Disabilities | 84.324 | 55,645 |
| Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities | 84.326 | 243,803 |
| Advanced Placement Program | 84.330 | 3 |
| Grants to States for Incarcerated Youth Offenders | 84.331 | 9,159 |
| Comprehensive School Reform Demonstration (A) | 84.332 | 454,621 |
| Demonstration Project to Ensure Students with Disabilities Receive a Higher Education | 84.333 | 119,291 |
| Gaining Early Awareness and Readiness for Undergraduate Programs | 84.334 | 2,352,092 |
| Teacher Quality Enhancement Grants | 84.336 | 974,074 |
| Reading Excellence | 84.338 | 1,411,062 |
| Class Size Reduction | 84.340 | 1,631,449 |
| Vocational Education-Occupational and Employment Information State Grants | 84.346 | 125,900 |
| Title I Accountability Grants | 84.348 | 365,629 |
| Arts in Education | 84.351 | 87,480 |
| Grants for School Repairs and Renovations | 84.352 | 2,757,430 |
| English Language Acquisition Grants | 84.365 | 463,560 |
| Improving Teacher Quality State Grants | 84.367 | 8,321,530 |
| Grants for State Assessments and Related Activities | 84.369 | 442,549 |
| National Writing Project | 84.928 | 30,801 |
| Other Department of Education Awards | N/A | 33,716 |
| Total U.S. Department of Education | | \$ 219,635,425 |
| National Archives and Records Administration | | |
| National Historical Publications and Records Grants | 89.003 | (1,814) |
| Total National Archives and Records Administration | | \$ (1,814) |

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2003

| Federal Grantor Program Title | CFDA Number | Total Expenditures |
|---|----------------|-----------------------|
| U.S. Department of Health and Human Services | | |
| Public Health and Social Services Emergency Fund | 93.003 | \$ 410,533 |
| State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program | 93.006 | 145,864 |
| Special Programs for the Aging - Title VII, Chapter 3 - Programs for the Prevention of Elder Abuse, Neglect, and Exploitation | 93.041 | 28,047 |
| Special Programs for the Aging-Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals | 93.042 | 62,210 |
| Special Programs for the Aging-Title III, Part D - Disease Prevention and Health Promotion Services | 93.043 | 202,393 |
| Aging Cluster: | | |
| Special Programs for the Aging-Title III, Part B - Grants for Supportive Services and Senior Centers | 93.044 | 2,232,899 |
| Special Programs for the Aging-Title III, Part C - Nutrition Services | 93.045 | 2,498,161 |
| Alzheimer's Disease Demonstration Grants to States | 93.051 | 879,987 |
| Food and Drug Administration - Research | 93.103 | 9,514 |
| Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED) | 93.104 | 1,308,035 |
| Maternal and Child Health Federal Consolidated Programs | 93.110 | 687,191 |
| Project Grants and Cooperative Agreements for Tuberculosis Control Programs | 93.116 | 482,013 |
| Acquired Immunodeficiency Syndrome (AIDS) Activity | 93.118 | 197,532 |
| Small Business Innovation Research | 93.126 | 165,702 |
| Emergency Medical Services for Children | 93.127 | 102,994 |
| Primary Care Services - Resource Coordination and Development | 93.130 | 177,973 |
| Injury Prevention and Control Research and State and Community Based Programs | 93.136 | 451,706 |
| Projects for Assistance in Transition from Homelessness (PATH) | 93.150 | 298,115 |
| Health Program for Toxic Substances and Disease Registry | 93.161 | 16,498 |
| Grants for State Loan Repayment | 93.165 | 15,015 |
| Research Related to Deafness and Communication Disorders | 93.173 | 9,557 |
| Disabilities Prevention | 93.184 | 332,444 |
| Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children | 93.197 | 808,634 |
| Family Planning - Services | 93.217 | 1,352,240 |
| Consolidated Knowledge Development and Application (KD&A) Program | 93.230 | 681,698 |
| Abstinence Education | 93.235 | 156,431 |
| Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement | 93.238 | 11,274 |
| Policy Research and Policy Grants | 93.239 | 5 |
| Mental Health Research Grants | 93.242 | 8,936 |
| Substance Abuse and Mental Health Services-Projects of Regional and National Significance | 93.243 | 36,715 |
| Innovative Food Safety Projects | 93.245 | 24,064 |
| Universal Newborn Hearing Screening | 93.251 | 116,724 |
| Immunization Grants | 93.268 | 1,868,495 |
| Drug Abuse National research Service Awards for research Training | 93.278 | 13,148 |
| Centers for Disease Control and Prevention - Investigations and Technical Assistance | 93.283 | 8,817,231 |
| Student Financial Assistance Cluster: (See Note 6) | | |
| Health Professions Student Loans, Including Primary Care Loans/ Loans for Disadvantaged Students (See Note 2) | 93.342 | 1,428,462 |
| Nursing Student Loans (See Note 2) | 93.364 | 978,652 |
| Cancer Detection and Diagnosis Research | 93.394 | 8,910 |
| Promoting Safe and Stable Families | 93.556 | 1,734,645 |
| Temporary Assistance for Needy Families | 93.558 | 93,405,123 |
| Family Support Payments to States - Assistance Payments | 93.560 | 60,866 |

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2003

| Federal Grantor Program Title | CFDA Number | Total Expenditures |
|--|----------------|-------------------------|
| Child Support Enforcement | 93.563 | 8,463,956 |
| Refugee and Entrant Assistance - State Administered Programs | 93.566 | 324,504 |
| Low-Income Home Energy Assistance | 93.568 | 13,835,910 |
| Community Services Block Grant | 93.569 | 3,448,188 |
| Community Services Block Grant - Discretionary Awards | 93.570 | 91,057 |
| Child Care Cluster: | | |
| Child Care and Development Block Grant | 93.575 | 16,023,842 |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund | 93.596 | 11,827,937 |
| State Court Improvement Program | 93.586 | 124,320 |
| Grants to States for Access and Visitation Programs | 93.597 | 125,263 |
| Head Start | 93.600 | 179,146 |
| Child Support Enforcement Demonstrations and Special Projects | 93.601 | 26,236 |
| Adoption Incentive Payments | 93.603 | 7,147 |
| Developmental Disabilities Basic Support and Advocacy Grants | 93.630 | 449,659 |
| Developmental Disabilities Projects of National Significance | 93.631 | 128,767 |
| University Centers for Excellence in Developmental Disabilities Education, Research, and Service | 93.632 | 375,700 |
| Children's Justice Grants to States | 93.643 | 78,811 |
| Child Welfare Services - State Grants | 93.645 | 976,916 |
| Social Services Research and Demonstration | 93.647 | 75,980 |
| Foster Care - Title IV-E | 93.658 | 12,581,815 |
| Adoption Assistance | 93.659 | 6,675,999 |
| Social Services Block Grant | 93.667 | 5,339,648 |
| Child Abuse and Neglect State Grants | 93.669 | 569,440 |
| Family Violence Prevention and Services - Grants for Battered Women's Shelters - Grants to States and Indian Tribes | 93.671 | 804,046 |
| Chaffee Foster Care Independent Living | 93.674 | 738,765 |
| State Children's Insurance Program | 93.767 | 37,691,506 |
| Medicaid Cluster: | | |
| State Medicaid Fraud Control Units | 93.775 | 665,531 |
| State Survey and Certification of Health Care Providers and Suppliers | 93.777 | 2,284,942 |
| Medical Assistance Program (See Note 4) | 93.778 | 830,555,301 |
| Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations | 93.779 | 351,375 |
| Grants to States for Operation of Offices of Rural Health | 93.913 | 49,937 |
| HIV Care Formula Grants | 93.917 | 3,120,807 |
| Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs | 93.919 | 626,458 |
| Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems | 93.938 | 725,575 |
| HIV Prevention Activities - Health Department Based | 93.940 | 1,786,005 |
| Human Immunodeficiency Virus/(HIV) Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance | 93.944 | 266,876 |
| Assistance Programs for Chronic Disease Prevention and Control | 93.945 | 170,522 |
| Improving EMS/Trauma Care in Rural Areas | 93.952 | 24,900 |
| Block Grants for Community Mental Health Services | 93.958 | 1,244,129 |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | 6,938,224 |
| Preventive Health Services - Sexually Transmitted Diseases Control Grants | 93.977 | 448,149 |
| Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems | 93.988 | 765,554 |
| Preventive Health and Health Services Block Grant | 93.991 | 757,932 |
| Maternal and Child Health Services Block Grant to the States | 93.994 | 1,490,097 |
| Total U.S. Department of Health and Human Services | | \$ 1,095,463,508 |

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2003

| Federal Grantor Program Title | CFDA Number | Total Expenditures |
|---|----------------|-----------------------|
| Corporation for National and Community Service | | |
| Learn and Serve America - School and Community Based Programs | 94.004 | \$ 56,843 |
| Americorps | 94.006 | 446,331 |
| Foster Grandparent/Senior Companion Cluster: Senior Companion Program | 94.016 | <u>330,806</u> |
| Total Corporation for National and Community Service | | <u>\$ 833,980</u> |
| Social Security Administration | | |
| Disability Insurance/SSI Cluster: Social Security - Disability Insurance | 96.001 | <u>\$ 6,439,109</u> |
| Total Social Security Administration | | <u>\$ 6,439,109</u> |
| U.S. Department of Homeland Security | | |
| State Domestic Preparedness Equipment Support Program | 97.004 | \$ 1,603,254 |
| Boating Safety Financial Assistance | 97.012 | 389,848 |
| Community Assistance Program - State Support Services Element (CAP - SSSE) | 97.023 | 36,515 |
| Public Assistance Grants | 97.036 | 1,289,398 |
| First Responder Counter-Terrorism Training Assistance | 97.038 | 80,673 |
| National Dam Safety Program | 97.041 | 15,622 |
| Emergency Management Performance Grants | 97.042 | 1,836,336 |
| Other U.S. Department of Homeland Security | N/A | <u>11,654</u> |
| Total U.S. Department of Homeland Security | | <u>\$ 5,263,300</u> |
| Research and Development Cluster: | | |
| U.S. Department of Agriculture | | |
| Agricultural Research - Basic and Applied Research | 10.001 | \$ 147,285 |
| Plant and Animal Disease, Pest Control, and Animal Care | 10.025 | 6,724 |
| Grants for Agricultural Research, Special Research Grants | 10.200 | 231,523 |
| Payments to Agricultural Experiment Stations Under the Hatch Act | 10.203 | 2,423,777 |
| Grants for Agricultural Research - Competitive Research Grants | 10.206 | 436,656 |
| Higher Education Challenge Grant | 10.217 | 93,084 |
| Buildings and Facilities Program | 10.218 | 694,574 |
| Higher Education Multicultural Scholars Program | 10.220 | 47,174 |
| Fund For Rural American - Research, Education, and Extension Activities | 10.224 | 30,091 |
| Initiative for Future Agriculture and Food Systems | 10.302 | 110,155 |
| Integrated Programs | 10.303 | 786,999 |
| Cooperative Extension Service | 10.500 | 75,463 |
| Cooperative Forestry Assistance | 10.664 | 2,240 |
| Other Research and Development | N/A | 106,569 |
| U.S. Department of Commerce | | |
| Census Intergovernmental Services | 11.004 | (605) |
| Sea Grant Support | 11.417 | 2,808,390 |
| Coastal Zone Management Administration Awards | 11.419 | 170,000 |
| Coastal Zone Management Estuarine Research Reserves | 11.420 | 87,914 |
| Fisheries Development and Utilization Research and Development Grants Cooperative Agreements Program | 11.427 | 298,852 |
| Undersea Research | 11.430 | 90,772 |
| Climate and Atmospheric Research | 11.431 | 53,385 |
| Office of Oceanic and Atmospheric Research (OAR) Joint and Cooperative Institutes | 11.432 | (23,211) |
| Environmental Sciences, Applications, Data, and Education | 11.440 | 16,022 |
| Cooperative Science and Education Program | 11.455 | 326,347 |

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2003

| Federal Grantor Program Title | CFDA Number | Total Expenditures |
|--|----------------|-----------------------|
| Special Oceanic and Atmospheric Projects | 11.460 | 259,060 |
| Habitat Conservation | 11.463 | 26,320 |
| Applied Meteorological Research | 11.468 | 50,044 |
| Center for Sponsored Coastal Ocean Research - Coastal Ocean Program | 11.478 | 277,545 |
| Other Research and Development | N/A | 63,623 |
| U.S. Department of Defense | | |
| Basic and Applied Scientific Research | 12.300 | 6,774,785 |
| Basic Scientific Research | 12.431 | 521,195 |
| Air Force Defense Research Sciences Program | 12.800 | 14,471 |
| Other Research and Development | N/A | 426,720 |
| U.S. Department of Housing and Urban Development | | |
| Community Development Block Grants/Small Cities Program | 14.219 | (297) |
| Community Development Block Grants/Brownfields Economic Development Initiative | 14.246 | 49,934 |
| Community Outreach Partnership Center Program | 14.511 | 6,019 |
| Community Development Work-Study Program | 14.512 | 17,181 |
| Resident Opportunity and Supportive Services | 14.870 | 18,053 |
| U.S. Department of Interior | | |
| Fish and Wildlife Management Assistance | 15.608 | 39,448 |
| Assistance to State Water Resources Research Institutes | 15.805 | 64,427 |
| U.S. Geological Survey - Research and Data Acquisition | 15.808 | 508,415 |
| National Spatial Data Infrastructure Cooperative Agreements Program | 15.809 | (45) |
| National Cooperative Geologic Mapping Program | 15.810 | 36,881 |
| Other Research and Development | N/A | 755,794 |
| U.S. Department of Justice | | |
| Grants to Reduce Violent Crime Against Women on Campus | 16.525 | 119,517 |
| Crime Laboratory Improvement-Combined Offender DNA Index System Backlog Reduction | 16.564 | 340,143 |
| National Institute of Justice Domestic Anti-Terrorism Technology Development Program | 16.565 | 143,771 |
| Drug-Free Communities Support Program Grants | 16.729 | 4,391 |
| U.S. Department of State | | |
| Other Research and Development | N/A | 5,802,023 |
| U.S. Department of Transportation | | |
| Highway Planning and Construction | 20.205 | 7,228 |
| University Transportation Centers Program | 20.701 | 1,552,439 |
| Other Research and Development | N/A | 27,132 |
| U.S. Department of Treasury | | |
| Other Research and Development | N/A | 43,177 |
| National Aeronautics and Space Administration | | |
| Aerospace Education Services Program | 43.001 | 95,379 |
| Technology Transfer | 43.002 | 1,397,150 |
| Other Research and Development | N/A | 48,020 |
| National Credit Union Administration | | |
| Credit Union Charter, Examination, Supervision, and Insurance | 44.001 | 89,454 |
| National Foundation on the Arts and the Humanities | | |
| Promotion of the Humanities - Federal/State Partnership | 45.129 | 11,579 |
| Promotion of the Humanities - Division of Preservation and Access | 45.149 | 3,033 |
| Institute of Museum and Library Services - National Leadership Grants | 45.312 | 15,091 |
| National Science Foundation | | |
| Engineering Grants | 47.041 | 673,637 |
| Mathematical and Physical Sciences | 47.049 | 411,640 |
| Geosciences | 47.050 | 4,946,170 |
| Computer and Information Science and Engineering | 47.070 | 237,974 |
| Biological Sciences | 47.074 | 383,548 |
| Social, Behavioral, and Economic Sciences | 47.075 | 5,891 |

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2003

| Federal Grantor Program Title | CFDA Number | Total Expenditures |
|--|----------------|-----------------------|
| Education and Human Resources | 47.076 | 743,022 |
| Polar Programs | 47.078 | 136,196 |
| Other Research and Development | N/A | 1,791,508 |
| U.S. Department of Veterans Affairs | | |
| Other Research and Development | N/A | (29) |
| Environmental Protection Agency | | |
| National Estuary Program | 66.456 | 195,812 |
| Wetlands Program Development Grants | 66.461 | 3,510 |
| Environmental Protection - Consolidated Research | 66.500 | 377,681 |
| Environmental Protection - Consolidated Grants - Program Support | 66.600 | 4,250 |
| Surveys, Studies, Investigations and Special Purpose Grants | 66.606 | 218,826 |
| Training and Fellowships for the Environmental Protection Agency | 66.607 | 122,014 |
| Pollution Prevention Grants Program | 66.708 | 83,826 |
| Environmental Education Grants | 66.951 | (182) |
| Other Research and Development | N/A | 8,015 |
| U.S. Department of Energy | | |
| Office of Science Financial Assistance Program | 81.049 | 102,135 |
| U.S. Department of Health and Human Services | | |
| Biological Response to Environmental Health Hazards | 93.113 | 135,705 |
| Grants to Increase Organ Donations | 93.134 | 411,094 |
| Mental Health Research Grants | 93.242 | 12,448 |
| Advanced Education Nursing Grant Program | 93.247 | 254,881 |
| Alcohol Research Programs | 93.273 | 1,006,479 |
| Drug Abuse Research Program | 93.279 | 14,318 |
| Centers for Disease Control and Prevention - Investigations and Technical Assistance | 93.283 | 587,792 |
| Nurse Practitioner and Nurse-Midwifery Education Programs | 93.298 | 34,955 |
| Advanced Education Nursing Traineeships | 93.358 | 45,256 |
| Nursing Research | 93.361 | 346,067 |
| Research Infrastructure | 93.389 | 2,654,935 |
| Cancer Cause and Prevention Research | 93.393 | 881,786 |
| Cancer Detection and Diagnosis Research | 93.394 | 463,871 |
| Cancer Treatment Research | 93.395 | 155,818 |
| Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities | 93.768 | 299,008 |
| Heart and Vascular Diseases Research | 93.837 | 282,698 |
| Allergy, Immunology and Transplantation Research | 93.855 | 72,521 |
| Microbiology and Infectious Disease Research | 93.856 | 1,039,249 |
| Pharmacology, Physiology, and Biological Chemistry Research | 93.859 | 217,655 |
| Population Research | 93.864 | 41,438 |
| Aging Research | 93.866 | 747,677 |
| Medical Library Assistance | 93.879 | 33,487 |
| Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Program | 93.919 | 392,309 |
| Geriatric Education Centers | 93.969 | 266,358 |
| Other Research and Development | N/A | 157,718 |
| Total Research and Development Cluster | | \$ 49,630,247 |
| Other Expenditures of Federal Awards | | 2,309,672 |
| Total Expenditures of Federal Awards (See Note 2) | | \$ 2,251,370,451 |

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2003

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of the State of Rhode Island and Providence Plantations (the State). 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).

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*. Therefore, some amounts presented in this schedule differ from amounts presented in, or used in the preparation of, the basic financial statements.

Programs are generally listed in CFDA number order by federal funding agency. When no CFDA number has been assigned by the federal government, “None” is indicated in the schedule. When the CFDA number is not available from the State or component unit’s accounting records then N/A for not available is indicated in the schedule. 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.

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 Basis of Accounting and Financial Statement Presentation).

Non-cash expenditures of federal awards are presented as follows:

- Food Donation (CFDA 10.550) – reported at the fair market value of food distributed.
- The following guaranteed/insured mortgage loan programs are reported at the value of loans disbursed during the fiscal year: Very Low to Moderate Income Housing Loans (CFDA 10.410); Mortgage Insurance-Homes (CFDA 14.117); Property Improvement Loan Insurance for Improving All Existing Structures and Building of New Nonresidential Structures (CFDA 14.142); Veterans Housing - Guaranteed and Insured Loans (CFDA 64.114); and Home Equity Conversion Mortgages (CFDA 14.183).
- Economic Adjustment Assistance (CFDA 11.307) – includes the outstanding principal balance of loans originated under, and the balance of cash and cash equivalents of, the Revolving Loan Fund, and the administrative expenses paid from income earned.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2003

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation (continued)

- Donation of Federal Surplus Personal Property (CFDA 39.003) – reported at the fair market value of the donated property at the time of receipt.
- Federal Family Education Loans (CFDA 84.032) - reported at the value of loans made during the fiscal year.
- Federal Perkins Loan Program – Federal Capital Contribution (CFDA 84. 038), Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students (CFDA 93.342) and Nursing Student Loans (CFDA 93.364) - reported at the balance of loans outstanding at June 30, 2003.

NOTE 2. NON-CASH ASSISTANCE

| <u>CFDA Number</u> | <u>Loan, Loan Guarantee and Insurance Programs</u> | <u>Expenditures of Federal Awards - Year Ended June 30, 2003</u> | <u>Insurance, Loans and Loan Guarantees Outstanding - June 30, 2003</u> |
|------------------------|---|--|---|
| 10.410 | Very Low to Moderate Income - Housing Loans | \$ 110,000 | \$ 14,737,532 |
| 11.307 | Economic Adjustment Assistance | 12,965,337 | 6,276,604 |
| 14.117 | Mortgage Insurance – Homes | 28,724,542 | 234,762,256 |
| 14.142 | Property Improvement Loan Insurance for Improving All Existing Structures and Building of New Nonresidential Structures | 454,824 | 1,417,271 |
| 14.183 | Home Equity Conversion Mortgages | 7,167,063 | |
| 64.114 | Veterans Housing – Guaranteed and Insured Loans | 4,153,559 | 30,991,862 |
| 84.032 | Federal Family Education Loans | 55,143,471 | |
| 84.032 | Federal Family Education Loans (Guaranty Agency) | (a) | 1,083,791,468 |
| 84.038 | Federal Perkins Loan Program – Federal Capital Contribution | 13,732,424 | 13,732,424 |
| 93.108 | Health Education Assistance Loans | | 264,716 |
| 93.342 | Health Professions Student Loans, Including Primary Care Loans/ Loans for Disadvantaged Students | 1,428,462 | 1,428,462 |
| 93.364 | Nursing Student Loans | 978,652 | 978,652 |
| | <u>Other Non-Cash Assistance</u> | | |
| 10.550 | Food Donation | 4,627,007 | |
| 39.003 | Donation of Federal Surplus Personal Property | <u>262,216</u> | |
| | Total Non-Cash Assistance | <u>\$129,747,557</u> | |

(a) Administrative cost allowances (cash assistance) totaling \$2,881,778 are reported in the schedule, however, for the purpose of determining federal awards expended in accordance with OMB Circular A-133 loan guarantees outstanding are added to the cash assistance amount for the FFEL (Guaranty Agency) Program – CFDA 84.032. The amount of Federal Family Education Loan guarantees outstanding was not available, the total reflected above for the guarantee agency represents the original principal amount of loans guaranteed.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2003

NOTE 3. FEDERAL AWARDS RECEIVED FROM PASS-THROUGH ENTITIES

The majority of expenditures of federal awards reflected in the schedule are from awards made directly by the federal government to the State and its component units. An immaterial amount of funds have been passed-through from other entities to component units of the State totaling approximately \$7.3 million. Of this amount, \$5.9 million relates to the Research and Development Cluster of which all is unidentified as to the pass-through entity. Of the remaining amount (\$1.4 million), approximately \$629,000 is unidentified as to either the CFDA number and/or the pass-through entity.

NOTE 4. REBATES OF PROGRAM EXPENDITURES

The State received the following program expenditure rebates during fiscal 2003:

| <u>Program</u> | <u>CFDA Number</u> | <u>Rebate Amount</u> |
|---|------------------------|--------------------------|
| Medical Assistance Program | 93.778 | \$ 29,811,410 |
| Special Supplemental Nutrition Program for Women, Infants and Children (WIC) | 10.557 | \$ 4,349,284 |

Manufacturers of infant formula (WIC) and prescription drugs (Medical Assistance) made the rebates. The Medical Assistance Program rebates reduced previously-incurred program expenditures therefore Medical Assistance Program expenditures are reported net of the applicable federal share of rebates collected during fiscal year 2003. WIC program expenditures include amounts funded by rebates collected as well as direct federal assistance.

NOTE 5. UNEMPLOYMENT INSURANCE EXPENDITURES

Expenditures of federal awards for Unemployment Insurance (CFDA Number 17.225) represent \$211.5 million funded from the State's account in the federal Unemployment Trust Fund and \$61.8 million funded by federal grants.

NOTE 6. STUDENT FINANCIAL ASSISTANCE CLUSTER

Expenditures for the Student Financial Assistance Cluster are listed under two separate departments, Department of Education and Department of Health and Human Services. The total expenditures for the cluster are \$100.5 million.

Auditor's Reports



Auditor's Reports

Table of Contents

| | <u>PAGE</u> |
|---|-------------|
| Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> | C-1 |
| 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 | C-4 |



ERNEST A. ALMONTE, CPA, CFE
AUDITOR GENERAL
EALMONTE@OAG.STATE.RI.US

STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

- ◆ INTEGRITY
- ◆ RELIABILITY
- ◆ INDEPENDENCE
- ◆ ACCOUNTABILITY

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH UGOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the State of Rhode Island and Providence Plantations (the State) as of and for the year ended June 30, 2003 which collectively comprise the State's basic financial statements, and have issued our report thereon dated October 13, 2004. The scope of our audit was limited because we were unable to obtain sufficient evidence regarding the completeness of the furniture and equipment, and building improvement categories of capital assets included in the governmental activities section of the State's basic financial statements at June 30, 2003. Our report was qualified because of the omission of encumbrances outstanding at June 30, 2003 as a component of reserved fund balance of the governmental funds.

Our opinions expressed therein, insofar as they relate to component units whose financial statements were audited by other auditors, are based solely on the reports of the other auditors.

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.

Compliance

As part of obtaining reasonable assurance about whether the State's basic 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 reports of other auditors who audited the component units' compliance with laws, regulations, contracts and grants in accordance with *Government Auditing Standards* were furnished to us, and this report, insofar as it relates to these component units, is based solely on the reports of the other auditors.

The results of our tests and the reports of the other auditors disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Other auditors noted certain immaterial instances of noncompliance that they have communicated to management of the component units.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State'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. The reports of the other auditors on the internal control over financial reporting of component units in accordance with *Government Auditing Standards* were furnished to us, and this report, insofar as it relates to these component units, was based solely on the reports of the other auditors.

We noted certain 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 State'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 2003-1, 2003-2, 2003-3, 2003-4, 2003-5, 2003-6, 2003-7, 2003-8, 2003-9, 2003-10, 2003-11, 2003-12, 2003-13, 2003-14, 2003-15, 2003-16, 2003-17, and 2003-18.

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 and the reports of the other auditors 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. However, of the reportable conditions described above, we consider Findings 2003-1, 2003-2, 2003-3, 2003-4, 2003-5, 2003-6, 2003-7, 2003-8, 2003-9, 2003-17, and 2003-18 to be material weaknesses.

Other auditors noted other matters involving the internal control over financial reporting that they have communicated to management of the component units.

This report is intended solely for the information and use of the Finance Committee of the House of Representatives, the Joint Committee on Legislative Services, the Governor and management of the State, and 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.

A handwritten signature in black ink that reads "Ernest A. Almonte". The signature is written in a cursive, flowing style.

Ernest A. Almonte, CPA, CFE
Auditor General

October 13, 2004



ERNEST A. ALMONTE, CPA, CFE
AUDITOR GENERAL
EALMONTE@OAG.STATE.RI.US

STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

- ◆ INTEGRITY
- ◆ RELIABILITY
- ◆ INDEPENDENCE
- ◆ ACCOUNTABILITY

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

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

Compliance

We have audited, except as described in the next three sentences, the compliance of the State of Rhode Island and Providence Plantations (the State) 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, 2003. We did not audit the compliance of component units administering major federal programs with the requirements described in the preceding sentence. These major federal programs had combined expenditures of federal awards representing 17% of the reporting entity's total major federal program expenditures of federal awards in fiscal year 2003. Those audits were performed by other auditors whose reports on compliance with requirements applicable to the major federal programs administered by these component units were furnished to us, and this report, insofar as it relates to the component units that were audited by other auditors, is based solely on the reports of the other auditors. The State'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 State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

Except as discussed in the following paragraph, 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 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 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 opinion. Our audit does not provide a legal determination of the State's compliance with those requirements.

We were unable to obtain sufficient documentation supporting the compliance of the State with the WIA Cluster programs regarding the reporting requirement, nor were we able to satisfy ourselves as to the State's compliance with this requirement by other auditing procedures.

As described in Finding 2003-23 in the accompanying schedule of findings and questioned costs, the State (through its component unit - Rhode Island Economic Development Corporation) did not comply with the requirement regarding reporting that is applicable to its Economic Adjustment Assistance program within the Public Works and Economic Development Cluster. Compliance with this requirement is necessary, in the opinion of the auditor of the component unit, for the State to comply with the requirements applicable to that program.

As described in Finding 2003-32 in the accompanying schedule of findings and questioned costs, the State did not comply with the reporting requirement that is applicable to the Freight Rail Improvement Project. Compliance with this requirement is necessary, in our opinion for the State to comply with the requirements applicable to that program.

In our opinion, based on the results of our audit and the reports of the other auditors, and except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the State's compliance with the requirements of the WIA Cluster regarding the reporting requirement, and except for the noncompliance described in the two preceding paragraphs, the State complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended June 30, 2003. The results of our auditing procedures and the reports of the other auditors also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2003-27, 2003-47 and 2003-64.

Internal Control Over Compliance

The management of the State 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 State'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. Other auditors have audited certain major federal programs administered by component units which had combined expenditures of federal awards representing 17% of the reporting entity's total major federal program expenditures of federal awards in fiscal year 2003. The other auditors have furnished us their reports on their consideration and testing of the component units' internal control over compliance with requirements that could have a direct and material effect on a major federal program.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. The other auditors also noted certain matters involving the component units' internal control over compliance and its operation that they 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 State'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 2003-19, 2003-20, 2003-21, 2003-22, 2003-23, 2003-24, 2003-25, 2003-26, 2003-28, 2003-29, 2003-30, 2003-31, 2003-32, 2003-33, 2003-34, 2003-35, 2003-36, 2003-37, 2003-38, 2003-39, 2003-40, 2003-41, 2003-42, 2003-43, 2003-44, 2003-45, 2003-46, 2003-48, 2003-49, 2003-50, 2003-51, 2003-52, 2003-53, 2003-54, 2003-55, 2003-56, 2003-57, 2003-58, 2003-59, 2003-60, 2003-61, 2003-62, 2003-63, 2003-65, 2003-66, 2003-67, 2003-68, 2003-69, 2003-70, 2003-71, 2003-72, 2003-73 and 2003-74.

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, and the other auditors' 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. However, of the reportable conditions described above, we consider, based on our auditing procedures and the reports of other auditors, findings 2003-26, 2003-32 and 2003-59 to be material weaknesses.

This report is intended solely for the information and use of the Finance Committee of the House of Representatives, the Joint Committee on Legislative Services, the Governor and management of the State, and 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 13, 2004

**Schedule of Findings
and Questioned Costs**



Schedule of Findings and
Questioned Costs

Table of Contents

| | <u>PAGE</u> |
|---|-------------|
| Section I – Summary of Auditor’s Results | D-1 |
| Section II – Financial Statement Findings..... | D-4 |
| Section III – Federal Award Findings and Questioned Costs | |
| Table of Findings by Federal Program | D-26 |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section I – Summary of Auditor’s Results

Basic Financial Statements

- 1) The independent auditor’s report on the basic financial statements expressed a qualified opinion.
- 2) The audit of the basic financial statements disclosed reportable conditions and material weaknesses in internal control over financial reporting.
- 3) The audit disclosed no instances of noncompliance which are material to the basic financial statements.

Federal Awards

- 4) The audit disclosed reportable conditions in internal control over major programs, some of which were classified as material weaknesses.
- 5) The independent auditor’s report on compliance for major programs expressed an unqualified opinion for all major programs except for the following programs in which it expressed a qualified opinion:

| <u>Program</u> | <u>CFDA #</u> |
|--|----------------------|
| Public Works and Economic Development Cluster: | |
| Economic Adjustment Assistance | 11.307 |
| WIA Cluster: | |
| WIA Adult Program | 17.258 |
| WIA Youth Activities | 17.259 |
| WIA Dislocated Workers | 17.260 |
| Freight Rail Improvement Project | None |

- 6) The audit disclosed findings that must be reported under OMB Circular A-133 provisions.
- 7) Major programs are listed beginning on the next page.
- 8) The dollar threshold used to distinguish between Type A and Type B programs was \$6,754,111.
- 9) The State did not qualify as a low-risk auditee as defined by OMB Circular A-133.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section I – Summary of Auditor’s Results

Major Programs

| <u>Program Title</u> | <u>CFDA Number</u> |
|---|---------------------------|
| Food Stamp Cluster: | |
| Food Stamps | 10.551 |
| State Administrative Matching Grants for Food Stamp 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 |
| Special Supplemental Nutrition Program for Women, Infants and Children | 10.557 |
| Public Works and Economic Development Cluster: | |
| Economic Adjustment Assistance | 11.307 |
| Mortgage Insurance – Homes | 14.117 |
| Section 8 Project Based Cluster: | |
| Section 8 New Construction and Substantial Rehabilitation | 14.182 |
| Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation | 14.856 |
| Home Equity Conversion Mortgages | 14.183 |
| Section 8 Housing Choice Vouchers | 14.871 |
| Unemployment Insurance | 17.225 |
| WIA Cluster: | |
| WIA Adult Program | 17.258 |
| WIA Youth Activities | 17.259 |
| WIA Dislocated Workers | 17.260 |
| Airport Improvement Program | 20.106 |
| Highway Planning and Construction Cluster: | |
| Highway Planning and Construction | 20.205 |
| Federal Transit Cluster: | |
| Federal Transit – Capital Investment Grants | 20.500 |
| Federal Transit – Formula Grants | 20.507 |
| Freight Rail Improvement Project | None |
| Capitalization Grants for Clean Water State Revolving Funds | 66.458 |
| Student Financial Assistance Cluster: | |
| Federal Supplemental Educational Opportunity Grants | 84.007 |
| Federal Family Education Loans | 84.032 |
| Federal Work-Study Program | 84.033 |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section I – Summary of Auditor’s Results

Major Programs (cont’d)

| <u>Program Title</u> | <u>CFDA Number</u> |
|---|---------------------------|
| Student Financial Assistance Cluster (continued): | |
| Federal Perkins Loan Program – Federal Capital Contributions | 84.038 |
| Federal Pell Grant Program | 84.063 |
| Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students | 93.342 |
| Nursing Student Loans | 93.364 |
| Title I Grants to Local Educational Agencies | 84.010 |
| Special Education Cluster: | |
| Special Education – Grants to States | 84.027 |
| Special Education – Preschool Grants | 84.173 |
| Federal Family Education Loans (Guaranty Agency) | 84.032 |
| Rehabilitation Services – Vocational Rehabilitation Grants to States | 84.126 |
| Improving Teacher Quality State Grants | 84.367 |
| Centers for Disease Control and Prevention – Investigations and Technical Assistance | 93.283 |
| Temporary Assistance for Needy Families | 93.558 |
| Child Support Enforcement | 93.563 |
| Low-Income Home Energy Assistance | 93.568 |
| Child Care Cluster: | |
| Child Care and Development Block Grant | 93.575 |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund | 93.596 |
| Foster Care – Title IV-E | 93.658 |
| State Children’s Insurance Program | 93.767 |
| Medicaid Cluster: | |
| State Medicaid Fraud Control Units | 93.775 |
| State Survey and Certification of Health Care Providers and Suppliers | 93.777 |
| Medical Assistance Program | 93.778 |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 |
| Research and Development Cluster | Various |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section II – Financial Statement Findings

Finding 2003-1

CONTROLS OVER ACCOUNTING AND FINANCIAL REPORTING - STATEWIDE ACCOUNTING SYSTEM

The State implemented a new statewide accounting system during fiscal 2002. New accounting policies and procedures continued to evolve during fiscal 2003 as implementation and or system design problems were discovered and resolved. As a result, certain accounting controls were either inadequate or inconsistently operational for all or part of the fiscal year. We observed the following control weaknesses which affected the State's controls over receipts, disbursements and financial reporting.

General Ledger

- ❑ The accounting system is not integrated - transaction level data is summarized for posting in the general ledger. Additionally receivables, capital assets, long-term liabilities etc. are all recorded by journal entry at fiscal year end -- there is no interconnectivity to the accounting system. Various accounting system modules have not been implemented to account for these transaction types. Accounting control is significantly enhanced when transactions affecting changes in balance sheet accounts are recorded and reconciled to the accounting system.
- ❑ Access to the general ledger is very limited. Consequently, departments and agencies derive data regarding receipts and expenditures from the BuySpeed accounts payable component of RISAIL or from various web-based information sources that have been designed to bridge information gaps in the system. Each of the information sources (general ledger, BuySpeed, and web-based) has different combinations of data. Differences can exist between these data sources because of the manual processes employed

Disbursements

- ❑ In certain limited instances the Buyspeed component of the RISAIL accounting system recorded encumbrance liquidation amounts as expenditures rather than the disbursement amount. Checks to vendors were processed for the correct amount. The cause of the system malfunction could not be explained. Adjustments were processed to correct the overstatement of expenditures.
- ❑ Controls over certain types of cash disbursements (wire transfers and interfund movements of cash) were weakened because documentation and authorization control procedures were not fully designed and implemented at the inception of the new accounting system and through part of fiscal 2003. Wire transfers were authorized

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statement Findings

- using temporary documents. Many of the transactions were not recorded until many months later in the accounting system and some were not recorded.
- The actual movement of cash by the Office of the General Treasurer for disbursements allocated to multiple funds was inconsistent with the recording of these transactions in the accounting system.
 - Invoices were not consistently referenced to purchase orders prior to disbursement. This also represents a weakness in controls over purchasing and budgetary compliance.
 - ACH payments do not originate within the accounting system – instead they are coded as wire transfer transactions and then Treasury enters the data into an external bank supplied system to originate the ACH payment. Since reentry of the data makes it susceptible to change and/or data entry error, no controls are in place to ensure the disbursement data is the same as that recorded within the accounting system. Additionally, ACH functionality has only been established within the general fund bank account. Consequently, when disbursements originating in other funds are to be accomplished via ACH, the disbursement is made from the general fund with a corresponding movement of cash to reimburse the general fund. These reimbursements to the General fund are not tracked nor recorded within the accounting system. Since bank reconciliations were not performed during fiscal 2003, controls to ensure all amounts were reimbursed were lacking. New ACH procedures were implemented in fiscal 2004.
 - The Office of Accounts and Control transmits an electronic file representing approved payments to Treasury. Treasury is then responsible for the actual check production. Upon completion of check printing, Treasury transmits a file to the banks representing checks issued that day. The file allows the bank to track outstanding checks and also serves as a control mechanism by allowing the bank to match a check presented for payment to an authorized issue list (“positive pay”). Treasury can modify the file transmitted to the bank as the “positive pay” file which represents a control weakness.

Receipts

- Treasury approves receipt transactions within the RISAIL accounting system based upon verification of a deposit by the bank. Deposits in the bank with no corresponding receipt voucher/revenue transaction are tracked and periodically recorded as miscellaneous revenue. We found duplicate recordings of revenue during fiscal 2003 which indicated weaknesses in control over deposits and accounting documentation prior to approving cash receipts transactions.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section II – Financial Statement Findings

Classification of expenditures/expenses

- Controls over the classification of functional expenditures at the fund level -- capital outlay, debt service, and intergovernmental expenditures and operating transfers -- were not reliable during fiscal 2003. Certain expenditure classifications are determined by natural account codes. Natural account codes were not consistently and appropriately used throughout the fiscal year which impacted the accuracy of information reported in the general ledger.

RECOMMENDATIONS

- | | |
|---------|--|
| 2003-1a | Complete implementation of RISAIL to result in an integrated accounting system that fully meets the State's management and financial reporting needs. |
| 2003-1b | Modify the "positive pay" file format so that it cannot be modified prior to transmission to the bank. |
| 2003-1c | Improve controls over approval of receipt transactions to prevent duplicate entry of revenue. |
| 2003-1d | Improve controls over the use of RISAIL natural accounts to classify transactions so that the system will yield reliable amounts for financial reporting purposes. |
| 2003-1e | Investigate and resolve the cause of the erroneous posting of expenditures in the RISAIL accounting system. |

Finding 2003-2

INTERFUND TRANSACTIONS AND INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables were not accurately reported by the RISAIL accounting system at June 30, 2003. This occurred because accounting policies and procedures were still evolving during the fiscal year for this transaction type and policies and procedures were not consistently applied.

Interfund transactions occur commonly and require cash movement of funds between bank accounts. The general ledger component of the RISAIL accounting system is programmed with certain defaults that recognize interfund transactions and record corresponding interfund payables and receivables. Until February 2003, each interfund transaction was intended to have a

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statement Findings

corresponding cash transaction which moved cash between bank accounts and settled the interfund payable and receivable. Initially control was lost because book entries were not recorded simultaneously with the actual movements of cash – similarly cash did not always move when book entries were recorded. Accounts and Control also recognized that the cash settlement transaction created new interfund receivables and payables rather than settle previous balances as intended.

New procedures were employed effective February 2003 that provided for immediate settlement (cash movement) of interfund transactions over a certain dollar threshold and a net settlement for all other transactions on a monthly basis. The first monthly settlement was performed at the close of February 2003 for the preceding 20-month period beginning July 1, 2001. Monthly settlements were performed for each month subsequent to February 2003. For two of these months interfund receivable and payable balances were adjusted to zero in the general ledger to reflect the net settlement by fund. For the remaining months, cash was moved but the receivable and payable balances remained in the general ledger. As a result, interfund receivable and payable balances reported in the general ledger at June 30, 2003 were significantly overstated and required adjustment for financial reporting purposes. The general ledger at June 30, 2003 reflected \$616 million as due to and due from other funds. These amounts were subsequently adjusted to \$86 million for inclusion in the financial statements.

The interfund settlement process significantly complicated the reconciliation of book and bank cash balances. Attempts were made to adjust the first interfund settlement, which occurred as of February 2003, for cash that had already moved without recording on the books. These amounts required significant additional adjustments when bank reconciliations were finally completed for June 30, 2003.

The policy of moving cash immediately for large dollar interfund transactions is beneficial from a cash management perspective but the manner in which the transactions are actually processed does not reduce the interfund payable and receivable on the books. Instead, offsetting interfund payables and receivables are created. This further adds to the overstated balances reported on the general ledger.

Balances reported in the general ledger as interfund receivables and payables should at all times be reflective of actual amounts owed between funds. When cash is moved in settlement of interfund receivables and payables, the corresponding reduction should be made to the respective due to/due from. The accounting system should be able to detail the transactions that support the interfund receivable/payable reported in the general ledger.

RECOMMENDATIONS

2003-2a Reduce interfund payable and receivable balances as cash settlements occur.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statement Findings

- 2003-2b Move towards more frequent settlement of interfund receivable and payable balances through one overall process rather than cash settlement of large individual transactions.
- 2003-2c Ensure the accounting system reports accurate interfund receivables and payables and detail transaction level support is available for all balances.

Finding 2003-3

TIMELY BANK RECONCILIATIONS

Bank reconciliations were not performed timely during fiscal year 2003. Reconciliation of bank and book cash balances as of June 30, 2003 was not completed until September 2004 - 15 months after fiscal year end. Timely bank reconciliations are an integral component of internal control over the recording of receipts and disbursements. Consequently, controls over receipts and disbursements continued to be severely weakened during fiscal 2003.

As a result of the reconciliation of June 30 bank and book balances subsequent to fiscal year end, material audit adjustments were required to post unrecorded or incorrectly recorded transactions. Reconciliation of bank and book balances during the fiscal year would have identified these differences and allowed timely correction in the underlying accounting records.

As reported in the prior year, the reconciliation of bank and book balances was significantly impacted by the implementation of the new RISAIL accounting system. Cash balances for each fund (as reported by the general ledger) were not available on a timely basis throughout the fiscal year because of delays in posting activity to the general ledger. For funds that utilize more than one bank account, cash balances reported by the general ledger were out of alignment due to errors in recording receipt or disbursement activity by account. Additionally, changes in the reconciliation process were necessary to respond to data being provided in new formats and from different sources. Many of the problems encountered in performing bank reconciliations after implementation of RISAIL were not fully discovered until after the close of fiscal 2003. Consequently, control weaknesses related to timely reconciliation of book and bank cash balances were largely not addressed during fiscal 2003.

Further, implementation of the new accounting system resulted in significant delays, on occasion, between the movement of cash between funds or payments to vendors and the recording of the transactions in the accounting system. Numerous instances also occurred where cash moved with no recording in the accounting system.

Reconciliation of general fund cash balances is particularly complex because of the volume of activity and the number of bank accounts. The reconciliation process is made much

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statement Findings

more difficult by the processing of certain types of transactions (mostly wire transfer transactions) which creates differences in either the amount, mode (wire, ACH or check), or timing of transactions between book and bank. Further, investment transactions are not posted in detail in the general ledger -- these transactions represent a significant amount of bank activity which cannot be matched to book transactions. Additionally, no unique identifier follows the transaction to facilitate matching of book and bank transactions. Ultimately, this required extensive manual effort to match bank and book transactions for reconciliation purposes.

Treasury attempted to reconcile each general fund bank account balance (12 separate bank accounts) to a combination of extracted RISAIL transactions and bank wire activity from an internal Treasury system. General ledger cash balances by bank account continued to be inaccurate because controls are not adequate to ensure transactions are posted to the correct cash sub-account. Ultimately, a combined reconciliation (all general fund bank balances reconciled directly to one combined general fund general ledger balance) had to be performed. An unreconciled variance of approximately \$1.8 million (book over bank) was identified as part of the reconciliation. This variance was adjusted for financial reporting purposes.

Delay in completing bank reconciliations has contributed significantly to the delay in completing the both the State's fiscal 2002 and 2003 financial statements. Various actions are required to allow timely reconciliation of bank and book balances thereby restoring this essential control over receipts and disbursements. Should these issues not be addressed promptly, delays in completing bank reconciliations will continue to threaten timely completion of the State's annual financial statements.

Subsequent to June 30, 2003, the Offices of Accounts and Control and the General Treasurer have worked to eliminate transaction-processing issues which contributed to the reconciliation problems. Various changes in transaction processing have been implemented in fiscal 2004 and 2005 which should facilitate reconciliation of bank and book cash balances.

Efforts should continue between Accounts and Control and the General Treasurer to ensure the following:

- ❑ transaction level data from RISAIL is available and sorted in a manner which facilitates reconciliation to bank activity;
- ❑ investment activity is posted to the RISAIL accounting system on a daily basis and at transaction level detail to allow complete reconciliation with bank transactions;
- ❑ the existing backlog of reconciliations is eliminated such that bank and book balances are reconciled within a reasonable time after month end and book adjustments resulting from the reconciliation are recorded timely;
- ❑ options to automate as much of the reconciliation process as possible are explored with the State's financial institutions by aligning the manner in which transactions are

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statement Findings

processed by both the bank and Accounts and Control to allow electronic matching for reconciliation purposes; and

- the existing configuration of bank accounts is reviewed with the objective of streamlining the number of accounts and the amount of inter-account transactions.

RECOMMENDATIONS

- | | |
|---------|--|
| 2003-3a | Perform timely reconciliation of bank and book cash balances. |
| 2003-3b | Post investment activity to the RISAIL accounting system on a daily basis and at transaction level detail to allow complete reconciliation with bank transactions. |
| 2003-3c | Explore options to automate as much of the reconciliation process as possible with the State's financial institutions by aligning the manner in which transactions are processed by both the bank and Accounts and Control to allow electronic matching for reconciliation purposes. |
| 2003-3d | Assess the existing configuration of bank accounts with the objective of streamlining the number of accounts and the amount of inter-account transactions. |

Finding 2003-4

ACCOUNTING CONTROLS OVER INVESTMENT TRANSACTIONS

Short-term investment of available cash balances within the various funds of the State are made by the Office of the General Treasurer (Treasury). Treasury records these transactions within an independent investment system (SI50) which tracks purchases, sales, maturities, and investment income. Treasury's SI50 investment system cannot communicate directly to the State's accounting system. During fiscal 2003, no investment activity was recorded within the State accounting system -- all fiscal year 2003 investment activity was recorded in summary form subsequent to fiscal year end.

Investment purchases and sales represent a significant dollar volume of cash receipt and disbursement transactions. Such activity during fiscal 2003 approximated \$1.2 billion per month (all funds). Failure to record this activity within the State accounting system on a timely basis significantly weakens controls over cash receipts and disbursements. Additionally, as described more fully in Finding 2003-3, accurate cash balances (as well as investments and investment

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statement Findings

income) cannot be reported by the accounting system when investment activity is not recorded during the fiscal year.

Investment activity should be recorded on a daily basis in the accounting system by modifying the existing SI50 investment system so that it can communicate directly to the RISAIL accounting system or through acquiring a module to the accounting system that allows direct and timely recording of investment activity.

Treasury initiates investment purchases and sales, records the activity in its own investment system, wires funds to and from financial institutions to settle investment transactions, and receives confirmation of transactions. A small number of employees perform these functions at Treasury and opportunities for segregation of duties are limited within the investment function at Treasury. Combined with the fact that (1) none of the investment transactions were recorded within the State accounting system during fiscal 2003, and (2) bank reconciliations were not performed during the fiscal year; controls over this material component of cash receipts and disbursements were severely weakened.

RECOMMENDATIONS

2003-4 Improve control over investment transactions by integrating the investment function within the state accounting system.

Finding 2003-5

ACCOUNTING AND PHYSICAL CONTROL OVER CAPITAL ASSETS

Accounting controls were not adequate during fiscal 2003 to ensure that the acquisition and disposal of capital assets was accurately recorded within the accounting system. Our testing indicated that many items were charged to capital asset natural accounts erroneously and conversely many items that should have been reflected as capital items were charged to operating accounts. Adequate control procedures were not in place to ensure that the acquisition of capital items was identified consistently within the RISAIL accounting system and then recorded at historical cost within the electronic file used by the State to accumulate capital asset data. Additionally, sale, disposal, or transfer of capital assets is not recorded within the accounting system and instead is tracked by a manual process that originates at the department or agency level. This weakness in accounting controls is largely attributable to (1) over reliance on manual accounting procedures to accumulate the data, (2) ineffective monitoring procedures, and (3) a general lack of awareness by accounting personnel in the departments and agencies regarding the importance of account classifications and the distinction between capital and operating items.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statement Findings

The State has not adopted a permanent accounting system to account for capital assets and related depreciation. Instead multiple databases were created to accumulate capital asset data as part of the effort to record these amounts for the first time on the financial statements. These databases do not adequately meet the State's capital assets accounting needs and should be replaced by a system or systems that more fully meet these needs and additionally allow for implementation of controls over access, tracking changes etc. Further, there is no integration functionality between the accounting system and the databases used to record capital asset data. All capital asset data must be separately recorded in the capital asset databases. Controls are inadequate to ensure all data is accurately captured in the capital asset databases.

Controls over capital assets were deficient in the following respects:

- ❑ various department and agencies did not consistently adhere to required procedures for the preparation and submission of documentation for the acquisition and disposal of capital assets;
- ❑ reconciliations of capital asset databases with data reported in the State's accounting system were not performed;
- ❑ controls relating to the identification and accumulation of costs for capital projects were not reliable;
- ❑ an insufficient number of physical inventories were performed of the state departments and agencies to ensure that furniture and equipment were fairly presented on the State's financial statements at June 30, 2003;
- ❑ capital asset accounting and reporting policies were not consistently applied in determining amounts to be capitalized.

Office of Management and Budget (OMB) Circular A-102 requires States to use, manage, and dispose of equipment acquired with federal funds in accordance with state laws and procedures. The State's weaknesses in accounting and physical controls over capital assets impacted its ability to identify equipment purchased with federal funds and to ensure compliance with its own procedures regarding the use, management and disposition of all equipment.

RECOMMENDATION

2003-5 Enhance systems and procedures necessary to provide adequate accounting and physical control over capital assets.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section II – Financial Statement Findings

Finding 2003-6

CONTROL OVER LONG-TERM OBLIGATIONS

The State lacks adequate accounting controls to accumulate all long-term obligations for inclusion in the State's government-wide financial statements. Controls are also inadequate to ensure all required payments are made when due.

The State's debt service accounting system includes only information for certain general obligation bonds (current-interest bonds), representing approximately one-half of the total obligations reported in the government-wide financial statements. Obligations not recorded in the debt service accounting system include capital appreciation bonds, multi-modal rate bonds, lease obligations, certificates of participation, compensated absences, and arbitrage rebate liabilities. The debt service accounting system is incapable of accepting data for certain categories of long-term obligations and consequently these obligations are recorded on a variety of independent subsystems without centralized control.

A new subsidiary accounting system is required to capture all categories of long-term obligations, detail all debt service requirements to maturity, prompt payments on the required dates and calculate accrued interest for financial reporting purposes. GASB Statement No. 34 also requires presentation of a category of net assets – capital assets net of related debt - on the government-wide financial statements. To meet this requirement each issuance of debt must be segregated into its capital and non-capital components. The State currently has no system to provide this information. Such information should be included in a comprehensive debt management accounting system.

The Office of the General Treasurer utilizes a debt management system primarily to prompt debt service payments. This system may be capable of addressing other long-term debt accounting issues as well. Ideally, the comprehensive debt management system should interface with the statewide accounting system to provide information necessary for financial reporting purposes, and generally improve control over the State's long-term obligations.

RECOMMENDATION

2003-6 Acquire a new subsidiary accounting system to account for all long-term general obligations of the State and improve controls over financial reporting and debt service payments.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section II – Financial Statement Findings

Finding 2003-7

CONTROLS OVER SIGNIFICANT ESTIMATES USED IN PREPARING FINANCIAL STATEMENTS

As part of the audit process, we are required to assess significant estimates made by management in preparing the financial statements. One of those key estimates is an estimated refund liability/receivable for personal income taxes. Generally accepted accounting principles require the State to estimate the amount of refunds/receivables that are likely in the future for personal income tax receipts recorded during the fiscal year. Most taxpayers make payments to the State through payroll withholding or estimated payments as the taxpayer earns income. Tax returns filed after the close of the calendar year reconcile payments made to the actual tax liability. Since the State has a June 30 fiscal year end, a liability/receivable is estimated for the amount of refunds or receivables related to personal income tax collections for January through June 30.

The State developed an estimate for its fiscal 2001 financial statements in response to accounting standards that were newly effective for that fiscal year, however, these estimates have not been updated to ensure they are appropriate and reflective of current information. Various factors can impact the amount of refunds paid including changes in federal and state tax rates and deductions, economic conditions, and stock market performance and associated capital gains or losses.

Estimates should be tracked to actual refunds and receivables and historical data should be accumulated to support current estimates and trends. Factors that are expected to impact the payment of future refunds should be included in the estimates used for financial reporting purposes.

RECOMMENDATION

2003-7 Update the estimates used to record personal income tax refunds and receivables for financial reporting purposes to ensure the estimates reflect current factors and trends.

Finding 2003-8

ACCOUNTING CONTROLS OVER FEDERAL REVENUE

The State does not have adequate accounting controls in place to ensure that federal program expenditures do not exceed grant awards from the federal government. Federal revenue for the general fund alone was \$1.4 billion for fiscal 2003. As federal program expenditures are

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statement Findings

recorded, federal revenue is recognized in the accounting system since these expenditures are considered reimbursable by the federal government. 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 dollar amount for a specific grant period. These grant periods are often for the federal fiscal year and are not aligned with the State's fiscal year. Expenditures could be recorded in a specific federal program account yet not be reimbursable from the federal government because grant funds have been exhausted.

Departments and agencies administering federal programs are responsible for monitoring expenditure amounts compared to grant awards and preparing federal reports detailing this information. Controls over financial reporting are not adequate at an overall statewide level to ensure that federal program expenditures recorded in the accounting system are consistent with amounts reported to the federal government and do not exceed federal grant awards.

The Office of Accounts and Control has a procedure in place where departments and agencies are required to submit an annual Federal Grants Information Schedule (FGIS) which is intended to reconcile federal program expenditures as reported to the federal government with amounts included in the state accounting system. Many departments and agencies do not comply with this procedure. Reconciliations submitted to the Office of Accounts and Control are not reviewed.

RECOMMENDATION

2003-8 Ensure all departments and agencies administering federal programs funds complete Federal Grants Information Schedules on timely basis after the close of the fiscal year. These schedules should then be reviewed as part of the preparation of annual financial statements to ensure federal program expenditures and revenues are consistent with grant awards and expenditures reported to the federal government.

Finding 2003-9

ENCUMBRANCES

Generally accepted accounting principles require presentation of encumbrances outstanding as a reservation of fund balance on the financial statements of governmental funds or disclosure of such amounts in the notes to the financial statements. The RISAIL accounting system did not accurately report the balance of encumbrances outstanding at June 30, 2003 and consequently these balances were omitted from the financial statements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statement Findings

This omission was caused by failure to bring forward all existing encumbrance balances at inception of the new RISAIL accounting system. Additionally, payments during fiscal year 2003 were not consistently referenced to corresponding purchase order balances that were included within the accounting system causing these balances to be overstated.

RECOMMENDATION

- 2003-9 Ensure accurate data regarding outstanding encumbrances is provided by the RISAIL accounting system to allow preparation of financial statements in accordance with generally accepted accounting principles.

Finding 2003-10

LIABILITY FOR COMPENSATED ABSENCES

Recognition of the liability for compensated absences (earned vacation and sick time credits) is recorded in the government-wide financial statements as required by generally accepted accounting principles. These amounts are derived from accrued vacation and sick hours reported by the State's payroll accounting system. Not all agencies and departments of the State report earned and discharged vacation and sick hours for inclusion in the State payroll accounting system. Approximately 1,500 employees are not reporting earned and discharged vacation and sick pay credits within the payroll accounting system. Accordingly, the liability for compensated absences included in the government-wide financial statements for fiscal 2003 is understated by an undetermined amount.

RECOMMENDATION

- 2003-10 Require agencies and departments to report earned and discharged vacation and sick hours through the State's payroll accounting system or devise a means to estimate the compensated absence liability for employees not included in the State payroll accounting system.

Finding 2003-11

ESCROW LIABILITY BALANCES

Various escrow liability accounts have been established within the State's general fund to account for funds held on behalf of others and/or pending distribution. Child support collections and payroll clearing accounts are included in this category. Routine review and reconciliation of

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statement Findings

these escrow liability accounts is not performed to ensure that such amounts are accurately and appropriately reflected in the general ledger. We found that many accounts had large unexplained debit balances rather than normally expected credit balances for escrow liability accounts. Conversely, one account intended to represent amounts pending disbursement to a health care insurance provider for state employees showed a credit balance of \$17 million. Most of the accounts related to the receipt and disbursement of employee related expenses reported balances that indicated inappropriate recording of receipts and/or disbursements during the fiscal year.

All escrow liability balances should be analyzed and reconciled to supporting information. New accounts should be established to segregate current operating activity from old unexplained variances. Activity in each liability account should be reviewed on a current basis to ensure receipts and disbursements are recorded appropriately. Balances accumulated for future settlement of various payroll related costs should be segregated from biweekly payroll activity.

RECOMMENDATIONS

- 2003– 11a Analyze escrow liability balances and reconcile to supporting documentation. Activity in each liability account should be reviewed on a current basis to ensure receipts and disbursements are recorded appropriately.
- 2003– 11b Establish new accounts to segregate current activity from old variances relating to prior fiscal years.
- 2003– 11c Establish additional accounts for amounts accumulated for future settlement of certain payroll related costs to segregate these amounts from current amounts owed to providers.

Finding 2003-12

TAXATION – CONTROLS OVER ELECTRONIC FUNDS TRANSFER RECEIPTS

The majority of taxation collections (based on dollars) are received electronically. Funds are deposited automatically in the State's bank account and an electronic file is transmitted to the Division of Taxation by the State's bank which contains abbreviated tax payment data (taxpayer identification number, payment amount, tax type, tax period). This electronic file is in an open text file format which allows, rather than restricts, manipulation of data prior to recording in the Division of Taxation's computer systems.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statement Findings

Additionally, the Division of Taxation has not segregated certain duties regarding the processing of electronic funds transfer receipts. A single employee has the responsibility for accessing the electronic file, reconciling the electronic file information to the amount recorded in the State's bank account, creating manual adjustments and ensuring that the information is uploaded properly to the taxation computer systems.

Optimally, the entire EFT process should be revised to the extent that the tasks of downloading and uploading payment detail files is re-assigned to the operations staff at the State Data Center. Upon uploading the payment files, error or exception reports would be created to highlight discrepancies requiring resolution or correction. This would provide an audit trail for any changes to EFT payment information.

RECOMMENDATION

- | | |
|----------|---|
| 2003-12a | Segregate duties relative to the processing of electronic funds transfer taxation receipts. |
| 2003-12b | Request the electronic file be provided by the State's bank in a file format that prevents possible manipulation of tax payment data. |
| 2003-12c | Reassign upload of EFT payment data to the operations staff at the State Data Center. Highlight discrepancies requiring resolution or correction through generation of error reports. |

Finding 2003-13

RISAIL ACCESS CONTROLS

We found that access to the RISAIL accounting system was not sufficiently restricted during fiscal 2003. RISAIL system access is controlled through unique passwords and assigned system access roles. These roles, which are assigned based on job function and responsibility level, permit or limit access to various system capabilities. Access is further controlled by permitting only viewing of data or the actual entry or changing of system information.

We found that various individuals within the Department of Administration had either (1) system access that was in excess of what was required for their respective duties, or (2) have access provided through multiple access roles that create rather than restrict the opportunity for perpetrating or concealing errors or irregularities. Unique access roles are assigned to both the BuySpeed and Oracle components of the RISAIL accounting system. In general, roles that allow users to initiate, process, and approve disbursement transactions, modify vendor information, or adjust accounting records must be adequately controlled and duties should be segregated.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section II – Financial Statement Findings

A review of all users' system access is necessary to ensure access is appropriate based upon assigned functions. In some instances, new roles may need to be established to better tailor access to an individual's assigned functions. For example, certain Treasury employees have accounts payable supervisor access in order to approve receipts transactions, however, this access also allows entry and approval of other transactions as well.

RECOMMENDATION

2003-13 Review the access of all RISAIL system users to ensure access is appropriate to their assigned functions and does not allow inappropriate access that results in controls weaknesses.

Finding 2003-14

PAYROLL ACCOUNTING SYSTEM ACCESS CONTROLS

Payroll data for the majority of State employees is entered on-line to the payroll accounting system at the department or agency level. We reviewed the controls over data entry for the State payroll accounting system and found that established procedures now mandates the assignment of unique passwords for each user to control and restrict access to the system, however, the existing password control system does not record password information within the data files to identify individuals making specific file changes thereby providing a clear audit trail. System access controls need to be improved by utilizing the password to track all transactions initiated by an individual user.

RECOMMENDATION

2003-14 Capture and maintain the employee's unique password within the transaction file to specifically identify transactions by individual user.

Finding 2003-15

TAXATION SYSTEMS ACCESS CONTROLS

Controls over access and use of the Division of Taxation's tax systems should be enhanced by the implementation of adequate identification, authentication and authorization mechanisms, linking users and resources with access rules. Such mechanisms should prevent

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section II – Financial Statement Findings

unauthorized personnel from accessing computer resources. Procedures should also be in place to keep authentication and access mechanisms effective.

We noted the following weaknesses within the area of logical access controls:

- A written password policy does not exist dictating:
 - An initial password change on first use,
 - The minimum length and makeup of passwords (i.e. 8 alphanumeric/special characters), and
 - Encryption of stored passwords on the Mainframe.
- Automatic logon denial and deactivation of accounts for users who attempted to logon past a maximum number of unsuccessful logon attempts (e.g., 3 or 6 attempts) does not exist.
- Automatic logoffs of users who have been inactive for a short period of time (e.g., 30 minutes) does not exist.
- The systems do not record audit trails of changes to system data elements.
- Appropriate segregation of duties does not exist in the area of system security, as the security officers are system and password administrators, and supervisory programmers.

RECOMMENDATION

2003-15 Enhance access controls over the Division of Taxation's tax systems by implementing formal standard best-practices and procedures.

Finding 2003-16

COMPREHENSIVE INFORMATION SYSTEMS SECURITY PLAN

Disaster Recovery Plan

The Office of Library and Information Services (OLIS) does not have a formal written disaster recovery/business resumption plan for all computer applications utilizing the State Data Center located in Johnston, as well as its operations located at One Capitol Hill in Providence. Key computer applications utilizing the State Data Center include the State's centralized accounting, tax collection, employee payroll, and pension payroll systems. Such a plan should

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statement Findings

be designed to allow the continuation of essential data processing and support functions in the event existing data processing facilities are destroyed, impaired or unavailable. Without a formal plan, the State's ability to re-establish key computer applications in a timely manner may be compromised.

RECOMMENDATION

2003-16a Develop a formal written disaster recovery/business resumption plan for the State Data Center and operations at One Capitol Hill.

Comprehensive Information Systems Security Plan

The Division of Information Technology (DoIT) has been charged with the safe and secure operation of the DOA's mission critical automated systems (i.e. Statewide Accounting, Personnel, Payroll, Taxation, INRHODES, Division of Motor Vehicles, etc.) The information contained within these systems, is now accessible through either departmental or statewide networks. As the State opens these systems to greater user interaction, there exists the possibility that access security is compromised, thereby exposing the State to losses and other risks.

The State has not developed a comprehensive documented information systems security plan designed to address all of the security risks specific to any of the mission critical DOA applications.

Security procedures in the past were largely confined to application specific measures. Comprehensive security procedures must include the various ways which access to an application is obtained including Local Area Networks (LAN's), Wide Area Networks (WAN's), and individual workstations as well as the control over specific applications.

The oversight and management of the agencies information security program relies upon the development and implementation of a standardized, formal, comprehensive information systems security plan. The information systems security plan is to consist of detailed policies, procedures, standards, and guidelines that are designed to safeguard all of the information contained within the agency specific systems. The plan must be comprehensive in its coverage of all security issues and reflect the security needs of the specific agency and its applications. Development of formal written security objectives should address the following areas:

- ❑ Regulatory Guidance, Resources, and Standards,
- ❑ Defined Security Roles and Responsibilities,
- ❑ Formal Risk Assessment Standards and Procedures,
- ❑ Specific Security Control Procedures regarding;
 - Logical and Physical Security, Encryption, Malicious Code, SDLC,
 - Logging and Data Collection, Personnel Security, Service Provider Oversight,
 - Intrusion Detection and Response, Disaster Recovery / Business Continuity,
- ❑ Security Testing Concepts and Practices,

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statement Findings

- ❑ Security Monitoring and Reporting, and
- ❑ Security Plan Review and Updating.

Further, to be successful, the plan must be designed with the correct mix of technological and non-technological safeguards. These safeguards should be installed to achieve an acceptable level of protection, while not impeding the daily business operations. We believe the plan should be formulated and developed utilizing recognized industry standards (i.e., Federal Information Systems Controls Audit Manual – “FISCAM”, National Institute of Standards and Technology (NIST) and Information Systems Audit and Control Association (ISACA) – COBiT Model) governing controls and security of automated systems.

RECOMMENDATIONS

- 2003-16a Develop a formal written information security plan stating the required policies, procedures and standards to control and monitor users of the system as well as enforce the security plan’s standards and practices.
- 2003-16b Appoint an individual or individuals to monitor and maintain the plan. This individual should report directly to DOA upper management.

Finding 2003-17

FINANCIAL REPORTING – INTERMODAL SURFACE TRANSPORTATION EFFICIENCY ACT (ISTEA) FUND

Controls are not adequate to ensure that Intermodal Surface Transportation Efficiency Act (ISTEA) Fund revenues and other financing sources are accurately and consistently identified and recorded to allow preparation of financial statements in accordance with generally accepted accounting principles.

The ISTEA Fund has been established as a special revenue fund to account for federal/state highway projects. Federal revenues, bond proceeds for highway projects, and amounts collected from the state gasoline tax are recorded in the fund.

During fiscal 2003, controls over amounts due from the federal government continued to require improvement. Amounts due from the federal government for the Highway Planning and Construction Program represent the federal share of program expenditures incurred pending federal reimbursement. These amounts include not only current projects but also substantial amounts relating to prior projects. Amounts due for prior projects are principally categorized by RIDOT as “earned but unbilled”. This means that a valid receivable exists but funds have not been drawn either because project modifications are pending federal approval or because RIDOT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statement Findings

has chosen to use its allocation of federal funds for new projects instead. The balance of “earned but unbilled” that remains uncollected rolls forward from one fiscal year to another. Based on previous history, these amounts will not be collected in total within the next fiscal year. Therefore, an allowance must be established for financial reporting purposes to estimate the amount that is unavailable (the amount that will not be collected within one fiscal year after the balance sheet date.)

“Earned but unbilled” amounts (which totaled \$10 million at June 30, 2003) are not controlled within the state accounting system but instead are reported at fiscal year end by RIDOT to the Office of Accounts and Control. Of the \$10 million, \$4.5 million is estimated as likely to be collected within the next year, and \$5.5 million is considered unavailable.

The existence of substantial “earned but unbilled” amounts and the current process to account for these amounts weaken overall control over financial reporting for the ISTEA Fund. Federal funds should be drawn for all amounts due from the federal government as soon as all federal requirements have been met (e.g. federal project approval). Failure to collect these amounts due from the federal government for extended periods of time puts the State at a substantial disadvantage.

The ISTEA Fund also accounts for federal revenues and expenditures related to certain other federal programs. These programs include the Federal Transit Cluster, State and Community Highway Safety Cluster and other smaller programs. However, the amount of expenditures by federal funding source is incorrectly identified in the State accounting system (e.g., appropriation accounts are not linked to the correct Catalog of Federal Domestic Assistance (CFDA) number and clearing accounts are reflected entirely as Federal expenditures). As a result, amounts reported in the financial statements by federal program could be materially misstated.

Financial statements for the ISTEA Fund are prepared with information included within the State’s accounting system and information provided by the Department of Transportation’s internal records and systems. Neither sources of information are complete on their own and extensive work is required each year to assemble and reconcile the various pieces of information needed to prepare the financial statements. Controls over financial reporting need to be improved since most of the account balances included in the June 30, 2003 financial statements required significant audit adjustments. For example payables were overstated by \$15.3 million and amounts due from the federal government were overstated by \$14.3 million. Amounts due from the federal government are manually compiled from a variety of balances which require extensive analysis. Amounts due from the federal government are also impacted by the distribution of allocated costs to specific project accounts – allocation of certain components (payroll and vehicles) of these costs was not current at June 30, 2003. Allocated vehicle charges have not been billed to the Federal government for two years.

Our audit of the ISTEA Fund also disclosed the following:

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statement Findings

- ❑ Third party accounts receivable at June 30, 2003 totaled \$2.7 million. These accounts receivable arise from expenditures incurred by RIDOT on behalf of quasi-public agencies, municipalities and neighboring states. As of May 2004 RIDOT had not billed these responsible third parties for amounts owed.
- ❑ The preliminary ISTEА trial balance reflected a liability for unclaimed checks totaling \$1.6 million. This liability has continued to grow over the past several years, as checks are “written off” and charged to the liability rather than as an expenditure credit. At June 30, 2003 only \$490,000 appeared to be a valid ISTEА liability.
- ❑ ISTEА Fund encumbrances are not accurately reflected in the RISAIL accounting system. RIDOT personnel, as an alternative, utilized project records to generate two lists (construction and design) of contract balances as of June 30, 2003. We compared these balances to internally maintained project ledgers and noted various differences. Consequently, encumbrance balances were omitted from the financial statements.

ISTEА Fund expenditures are funded through three primary sources – federal funds, gas tax collections and bond proceeds. Federal revenue is recorded only to the extent valid federally reimbursable expenditures have been incurred. Gas tax revenues and amounts transferred from the Bond Capital fund are recorded independently of the incurrence of project expenditures funded by these sources. Consequently, any amounts received in excess of actual project expenditures are reflected as fund balance. Bond proceeds transferred from the Bond Capital fund have specific restrictions regarding their use and accordingly the unspent portion of bond proceeds held in the ISTEА fund should be readily identifiable.

Fund balance within the ISTEА Fund cannot be distinguished as to source of funds. Amounts transferred from the Bond Capital Fund are done in lump sum and are not made in amounts intended to represent the share of project expenditures attributable to that funding source. The share of project costs to be funded through bond funds should be tracked similar to the federal share of project costs and only that amount should be transferred to the ISTEА as valid project expenditures are incurred. If this change were implemented, any fund balance remaining in the ISTEА fund could be attributable to gas tax proceeds and plans for its use could be made in consideration of applicable restrictions.

RIDOT has a new financial reporting system that has been in development for over five years. RIDOT personnel have informed us that the system should be operational as of October 2004. The system is intended to manage the federal state highway program including providing essential information necessary for financial reporting.

The auditee disagrees, in part, with this finding and its views are outlined in the accompanying corrective action plan (Section E of this report – refer to corresponding finding number).

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section II – Financial Statement Findings

RECOMMENDATIONS

- 2003-17a Collect all amounts due from the federal government in reimbursement of highway project expenditures as soon as all federal requirements have been met.
- 2003-17b Request the State Controller modify appropriation accounts used for federal expenditures within the State accounting system, so that each account correctly identifies the federal funding source, i.e., CFDA number. Discontinue linking an appropriation account to more than one CFDA number.
- 2003-17c Transfer amounts from the Bond Capital Fund bond equal to the actual share of project costs to be funded from bond proceeds.
- 2003-17d Segregate fund balance within the ISTEPA fund based upon source of funds.
- 2003-17e Implement the new RIDOT financial reporting system to improve controls over financial reporting.

Finding 2003-18

FISCAL AGENT OVERSIGHT – MEDICAL ASSISTANCE PROGRAM

As described in Finding 2003-59 (Section III – Federal Award Findings and Questioned Costs), the Department of Human Services’ oversight of its fiscal agent designated to pay Medical Assistance program claims was not adequate to assure the reliability of data reported by the Medicaid Management Information System (MMIS). Financial monitoring is necessary to ensure that effective controls are in place over program disbursements, and that financial data is being accurately reported for presentation in the State’s financial statements and federal reports. Financial monitoring procedures have not been fully developed, and responsibility for financial monitoring has not been centralized or well coordinated.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

TABLE OF FINDINGS BY FEDERAL PROGRAM

| <u>Program Title</u> | <u>CFDA Number</u> | <u>Applicable Findings</u> |
|---|--------------------|----------------------------|
| Food Donation | 10.550 | 03-21 |
| Food Stamp Cluster: | | |
| Food Stamps | 10.551 | None Reported |
| State Administrative Matching Grants for Food Stamp Program | 10.561 | 03-19, 03-20 |
| Child Nutrition Cluster: | | |
| School Breakfast Program | 10.553 | 03-20, 03-21, 03-22 |
| National School Lunch Program | 10.555 | 03-20, 03-21, 03-22 |
| Special Milk Program for Children | 10.556 | 03-20, 03-22 |
| Summer Food Service Program for Children | 10.559 | 03-20, 03-21 |
| Special Supplemental Nutrition Program for Women, Infants and Children | 10.557 | 03-19, 03-20 |
| Public Works and Economic Development Cluster: | | |
| Economic Adjustment Assistance | 11.307 | 03-23 |
| Mortgage Insurance – Homes | 14.117 | None Reported |
| Section 8 Project Based Cluster: | | |
| Section 8 New Construction and Substantial Rehabilitation | 14.182 | None Reported |
| Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation | 14.856 | None Reported |
| Home Equity Conversion Mortgages | 14.183 | None Reported |
| Section 8 Housing Choice Vouchers | 14.871 | None Reported |
| Unemployment Insurance | 17.225 | 03-19, 03-20, 03-24 |
| WIA Cluster: | | |
| WIA Adult Program | 17.258 | 03-20, 03-25, 03-26 |
| WIA Youth Activities | 17.259 | 03-20, 03-25, 03-26 |
| WIA Dislocated Workers | 17.260 | 03-20, 03-25, 03-26 |
| Airport Improvement Program | 20.106 | 03-27 |
| Highway Planning and Construction Cluster: | | |
| Highway Planning and Construction | 20.205 | 03-20, 03-28, 03-29, 03-30 |
| Federal Transit Cluster: | | |
| Federal Transit – Capital Investment Grants | 20.500 | 03-20, 03-31 |
| Federal Transit – Formula Grants | 20.507 | 03-20, 03-31 |
| Freight Rail Improvement Project | None | 03-20, 03-32 |
| Capitalization Grants for Clean Water State Revolving Funds | 66.458 | None Reported |
| Student Financial Assistance Cluster: | | |
| Federal Supplemental Educational Opportunity Grants | 84.007 | None Reported |
| Federal Family Education Loans | 84.032 | 03-34, 03-35, 03-36, 03-37 |
| Federal Work-Study Program | 84.033 | None Reported |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

TABLE OF FINDINGS BY FEDERAL PROGRAM (continued)

| <u>Program Title</u> | <u>CFDA Number</u> | <u>Applicable Findings</u> |
|---|--------------------|---|
| Student Financial Assistance Cluster (continued): | | |
| Federal Perkins Loan Program – Federal Capital Contributions | 84.038 | 03-37 |
| Federal Pell Grant Program | 84.063 | 03-38 |
| Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students | 93.342 | None Reported |
| Nursing Student Loans | 93.364 | None Reported |
| Title I Grants to Local Educational Agencies | 84.010 | 03-20, 03-33 |
| Special Education Cluster: | | |
| Special Education – Grants to States | 84.027 | 03-20, 03-33 |
| Special Education – Preschool Grants | 84.173 | 03-20, 03-33 |
| Federal Family Education Loans (Guaranty Agency) | 84.032 | None Reported |
| Rehabilitation Services – Vocational Rehabilitation Grants to States | 84.126 | 03-19, 03-20 |
| Improving Teacher Quality State Grants | 84.367 | 03-20, 03-33 |
| Centers for Disease Control and Prevention – Investigations and Technical Assistance | 93.283 | 03-20, 03-39, 03-40 |
| Temporary Assistance for Needy Families | 93.558 | 03-20, 03-41, 03-42, 03-43 |
| Child Support Enforcement | 93.563 | 03-19, 03-20, 03-43, 03-44, 03-45, 03-46 |
| Low-Income Home Energy Assistance | 93.568 | 03-20, 03-47, 03-48, 03-49 |
| Child Care Cluster: | | |
| Child Care and Development Block Grant | 93.575 | 03-20, 03-43, 03-50 |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund | 93.596 | 03-20, 03-43, 03-50 |
| Foster Care – Title IV-E | 93.658 | 03-19, 03-20, 03-51, 03-52 |
| State Children’s Insurance Program | 93.767 | 03-20, 03-43, 03-53, 03-54, 03-55, 03-56 |
| Medicaid Cluster: | | |
| State Medicaid Fraud Control Units | 93.775 | 03-20 |
| State Survey and Certification of Health Care Providers and Suppliers | 93.777 | 03-20 |
| Medical Assistance Program | 93.778 | 03-20, 03-41, 03-43, 03-55, 03-56, 03-57, 03-58, 03-59, 03-60, 03-61, 03-62, 03-63, 03-64, 03-65, 03-66, 03-67, 03-68, 03-69, 03-70 |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | 03-20, 03-71, 03-72, 03-73, 03-74 |
| Research and Development Cluster | Various | None Reported |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2003-19

VARIOUS PROGRAMS – refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

MANAGEMENT OF EQUIPMENT ACQUIRED WITH FEDERAL FUNDS

As described in Finding 2003-5 (Section II – Financial Statement Findings), accounting controls were not adequate during fiscal 2003 to ensure that the acquisition and disposal of capital assets was accurately recorded within the accounting system. Additionally, insufficient inventories were performed to ensure the completeness of furniture and equipment, computer systems and building improvements in the initial recording of capital assets acquired in previous fiscal years.

Because of the weaknesses in controls over capital assets, we were unable to test the State's compliance with the equipment management requirement. In most instances, individual departments or agencies vested with responsibility for administering federal programs also lacked controls to ensure compliance with these requirements.

Finding 2003-20

VARIOUS PROGRAMS – refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

CASH MANAGEMENT

The State did not have adequate controls to ensure compliance with federal cash management requirements in drawing cash for federal programs.

The State is required to draw cash for federal programs in accordance with the federal Cash Management Improvement Act (Act) and related regulations at 31 CFR Part 205. For most large federal programs, the State is required to follow the specific provisions of an agreement entered into by the State and the US Treasury pursuant to the Act and related regulations. In the event the State does not comply with the provisions of the Treasury/State agreement in drawing cash for federal programs, it must pay interest for the period the funds were on hand prior to disbursement. For federal programs not included in the agreement, the State is required to minimize the time elapsing between the transfer of funds from the US Treasury and their disbursement, generally considered to be no more than a three-day supply of cash on hand.

The State has developed web-based cash management screens as part of its accounting system to provide information enabling departments and agencies to draw federal funds in compliance with the Treasury/State agreement. Cash management screens are designed to calculate daily Federal drawdown amounts based on clearance patterns specified in the

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

agreement, and expenditures processed through the State accounting system. We noted the following internal control weaknesses relating to the operation of the web-based cash management system:

- ❑ Web-based cash management screens were incomplete or included incorrect drawdown percentages for some federal programs.
- ❑ Not all expenditure transactions, including adjustments, were posted in a timely manner which impacts the timing and amount of federal drawdowns.
- ❑ Various federal accounts were linked to incorrect or invalid Catalog of Federal Domestic Assistance numbers, thus affecting the accuracy of cash drawdown screens.
- ❑ Cumulative federal expenditure and receipt balances were not available to department personnel for the entire fiscal year.

Each department is responsible for drawing federal funds for the programs it manages. Of the 21 programs we tested as major programs that are subject to the Treasury/State agreement, nine programs did not consistently adhere to the techniques specified in the agreement to draw federal cash. In most instances where the techniques specified in the agreement were not consistently followed, funds were generally drawn later than permitted.

Since the State does not have procedures to centrally administer or monitor compliance with federal cash management requirements, various internal control deficiencies relating to cash management were also noted at the department level.

We believe the function of drawing federal funds should be centralized where compliance with cash management for federal programs could be integrated with other cash management objectives. In instances where funds are now drawn less frequently than permitted, compliance with the agreement will enhance the State's cash management. Further, overall compliance with the agreement will minimize or eliminate any State interest liability payable to the federal government. Centralizing this function should be considered as part of the overall enhancements planned for the State's centralized accounting system.

RECOMMENDATION

2003-20a Implement a centralized monitoring system to ensure compliance with cash management requirements.

The State did not adequately document its calculation of Federal and State interest liabilities during fiscal year 2003. An interest liability exists when either the State utilizes its own funds for federal program purposes prior to Federal funds being transferred to a State account, or when Federal funds reside in a State account prior to being spent for Federal program purposes.

Federal regulations require that the State calculate the Federal and State interest liabilities for each Federal assistance program included in the Treasury/State agreement, and maintain

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

records supporting these interest calculations for audit purposes. Our review disclosed that, with the exception of the Unemployment Trust Fund and the Special Supplemental Nutrition Program for Women, Infants and Children program, no documentation supporting the interest calculations for the State's other Federal assistance programs was available. The State reported that neither a Federal nor State interest liability existed for any other Federal assistance program; no additional documentation was retained supporting this conclusion. The State also did not calculate an interest liability on refunds exceeding \$50,000 as required by the Treasury/State agreement.

We also noted that for several major programs the fiscal year 2003 Treasury/State agreement reflected inappropriate funding techniques. For example the estimated check clearance technique is listed as the basis for drawing federal funds for payments to local education agencies under the Title I and Special Education programs while the payments are actually made via wire transfer or ACH. These payments would qualify for actual clearance thereby allowing simultaneous draws of cash to coincide with the payment. Federal regulations require that the State notify the Federal Department of the Treasury if a Federal assistance program undergoes operational changes that may affect clearance activity. We note that these techniques have been updated in the State fiscal 2005 Treasury/State agreement.

Questioned Costs: None

RECOMMENDATIONS

- | | |
|----------|--|
| 2003-20b | Strengthen procedures to ensure that all interest liability calculations are performed and documented as required by Federal regulations. |
| 2003-20c | Continue to review the basis for requesting Federal funds (i.e., funding techniques) for applicable Federal assistance programs, and modify the Treasury/State agreement to more accurately match funding techniques to current practices. |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2003-21

FOOD DONATION – CFDA 10.550

Administered by: Department of Corrections – State Warehouse

CHILD NUTRITION CLUSTER:

School Breakfast Program – CFDA 10.553

National School Lunch Program – CFDA 10.555

Summer Food Service Program – CFDA 10.559

Administered by: Rhode Island Department of Elementary and Secondary Education (RIDE)

INVENTORY OF DONATED FOOD COMMODITIES

Under the Food Distribution Grant (CFDA # 10.550), the USDA makes agricultural commodities available for use in the operation of all Child Nutrition Programs except the Special Milk Program for Children. The State's Warehouse, operated by the Department of Corrections, is responsible for receiving, storing, and distributing these commodities. We found that inventory record keeping and controls over the receipt and distribution of food commodities should be improved.

Warehouse personnel maintain perpetual inventory records based upon goods received, shipped, or damaged. The inventory records listed 81 items that were eligible for use by the Child Nutrition Cluster of federal programs. At June 30, 2003, the inventory balances of 5 items were adjusted to agree with the physical inventory counts. The adjustments ranged from 1 to 32 cases and included both increases and decreases to the recorded balances.

On May 20, 2004, we counted the quantity on hand for nine of the items. In six instances, our counts did not agree with the Department's inventory records. Our variances ranged from an overstatement of 159 cases and an understatement of 60 cases.

Using the Department's reports on commodities shipped out and orders received, we also "rolled forward" the June 30, 2003 balances to May 20, 2004. Beginning in September 2003, we noted significant variances in all nine commodities between the inventory balances reported in the system versus our "rolled forward" balances. As of May 20, 2004, we noted variances ranging from 6 to 614 cases.

Questioned Costs: None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

RECOMMENDATION

2003-21 Improve controls over the receipt and distribution of donated food commodities by ensuring that all required forms are completed and recorded in the inventory records when goods are received, shipped, or damaged.

Finding 2003-22

CHILD NUTRITION CLUSTER:

School Breakfast Program – CFDA 10.553

National School Lunch Program – CFDA 10.555

Special Milk Program for Children – CFDA 10.556

Administered by: Rhode Island Department of Elementary and Secondary Education (RIDE)

REPORTING

RIDE implemented a new computer system during fiscal 2001 to administer the child nutrition programs. One intended function of the system is to meet the federal reporting requirements of the programs. During fiscal 2001 and fiscal 2002, RIDE had experienced various issues associated with either the design or implementation of the new system which resulted in weaknesses in the control procedures over federal reporting. Although we have seen significant system enhancements in fiscal 2003, some of the same weaknesses continued to exist.

The system was intended to provide data necessary to complete federal reports for the child nutrition programs, but the system lacked the capability to fully meet this function. We noted that totaling features were added to certain system reports; however, for federal reporting purposes, cumulative data was not reported by the system and totals for the program as a whole, all sponsors and sites, was not provided. Because of the system limitations, alternate procedures, including manually summing the data, were employed. These manual procedures resulted in errors being made in some of the reported data on the federal reports. For example, total unliquidated obligations reported on the SF-269 report, as of the quarter ending June 30, 2003, for the School Lunch, School Breakfast, and School Milk programs were overstated by a total \$2,350,934.

RIDE is aware of the system design and implementation problems that are affecting data reported by the new accounting system and have retained a consultant to assist in resolving the systems related issues.

Questioned Costs: None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

RECOMMENDATION

2003-22 Improve controls over federal reporting by resolving the computer system design and implementation deficiencies.

| |
|------------------------|
| Finding 2003-23 |
|------------------------|

ECONOMIC ADJUSTMENT ASSISTANCE - CFDA 11.307
Administered by: Rhode Island Economic Development Corporation

REPORTING REQUIREMENT

The U.S. Department of Commerce, in accordance with OMB Circular A-133, requires the Corporation to report financial and other information using specified financial reports.

During our audit of compliance, we noted that the Corporation did not attach the *Annual RLF Plan Certification*, required under the *Semi-Annual Report for EDA-Funded RLF Grants* (the Semi-Annual RLF Report), Part V, Section E, for the period ended March 30, 2003 even though the Corporation indicated within the Semi-Annual RLF Report that such certification was attached thereto.

Also during our audit of compliance, we noted several instances in which the data included in the Semi-Annual RLF Report did not agree to underlying supporting documentation.

Although a person independent of the person preparing the reports reviewed each report, the errors were not detected.

The U.S. Department of Commerce, in accordance with OMB Circular A-133, requires the Corporation to report financial and other information using specified financial reports. Also, other forms (for example, financial, performance, and special reports) might be prescribed by federal awarding agencies.

During our audit of compliance, we noted that the Corporation does not:

- Complete Form SF-269A, *Financial Status Report*, as required by the special award conditions contained within the *Financial Assistance Award*, Award No. 01-49-03933, signed and dated September 1999,
- Complete project performance reports required by the *U.S. Department of Commerce Economic Development Administration Standard Terms and Conditions* (Standard Terms and Conditions), Section C(1)(b), dated March 1999, and

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

- Complete Form SF-334, *Minority Business Enterprise/Women Business Enterprise Utilization Under Federal Grants, Cooperative Agreements, and Other Federal Financial Assistance*, as required by the Standard Terms and Conditions, Section C (1)©.

A person independent of the person preparing the reports does not review compliance requirements to determine whether all required reports have been prepared in accordance with such requirements.

Questioned Costs: None

RECOMMENDATION

2003-23 We recommend that a person independent of the person preparing the reports detail review each report, and compare the requirements of the U.S. Department of Commerce and OMB Circular A-133 to the reports prepared to determine whether all required reports have been prepared and reports prepared are completed in accordance with such requirements prior to being overviewed by the Corporation's Director of Finance and Administration.

Finding 2003-24

UNEMPLOYMENT INSURANCE – CFDA 17.225

Administered by: Rhode Island Department of Labor and Training (DLT)

PROCUREMENT

Both State law governing purchasing (Chapter 37-2 of the Rhode Island General Laws) and state procurement regulations require state agencies such as DLT to obtain a change order from the Division of Purchases in order to authorize modifications to purchase orders. Federal regulations (OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*) require state agencies making procurements with federal funds to follow applicable state requirements.

We found one instance in which DLT did not obtain a change order for an expenditure of \$110,070 that exceeded an authorized purchase order. The Unemployment Insurance program was charged \$65,720 as its share of this expenditure.

Questioned Costs: None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

RECOMMENDATION

2003-24 Improve control procedures to ensure compliance with state procurement requirements.

Finding 2003-25

WIA CLUSTER:

 WIA Adult Program – CFDA 17.258

 WIA Youth Activities – CFDA 17.259

 WIA Dislocated Workers – CFDA 17.260

Administered by: Rhode Island Department of Labor and Training (DLT)

ERRONEOUS RECORDING OF EXPENDITURES

The statewide accounting system (RISAIL) erroneously recorded encumbrance balances as expenditures on several instances during fiscal 2003 (see related financial statement finding 2003-1). As a result, federal expenditures for the WIA cluster were overstated by \$330,000 in fiscal 2003. The DLT business office discovered these erroneous expenditures when reconciling RISAIL to their internal Financial Accounting and Reporting System (FARS), and reported this condition to the Office of Accounts and Control. Subsequent to June 30, 2003 adjustments were posted to RISAIL to correct the overstatement of WIA cluster expenditures, however, during fiscal 2003 DLT drew excess federal funds to cover these erroneous disbursements

Questioned Costs: none

RECOMMENDATION

2003-25 Ensure excess federal funds drawn for erroneous expenditures have been returned or credited to the federal government.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2003-26

WIA CLUSTER:

WIA Adult Program – CFDA 17.258

WIA Youth Activities – CFDA 17.259

WIA Dislocated Workers – CFDA 17.260

Administered by: Rhode Island Department of Labor and Training (DLT)

PERFORMANCE REPORTING

DLT lacks sufficient internal controls to ensure the accuracy of the annual performance report (ETA-9071). The department is required to submit such reports by December 1 of each year for the preceding federal fiscal year. Sanctions related to a state's failure to submit these reports in a timely manner could result in a grant reduction of not more than 5%.

In order to prepare the report, DLT obtains relevant data from three separate providers and combines the results with data from a fourth provider which it administers directly. Each provider agrees to certain outcome rates for performance categories involving adult workers, dislocated workers, older youth and younger youth. We were unable to verify the data submitted by the department because it only requests supporting documentation from providers when an outcome rate is not met, and does not retain the supporting documentation after completing its review.

Questioned costs: None

RECOMMENDATION

2003-26 Strengthen controls to ensure documentation supporting federal performance reports is requested from providers and retained for verification purposes.

Finding 2003-27

AIRPORT IMPROVEMENT PROGRAM - CFDA 20.106

Administered by: Rhode Island Airport Corporation

SUSPENSION AND DEBARMENT

The federal compliance requirement for suspension and debarment states that contractors receiving individual awards in excess of \$100,000 or more and all subrecipients must certify that

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

the organization and its principals are not suspended or debarred. The non-Federal entities may rely upon the certification unless it knows the certification is erroneous.

During our testing of the Warwick Schools – Sound Installation project, we noted that the “Certificate Regarding Debarment, Suspension and Other Responsibility Matters” was included in the bid documents, however, was not listed as a “required signature” (bid documents that require a signature and submittal) per the Certification of Bidding Requirements. As a result, the certificate was not signed or submitted by contractors as part of their bid package.

Questioned Costs: None

RECOMMENDATION

2003-27 We recommend that the management insure all consultant firms hired to prepare bid documents for construction projects on behalf of the Corporation are familiar with and comply with 49 CFR Part 29, which states that bid documents must require the “Certificate Regarding Debarment, Suspension and Other Responsibility Matters” be signed and submitted as part of the bid package.

Finding 2003-28

HIGHWAY PLANNING AND CONSTRUCTION – CFDA 20.205
Administered by: Rhode Island Department of Transportation (RIDOT)

REQUIRED FEDERAL APPROVALS

Projects financed with Federal Highway Administration (FHWA) funds require Federal approvals at specific times during the planning and construction processes. RIDOT is required to obtain FHWA approval of plans, specifications, and estimates, and cannot advertise for bids until receiving FHWA authorization (23 CFR sections 630.205(c), 635.112(a), 635.204, and 635.309). Also, construction may not begin until after FHWA concurs in the contract award (23 CFR section 635.114).

We tested 15 contracts to determine whether the required approvals had been obtained. We found two projects where the contract was advertised for bid before approval was granted, and another contract was awarded without the required concurrence. This is due partly to the fact that approvals and concurrences are obtained by RIDOT’s Federal Programs Office, but contracts are advertised and awarded by the Contracts Office. Communication within the Department must improve to ensure that projects proceed in accordance with federal regulations.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Questioned Costs: None

RECOMMENDATION

2003–28 Develop procedures to ensure that required approvals and/or concurrences are obtained when required.

Finding 2003-29

HIGHWAY PLANNING AND CONSTRUCTION – CFDA 20.205
Administered by: Rhode Island Department of Transportation (RIDOT)

DAVIS-BACON ACT REQUIREMENTS

RIDOT should adhere to its internal procedures that two department representatives perform a labor compliance check at least once a month. The procedures were designed to assist in ensuring compliance with Davis-Bacon Act requirements.

Federal regulations (29 CFR 3 and 5) require that construction contracts subject to the Davis-Bacon Act contain certain contract provisions binding the contractor to applicable labor standards. These labor standard provisions include requiring contractors pay laborers and mechanics general prevailing wages and submit copies of payrolls and signed statements of compliance.

RIDOT has established various internal controls to monitor contractor compliance with Davis-Bacon requirement. These monitoring procedures, as documented in the Department’s “*Procedures For Uniform Record Keeping*” (PURK) manual, require that each project’s resident engineer ensure that a labor compliance check is performed at least once a month. Labor compliance checks should be prepared by two department representatives and include comparing and verifying the employee’s classification hourly rate as reported with the hourly rate prescribed and the contractor’s or subcontractor’s payrolls for that period.

We tested 23 construction contracts active during fiscal year 2003 to determine whether the department’s Davis-Bacon Act monitoring procedures were in place and operating effectively. We reviewed project files for evidence that the required labor compliance check had been performed for all months with contractor payroll activity. Our audit disclosed the following:

- ❑ 10 of the 23 projects tested had at least one labor compliance checklist missing,
- ❑ overall 33 of 152 total checklists were missing (22%), and

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

- 28 checklists were not signed by two representatives of the State and 17 checklists were not signed at all.

Questioned Costs: None

RECOMMENDATION

2003-29 Strengthen oversight of the labor compliance monitoring procedures to ensure contractor compliance with Davis Bacon Act requirements.

Finding 2003-30

HIGHWAY PLANNING AND CONSTRUCTION – CFDA 20.205
Administered by: Rhode Island Department of Transportation (RIDOT)

APPROVAL OF LABOR ADDITIVE CHARGES

RIDOT should request a formal interpretation from the Federal Highway Administration as to whether their distribution of leave and fringe benefit costs to Federal construction projects requires Federal review and approval.

Employees assigned to RIDOT’s payroll clearing account charge their hours to state and Federal projects based on timesheets supporting actual hours worked. RIDOT captures the costs of medical benefits, Social Security, retirement contributions, as well as the costs for vacation time, sick time and other personnel related costs that cannot be assigned to any project (i.e., indirect costs). RIDOT refers to this pool of costs, which are not reimbursed by billing an employee’s hourly rate, as a “labor additive”. The labor additive rate is the incremental percentage added to each dollar of direct employee wages charged to a project to recapture the costs for benefit and leave time.

The labor additive rate is calculated by dividing the total cost of leave and benefits by the total of direct salaries paid. A provisional labor additive rate is calculated annually based on actual prior year expenditure and leave data. The provisional labor additive rate for fiscal year 2003 was .5648, therefore, for every dollar charged to a project, approximately 56 cents would be added to cover the cost of benefits and leave time.

Office of Management and Budget Circular A-87 Attachment E, *State and Local Indirect Cost Rate Proposals*, requires that all departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation supporting those costs. A governmental unit for which a cognizant agency has been designated must submit its indirect cost rate proposal to its cognizant agency.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

This requirement is also described in a Federal Highway Administration (FHWA) memorandum dated September 24, 1998, which additionally stipulates that states may include costs on Federal-aid billings after the indirect cost rate has been approved by FHWA. Circular A-87 Attachment E also requires that if overall fringe benefit rates are not approved for the governmental unit as part of the central service cost allocation plan, these rates will be reviewed, negotiated and approved for individual grantee agencies during the indirect cost negotiation process.

Our audit determined that RIDOT's methodology for calculating and documentation supporting its labor additive rate has not been submitted to either the cognizant agency (Department of Health and Human Services) or the FHWA for approval. RIDOT personnel have informed us that they do not consider their charging of the labor additive rate as either a cost allocation plan or an indirect cost rate requiring Federal approval.

We reviewed the calculation of the fiscal year 2003 provisional rate and the related supporting documentation. Our review disclosed the following:

- RIDOT's leave file extracted from the State payroll system included 12,315 leave without pay hours in its allocable benefit costs calculation. Since RIDOT incurred no cost for these hours, the allocable benefit costs component of the provisional rate was overstated. Using an average hourly rate of \$23.34 approximately \$287,000 was inappropriately included in benefit costs. The labor additive rate adjusted for these costs would be .5430.
- RIDOT also included 1,326 hours classified as union business in the allocable benefit costs calculation. While these hours represent valid costs to RIDOT, we question whether these costs should be included in benefit costs charged to Federal projects.
- RIDOT's fiscal year 2002 provisional rate based on prior year expenditure and leave data was .5740. The actual rate for fiscal year 2002 (the 2003 provisional rate) was .5648. RIDOT personnel informed us that no adjustment between the estimated and actual rate was initiated due to the minor change between the two rates.

The calculation of allocable benefit costs should include only allowable charges to Federal projects and provisional rates should be adjusted annually to reflect actual costs.

Questioned Costs: Unknown

RECOMMENDATIONS

- 2003–30a Request a formal interpretation from the Federal Highway Administration as to whether their distribution of leave and fringe benefit costs to Federal construction projects requires Federal review and approval.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

- 2003–30b Revise the methodology for computing the labor additive rate to include only allowable costs to Federal projects.
- 2003–30c Adjust charges to Federal projects based on a provisional labor additive rate to actual on an annual basis.

Finding 2003-31

FEDERAL TRANSIT CLUSTER –

 Federal Transit – Capital Investment Grants - CFDA 20.500

 Federal Transit – Formula Grants - CFDA 20.507

Administered by: Rhode Island Department of Transportation

REPORTING REQUIREMENTS

Each year, RIDOT must establish a goal that reflects the dollar value of work to be awarded to disadvantaged businesses. RIDOT’s Office of Business and Community Resources formulates this goal and must report its progress through the submission of semi-annual reports based upon a recordkeeping system (49 CFR section 26.11). RIDOT requires contractors to use the Computerized Highway Affirmative Action Management Program (CHAMP) to report the required payroll information.

RIDOT did not submit its Disadvantaged Business Enterprise (DBE) Program report for the period April 1, 2002 to September 30, 2002. The report was due December 1, 2002. A report for the period October 1, 2002 to March 31, 2003 was submitted indicating that no FTA contracts were awarded during the reporting period. The September 30, 2002 report, if submitted, would also have indicated that no contracts were awarded.

Questioned Costs: None

RECOMMENDATION

- 2003–31 Prepare and submit DBE reports as required by program regulations.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2003-32

FREIGHT RAIL IMPROVEMENT PROJECT – CFDA – NONE
Administered by: Rhode Island Department of Transportation (RIDOT)

REPORTING REQUIREMENTS

The Freight Rail Improvement Project is administered in accordance with a grant agreement between the Rhode Island Department of Transportation (RIDOT) and the Federal Railroad Administration (FRA). This agreement requires submission of the following: Quarterly Progress Reports, Quarterly Financial Status Reports, and Quarterly Federal Cash Transactions Reports.

Upon inquiry regarding applicable financial and progress reports for the period ended June 30, 2003, we found that none had been prepared since the quarter ended June 30, 2000. We were informed that the Supervising Accountant would complete one financial status report and one cash transactions report covering the period July 1, 2000 to June 30, 2003. We determined that the expenditures reported on the financial status report materially agreed to the State's accounting records. RIDOT submitted the minutes of the monthly meetings of the Project's Design and Construction Group rather than the required progress reports.

RIDOT's current procedures do not provide for a supervisory review of the required reports. The individual responsible for preparing the reports submits them directly to FRA, without review. RIDOT should require a supervisory review of financial and progress reports to ensure these reports are accurate and submitted timely.

Questioned Costs: None

RECOMMENDATIONS

- | | |
|----------|---|
| 2003-32a | Prepare and submit quarterly reports as required by the Grant Agreement. Reconcile amounts reported to the State's accounting system. |
| 2003-32b | Require reports to be reviewed by supervisory personnel prior to submission. |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2003-33

TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES – CFDA 84.010

SPECIAL EDUCATION CLUSTER:

 Special Education – Grants to States – CFDA 84.027

 Special Education – Preschool Grants – CFDA 84.173

IMPROVING TEACHER QUALITY – CFDA 84.367

Administered by: Rhode Island Department of Elementary and Secondary Education (RIDE)

SUBRECIPIENT CASH MANAGEMENT

RIDE does not have adequate procedures in place to ensure subrecipients do not have federal cash on hand in excess of their immediate needs. Cash requests by subrecipients are generally processed once a month and funds are generally advanced based on forecasts prepared by the subrecipient for the month. We found that this policy results in RIDE advancing funds to local education agencies beyond their immediate needs.

The *Common Rule* {34 CFR 80.21(c) and 80.37(a)(4)} requires grantees (RIDE) to monitor drawdowns by their subrecipients to ensure that they conform substantially to the same standards of timing and amount as apply to the grantee. Those standards require minimizing the time elapsing between the transfer of funds from the U.S. Treasury and the disbursement by grantees and subrecipients.

We believe that RIDE can best ensure compliance with federal requirements regarding cash management by requiring all subrecipients to request federal funds on a reimbursement basis.

Questioned Costs: None

RECOMMENDATION

2003-33 Require all subrecipients to request federal money on a reimbursement basis.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2003-34

FEDERAL FAMILY EDUCATION LOAN PROGRAM - CFDA 84.032

Administered by: University of Rhode Island

EXIT INTERVIEWS

If a student ceases enrollment without performing an exit interview and has received a Federal Family Education (FFELP) loan, the financial aid administrator must confirm that the student has completed on-line counseling, or mail exit counseling materials to the borrower at his or her last known address. The materials must be mailed within 30 days after learning that the borrower has left school or failed to participate in an exit counseling session.

We noted five out of 30 students that received Federal Family Education Loan and ceased enrollment did not have an exit interview performed or mailed within the required 30 days.

Questioned Costs: None

RECOMMENDATION

2003-34 We recommend that the University strengthen its procedures to ensure that a signed exit interview form or confirmation of on-line counseling was performed be received from all borrowers to be in compliance with federal requirements regarding exit interviews.

Finding 2003-35

FEDERAL FAMILY EDUCATION LOAN PROGRAM - CFDA 84.032

Administered by: Rhode Island College

EXIT INTERVIEWS

If a student ceases enrollment without performing an exit interview and has received a Federal Family Education (FFELP) loan, the financial aid administrator must confirm that the student has completed on-line counseling, or mail exit counseling materials to the borrower at his or her last known address. The materials must be mailed within 30 days after learning that the borrower has left school or failed to participate in an exit counseling session.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

We noted that exit interviews were not conducted within the required 30 days for 13 out of 30 students in our sample that received Federal Family Education Loan and ceased enrollment.

Questioned Costs: None

RECOMMENDATION

2003-35 We recommend that the College strengthen its procedures to ensure that a signed exit interview form or confirmation of on-line counseling was performed be received from all borrowers to be in compliance with federal requirements regarding exit interviews.

Finding 2003-36

FEDERAL FAMILY EDUCATION LOAN PROGRAM - CFDA 84.032
Administered by: Rhode Island College

NOTIFICATION REQUIREMENT

If an institution credits a student's account with Federal Family Education Loan (FFELP) funds, the institution must notify the student of the date and amount of the disbursement and the student's right to cancel all or a portion of that loan. The institution must send the notice to the student, either in writing or electronically, no earlier than 30 days before and no later than 30 days after the date the institution credits the student's account. If a school notifies a borrower electronically, it must request that the borrower confirm the receipt of the notice. If a student or parent wishes to cancel all or a portion of the loan, the school must honor the request if the request is received no later than:

- 14 days after the date the school sends the notice, or
- the first day of the payment period, if the school sends the notice more than 14 days before the first day of the payment period.

The college currently does not have a procedure in place to notify students of the date and amount of the disbursement of their loan and their right to cancel loan proceeds upon receipt of FFELP.

Questioned Costs: None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

RECOMMENDATION

2003-36 We suggest that the College implement procedures to notify the student of their FFELP funds and their right to cancel, whether written or electronically.

Finding 2003-37

FEDERAL FAMILY EDUCATION LOAN PROGRAM - CFDA 84.032
FEDERAL PERKINS LOAN PROGRAM – CFDA 84.038
Administered by: Rhode Island College

INTERVIEW REQUIREMENT

The Institution must conduct entrance interviews with first-time borrowers who obtain Federal Family Education Loans or Federal Perkins Loans prior to initial disbursements of loans.

Out of 30 students selected for disbursement testwork, we noted three students that had received FFELP disbursement whose files did not contain the appropriate evidence that entrance interviews had been conducted. In addition, an entrance interview had not been conducted for one student who received a Perkins loan.

Questioned Costs: Amount of total loans for the students that did not have entrance interviews performed.

FFELP - \$22,204

Perkins - \$ 3,000

RECOMMENDATION

2003-37 Policies should be enforced to ensure all documentation is completed for the required entrance reviews.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2003-38

FEDERAL PELL GRANT PROGRAM AND FEDERAL DIRECT LOAN PROGRAM –
CFDA 84.063
Administered by: University of Rhode Island

REPORTING REQUIREMENT

A school must submit an origination record for every Pell and Direct Loan recipient. The origination record establishes the student's eligibility and the amount of Pell and Direct Loan the student can receive for the award year. A disbursement record should be submitted no later than 30 days after the disbursement is made. A school is required to report disbursements within 30 days of making payment.

Out of the 30 students selected for both Pell and Direct Loan disbursement reporting, we noted seven students receiving Pell and 16 students receiving Direct Loan whose disbursements were not transmitted to the Department of Education within the required 30 days.

We also noted one student receiving a Direct Loan whose disbursement was not transmitted for acceptance after receiving the spring disbursement.

Questioned Costs: \$1,750 – Spring disbursement of Direct Loan not transmitted.

RECOMMENDATION

2003-38 The University should review its procedures to ensure disbursement records are transmitted to the Department of Education within the required 30 days.

Finding 2003-39

CENTERS FOR DISEASE CONTROL AND PREVENTION INVESTIGATIONS AND
TECHNICAL ASSISTANCE – CFDA 93.283
Administered by: Department of Health (DOH)

SUSPENSION AND DEBARMENT

The Department of Health utilizes various service providers and contractors for the operation of Centers for Disease Control grant programs. Federal regulations prohibit States from contracting with or making subawards under covered transactions to suspended or debarred

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

parties. Covered transactions include procurement contracts for goods or services equal to or exceeding \$100,000 and all non-procurement transactions (e.g., subawards to subrecipients). Contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred.

The Department of Health contracted for goods and services under various Centers for Disease Control (CDC) grant programs. We found that five contracts with service providers did not contain certifications that the providers were not suspended or debarred from participating in the CDC grant programs. Program expenditures under these contracts totaled approximately \$1.1 million during fiscal 2003.

The Department of Health should ensure that all contracts for goods and services under Centers for Disease Control grant programs contain required certifications concerning suspension and debarment.

Questioned Costs: None

RECOMMENDATION

2003-39 Review and strengthen procedures to ensure current agreements containing the required suspension and debarment certifications are in place for all vendors.

Finding 2003-40

CENTERS FOR DISEASE CONTROL AND PREVENTION INVESTIGATIONS AND
TECHNICAL ASSISTANCE – CFDA 93.283
Administered by: Department of Health (DOH)

PAYROLL CERTIFICATION

Federal regulations require that charges for salaries and wages for employees who are expected to work solely on a single Federal award or cost objective will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications are to be prepared at least semi-annually and should be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

The Department of Health does not require employees who work solely on a single Federal award or cost objective, or their supervisors, to sign certifications that they worked solely on that program for the period covered by the certification.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Questioned Costs: None

RECOMMENDATION

2003-40 Implement procedures to ensure that employees who work solely on a single Federal award or cost objective, or their supervisors, sign the required certifications on at least a semi-annual basis.

Finding 2003-41

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558
MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

INCOME ELIGIBILITY AND VERIFICATION SYSTEM

The Department of Human Services participates in the Income Eligibility and Verification System (IEVS) as required by Section 1137 of the Social Security Act as amended. Through this system, DHS coordinates data exchanges with other Federally assisted benefit programs and utilizes the income and benefit information to determine individuals' eligibility for assistance and the amount of assistance.

The Department of Human Services conducts data interfaces with the Internal Revenue Service, the Social Security Administration and the Department of Labor and Training (the State Wage Information Collection Agency {SWICA}) to verify information about recipients of Federally assisted programs, including the Temporary Assistance for Needy Families (TANF) program. Federal regulation (45 CFR 205.56) requires that the State agency review and compare the information obtained from data exchanges against information contained in recipients' case records to determine whether it affects the recipients' eligibility or the amount of assistance. The Department's INRHODES computer system receives the information from the data exchanges and automatically includes the data in the applicable case record. Caseworkers are then electronically prompted about the receipt of new data and are required to investigate and resolve any discrepancies.

The objective of our testing approach was to assess whether the Department was considering the information resulting from the required IEVS data matches in determining eligibility for TANF and the amounts of benefits. Specifically, we understand that case workers are prompted electronically through the Department's INRHODES computer system when new information resulting from the IEVS data matches is posted in the case record. Our testing involved randomly selecting 60 TANF cases from the four quarters of state fiscal year 2003

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

where IEVS data had been electronically posted to a case record and then assessing whether that data had been considered in the eligibility and benefit determination process.

The methodology for IEVS case selection for the sample of 60 TANF cases involved randomly generating 250 data matches from a file, provided by the Department's eligibility system contractor, of all interface matches during the state fiscal year. Beginning with the first random SWICA match, we utilized the Department's INRHODES eligibility system to research each SWICA match to determine whether the household was TANF eligible for the month of the interface discrepancy. We selected for testing the first 60 cases that were TANF eligible during the month of the interface discrepancy.

We noted the following for the sample of sixty cases from the four quarters of the state fiscal year:

- ❑ Fifteen instances of discrepancies resulting from data matches were not investigated or resolved. Based on our evaluation of electronic case file data, six discrepancies could have been easily resolved by the caseworker and would not appear to have impacted eligibility or the household's benefit level. Nine of the discrepancies appear to impact eligibility or the household's benefit level.
- ❑ Eleven instances where discrepancies were "cleared" by the caseworker by electronically entering an action code (e.g. no discrepancy exists), however, no documentation or comments to the electronic case file were present supporting this determination. Based on our evaluation these discrepancies appeared to impact the household's eligibility or benefit level. Since the data match was "cleared", no modifications to the household's case record were initiated.

Failure to promptly investigate and resolve IEVS interface data weakens the Department's controls over the determination of eligibility and benefit levels for the TANF program. Management acknowledged that, due to various factors, IEVS interface discrepancies are not always resolved promptly.

Questioned Costs: None

RECOMMENDATIONS

- | | |
|----------|--|
| 2003-41a | Strengthen control procedures to ensure that discrepancies resulting from data matches are promptly resolved and utilized to determine recipient eligibility and the amount of assistance. |
| 2003-41b | Maintain documentation supporting the resolution of data match discrepancies. Initiate modifications when discrepancies impact eligibility and/or amount of benefit levels. |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2003-42

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558
Administered by: Department of Human Services (DHS)

SPECIAL REPORTING

The Department lacks adequate internal control procedures to ensure the reliability of data reported on federal report form ACF-204 (*Annual Report including the Annual Report on State Maintenance-of-Effort (MOE) Programs – OMB No. 0970-0199*). This report is submitted on an annual basis to the Administration for Children and Families, a component of the U.S. Department of Health and Human Services and contains information on the TANF program and the State Maintenance of Effort program(s) for that year.

We found various reporting deficiencies, which included inaccurate or incomplete information reported and discrepancies between amounts reported and supporting documents or other federal reports. In addition, the Department did not always maintain adequate detailed supporting documentation for all estimates and amounts included in the ACF-204. Information included in the federal report was not reconciled to other sources to ensure its validity and completeness.

For example, a \$30 million understatement of the Child Care Assistance Program state MOE expenditures and failure to report other Department of Children Youth and Families' Child Care program state MOE costs of \$1,937,845 could have been prevented by review of report information and comparison to supporting documentation and to other federal reports containing corresponding information.

Supervisory review and approval procedures for the report should be strengthened to ensure that all necessary information is included in the report and the information is accurate, within the proper reporting period and is supported by appropriate calculations and reasonable estimates. All calculations and estimates should be completely documented and reconciled to other appropriate sources.

Questioned Costs: None

RECOMMENDATIONS

2003-42a Strengthen supervisory review and approval procedures to ensure that all necessary information is included in the report and the information is accurate, within the proper reporting period and is supported by accurate calculations and reasonable estimates.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

- | | |
|----------|---|
| 2003-42b | Maintain adequate detailed supporting documentation for amounts reported. |
| 2003-42c | Correct and resubmit the Fiscal year 2002 ACF-204 report to the Federal Government. |

Finding 2003-43

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558

CHILD CARE CLUSTER:

Child Care and Development Block Grant – CFDA 93.575

Child Care Mandatory and Matching Funds of the Child Care and Development Fund – CFDA 93.596

STATE CHILDREN’S INSURANCE PROGRAM – CFDA 93.767

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778

Administered by: Department of Human Services (DHS)

CHILD SUPPORT ENFORCEMENT – CFDA 93.563

Administered by: Department of Administration – Child Support Enforcement

ADP RISK ANALYSIS AND SYSTEM SECURITY REVIEW

Federal regulations (45 CFR section 95.621) mandates that States are responsible for the security of all ADP operational systems involved in the administration of HHS programs. State agencies are required to determine appropriate ADP security requirements based on recognized industry standards governing security of federal ADP systems and information processing.

DHS utilizes two primary systems, INRHODES and MMIS, to administer HHS federal programs. These systems interface due to the interrelated aspects of the federal programs. For example, Medicaid eligibility is determined within INRHODES and then transmitted to the MMIS where Medicaid claims are paid. DHS currently employs separate risk assessments and security review processes over these systems. Neither security plan currently employed by DHS appears to address all of the security concerns outlined by recognized industry standards governing security of federal ADP systems and information processing. Also, past reviews conducted by DHS would document certain system controls but include no verification of their operation or effectiveness. Examples where the existence and effectiveness of key system controls were not tested included controls relating to system access, application software development and changes, service continuity, and incident response capability.

DHS should consider implementing a single comprehensive system security review plan to assess and manage the risks of both systems as well as other ADP issues impacting the administration of HHS programs. This comprehensive security plan should include accepted

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

industry standards in sufficient detail to assist the designated security officer in identifying security deficiencies. In addition, DHS should also evaluate the overall qualifications of the appointed review team to ensure that they possess the skills and experience necessary to continually assess and manage the security risks noted through the review process.

Federal regulations also require states to establish and maintain a program for conducting periodic risk analyses to ensure that appropriate safeguards are incorporated into new and existing systems. State agencies also must perform risk analyses whenever significant system changes occur. DHS does not have a process in place to update and reassess risk assessments when significant system changes occur. Further, policies and procedures to identify and address security risks related to system changes have also not been implemented by DHS.

Questioned Costs: None

RECOMMENDATIONS

- 2003-43a Develop a comprehensive ADP risk analysis and system security review process to ensure a coordinated approach to identifying and addressing security risks related to information systems used to administer federal programs.
- 2003-43b Implement procedures to ensure that risk assessments are conducted for significant system changes that could affect overall information system security.
- 2003-43c Utilize recognized industry standards (i.e., Federal Information Systems Controls Audit Manual (FISCAM), National Institute of Standards and Technology (NIST)) governing security of Federal ADP systems and information processing to aid in the development of the department's policies and procedures relating to system security.

Finding 2003-44

CHILD SUPPORT ENFORCEMENT – CFDA 93.563

Administered by: Department of Administration – Child Support Enforcement (CSE)

CHILD SUPPORT COLLECTIONS AND DISTRIBUTIONS

CSE does not reconcile child support collections and disbursements recorded in its computer system (INRHODES) with amounts recorded in the State accounting system. This is an important control over program receipts and disbursements that approximate \$69 million

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

annually. Accountability for child support collections is also important because these collections affect awards from the federal government, which reduce the State share of program costs.

At June 30, 2003, the balance of undistributed collections reported in the State accounting system exceeded the amounts reported by the CSE computer system by approximately \$430,000. Variances also existed in the amounts reported for total collections and total distributions. Several audit adjustments were required to the State accounting system because certain collections and distributions had not been recorded. All the detail collections and distributions are first processed through the CSE computer system and the summary information is subsequently posted to the State accounting system. Reports are not available from the CSE system that include all collections and distributions so that routine reconciliations could be performed between the amounts reported by the two systems. The difference could not be explained at the time of our audit.

As previously reported in our audit reports for fiscal years 1992 through 2002, CSE should report all child support collections and distributions in its accounting system and reconcile these amounts with those recorded in the State accounting system. This would provide further assurances that these collections and distributions are properly controlled and reported.

In order to perform these reconciliations, modifications are necessary to the reports provided by the Department's computer system. Certain changes in programming were previously implemented; however, further programming changes may be required to ensure all receipts and disbursements processed by the computer system are included on summary reports produced by the system. Any remaining differences between receipts, disbursements and undistributed balances reported by the two systems should be investigated and resolved on a timely basis.

Questioned costs: None

RECOMMENDATIONS

- | | |
|----------|--|
| 2003-44a | Accumulate all child support collections and distributions in the department computer system and reconcile to the amounts recorded in the State accounting system. |
| 2003-44b | Investigate and resolve the difference regarding child support collections pending distribution reported by the CSE and State accounting systems. |

Daily Reconciliations

Although the department is not reconciling the collections and distributions posted to INRHODES with the State accounting system, they are reconciling the collections posted to INRHODES with bank deposits on a daily basis for most types of receipts. However, for state

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

tax refund intercepts and for garnishments of state employee wages and unemployment compensation (about 5% of total receipts), the reconciliations were not consistently performed.

Consistently performing these daily reconciliations of bank deposits to all transactions posted to INRHODES is important to ensure the timely and accurate recording of all receipts. In addition, complete daily reconciliations will facilitate periodic balance reconciliations with the State accounting system.

Questioned costs: None

RECOMMENDATION

2003-44c Perform daily reconciliations between collections posted to the INRHODES computer system and bank deposits for all forms of child support receipts.

Finding 2003-45

CHILD SUPPORT ENFORCEMENT – CFDA 93.563

Administered by: Department of Administration – Child Support Enforcement (CSE)

REPORTING – FEDERAL CASH TRANSACTIONS REPORT

The Federal payment management system (PMS), operated by the Division of Payment Management (DPM), serves as a fiscal intermediary between recipients of federal funds and the federal awarding agencies for cash management purposes. The DPM reporting system utilizes quarterly status reports that are furnished to recipients with active accounts to monitor recipients' accountability for funds received through the DPM.

On a quarterly basis, the DPM generates the PSC-272 report (formerly PMS-272), Federal Cash Transaction Report, and the applicable supporting schedules A through G. Although certain data on the report is provided by DPM, CSE is still responsible for verifying that the amounts reported agree with their own records. CSE completes the required sections of the PSC-272 and submits the report to the DPM, but they are not verifying that the DPM supplied data agrees with the department's records. The cash on hand at the end of the quarter should be reconciled to CSE's actual federal cash balance reported in its accounting records.

Questioned costs: None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

RECOMMENDATION

2003-45 Reconcile the cash balance reported on the PSC-272 report with the State accounting system.

Finding 2003-46

CHILD SUPPORT ENFORCEMENT – CFDA 93.563

Administered by: Department of Administration – Child Support Enforcement (CSE)

SECURING AND ENFORCING MEDICAL SUPPORT OBLIGATIONS

CSE is required by 45 CFR 303.31 to verify that the noncustodial parent has obtained health insurance coverage for minor children in response to a court order. If coverage is not obtained, CSE is required to enforce the medical support order, unless health insurance was not available to the noncustodial parent at a reasonable cost. CSE is also required to inform the state Medicaid agency whenever a new or modified medical support order is issued and medical coverage information is obtained. The state Medicaid agency receives notification of new or modified medical support orders only when such information is entered into the medical insurance panel.

We tested a random sample of 25 cases in which medical support had been ordered by the court, and it had been determined that health insurance was available to the noncustodial parent at a reasonable cost. In 5 of the 25 cases tested, we found that no information had been entered into the medical insurance panel of CSE's INRHODES computer system. Additionally, no documentation existed to demonstrate that action had been taken during fiscal 2003 to enforce these 5 medical support orders. Consequently, medical coverage for the children included in these cases was provided by Medicaid since no other medical coverage information was available to the State Medicaid agency.

Control procedures are not adequate to ensure that medical support, once ordered by the court, is enforced. Controls should be enhanced to ensure that appropriate follow-up action is initiated to obtain specific medical coverage information from the absent parent and that the information is recorded within the computer system. When necessary, appropriate action should be taken by CSE to enforce the medical support orders.

Questioned costs: None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

RECOMMENDATIONS

- 2003-46a Enhance control procedures to ensure that medical coverage information is recorded within the CSE INRHODES computer system on a timely basis when medical support is ordered by the court.
- 2003-46b Initiate appropriate enforcement action for medical support orders.

Finding 2003-47

LOW-INCOME HOME ENERGY ASSISTANCE –CFDA 93.568
Administered by the Department of Administration – State Energy Office (SEO)

QUESTIONED COST-PAYROLL COSTS

The distributions of salary and fringe benefit costs to the Low Income Home Energy Assistance program (LIHEAP) were not supported by personnel activity reports or equivalent documentation when employees worked on multiple activities or cost objectives. Management indicated that the distributions were based on their knowledge of each individual's duties and estimates of the time spent on the LIHEAP program functions. However, management was unable to provide any documented and objective basis for the distribution percentages used to allocate approximately \$290,000 in employee salary and fringe benefit costs to the program.

In addition, we noted some inconsistencies relating to certain salary and fringe benefit distributions as follows:

- Approximately 92% of one employee's salary and fringe benefit costs were charged to the LIHEAP program during the fiscal year; however, the employee's job description indicates that 55% of the employee's time is actually spent on various programs including the LIHEAP program and the remaining 45% of the employee's time is spent on various administrative duties.
- No portion of another employee's salary and fringe benefit costs were charged to the LIHEAP program, even though this individual's duties do include work relating to LIHEAP program functions.

Management should require the use of time sheets or random moment time-studies as a consistent and objective basis for distributions of salary and fringe benefit costs to the Low Income Home Energy Assistance program.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Questioned Costs: \$290,000

RECOMMENDATION

2003-47 Allocate employee salaries and fringe benefits costs to the appropriate activities based on routine time sheets or random moment time-studies.

Finding 2003-48

LOW-INCOME HOME ENERGY ASSISTANCE –CFDA 93.568
Administered by the Department of Administration – State Energy Office (SEO)

SUBRECIPIENT CASH MANAGEMENT

The State Energy Office needs to further strengthen procedures to ensure that payments to its LIHEAP program subrecipients are limited to their immediate cash needs, as required by federal regulations.

The State Energy Office uses various non-profit agencies to carry out LIHEAP program activities designed to assist low-income individuals with home energy costs.

These non-profit agencies submit weekly LIHEAP program funds reports to the State Energy Office. These reports identify the balance of program funds agencies have on hand each week. The State Energy Office uses these reports to monitor agency cash balances to determine if agencies require additional program funds.

Although there has been some improvement in fiscal 2003, program funds reports indicate that the State Energy Office is not always sufficiently restricting subrecipient cash balances enough when determining the need for program fund distributions. We identified some non-profit agencies that had excessive cash balances at various points during the year. For instance, one agency had from \$141,000 to \$211,000 in excess funds on ten occasions between November 2002 and February 2003. Another agency had excess funds from \$115,000 to \$513,000 on eight occasions between December 2002 and February 2003.

The State Energy Office should continue to strengthen its procedures to ensure that it distributes program funds in amounts designed to cover only the immediate cash needs of LIHEAP program subrecipients.

Questioned Costs: None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

RECOMMENDATION

2003-48 Restrict subrecipient funding to their immediate cash needs.

Finding 2003-49

LOW-INCOME HOME ENERGY ASSISTANCE –CFDA 93.568
Administered by the Department of Administration – State Energy Office (SEO)

CONTRACTS WITH SUBRECIPIENTS AND VENDORS

The standard language for subrecipient contracts used by the State Energy Office does not contain the correct OMB Circular A-133 Single Audit threshold and makes reference to various OMB Circulars which are not applicable to the program. These subrecipient contracts should be amended to include all necessary and appropriate federal compliance provisions.

Additionally, the State Energy Office did not finalize contracts with two utility companies until after the end of the fiscal year to which they pertained.

Questioned Costs: None

RECOMMENDATIONS

2003-49a Amend contracts with subrecipients to include all necessary federal compliance provisions.

2003-49b Finalize all contracts by the beginning of the fiscal year in which the services will be provided and ensure the contracts reference appropriate thresholds and OMB Circulars.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2003-50

CHILD CARE CLUSTER:

Child Care Development Block Grant – CFDA 93.575

Child Care Mandatory and Matching Funds of the Child Care and Development Fund –
CFDA 93.596

Administered by: Department of Human Services (DHS)

CHILD CARE CASE FILE DOCUMENTATION

The Department provides services to families in an approved employment plan of the State's Family Independence Program and to children of low income families whose gross income is within established eligibility limits. Department personnel from the child care office or Family Independence Program (FIP) Office accept applications and approve payments for child care services. Families seeking eligibility for the Child Care Assistance Program (CCAP) must submit a signed FIP request for services or CCAP application form, along with the documentation required to verify eligibility and the need for services. The Department's administrative rules require that the agency representative consider and verify the combined total of earned and unearned income, including child support in determining eligibility.

We tested the case files of 45 children receiving child care services to determine whether the proper eligibility determinations were made, and whether payments were calculated in accordance with program requirements, including obtaining any required documentation and performing required verifications. We noted the following issues concerning the child care eligibility determination process:

- ❑ Two instances where the required hardcopy documentation (e.g. application, parent provider / agreement, income documentation) could not be located.
- ❑ Five instances where the earned income amount (wages) utilized in the child care eligibility calculation varied from the hard copy income documentation contained in the case file. Three of the five differences resulted in an incorrect income level, which impacted the provider's payment and the parent's copayment.
- ❑ Three instances where the unearned income from child support, utilized in the child care eligibility calculation, differed from the data reflected in the eligibility system's Child Support Module. Two of the three differences resulted in an incorrect income level, which impacted the provider's payment and the parent's copayment.

Since child care workers did not comply with established procedures, provider payments and the required copayment amounts were incorrectly calculated in some instances.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Questioned Costs: None

RECOMMENDATION

2003-50 Adhere to internal procedures requiring agency personnel obtain and utilize the appropriate documentation to update electronic case file records prior to approving child care eligibility and determining payment amounts.

Finding 2003-51

FOSTER CARE – TITLE IV-E-CFDA 93.658

Administered by: Department of Children, Youth, and Families (DCYF)

ELIGIBILITY

DCYF can obtain federal funding for certain costs of caring for children in foster care such as room and board, day care and clothing allowances (known as maintenance costs). Federal participation is allowable for those cases that meet specific eligibility criteria, including the following:

- ❑ The foster family home or child-care institution in which the child resides must be fully licensed {42 USC 671(a)(10) and 672(c)}.
- ❑ A judicial determination regarding reasonable efforts to finalize the permanency plan must be made within 12 months of the date on which the child is considered to have entered foster care and at least once every 12 months thereafter while the child is in foster care {45 CFR 1356.21(b)(2)}.
- ❑ Unless the child is expected to graduate from a secondary educational institution before his or her 19th birthday, eligibility ceases at the child's 18th birthday {42 USC 672(a)}.

The federal share of maintenance costs (exclusive of day care costs) totaled \$3,408,923 in fiscal year 2003. We selected a sample of payments made on behalf of 25 children from this universe totaling \$10,730 in order to determine if these cases met program eligibility requirements.

We found six cases that did not meet the eligibility requirements for federal funding. In two cases, there was no evidence that the out of state foster home providers were licensed. In two other cases, there was no evidence of a judicial determination regarding reasonable efforts to finalize the permanency plan. One case did not meet the eligibility requirements because the child had reached his/her 18th birthday and was not expected to graduate from a secondary

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

educational institution before his/her 19th birthday. Finally, one child in our sample had been adopted prior to fiscal year 2003 and was no longer in the foster care program. The federal share of these unallowable costs totaled \$1,809.

Questioned Costs: \$1,809

RECOMMENDATION

2003-51 Adjust federal reports to reimburse the federal government for the unallowable maintenance costs charged during fiscal year 2003.

Finding 2003-52

FOSTER CARE – TITLE IV-E-CFDA 93.658

Administered by: Department of Children, Youth, and Families (DCYF)

ALLOCATION OF DAY CARE COSTS

The Department can claim federal reimbursement for a portion of the day care costs related to certain children in the Foster Care and Adoption Assistance programs. Since its accounting system was not designed to separate the day care costs applicable to the individual programs, the Department charged the day care costs for both programs to the Foster Care program only. The Department did not receive excess federal funding due to this practice since the rate of federal reimbursement for these costs is the same for both programs. It did not, however, result in an accurate reporting of federal expenditures for these two programs.

The Department charged the Foster Care program \$1,081,876 for day care costs in fiscal 2003; \$327,573 related to foster care children eligible for federal reimbursement, and \$754,303 related to adopted children eligible for federal reimbursement. The Department has since made the appropriate adjustments in the *Quarterly Report of Expenditures and Estimates* (Form ACF – IV-E-1). The Schedule of Expenditures of Federal Awards was also adjusted to reflect the appropriate amount of day care costs applicable to the Foster Care and adoption Assistance programs.

Questioned Costs: none

RECOMMENDATION

2003-52 Implement procedures to compile day care costs eligible for reimbursement under the Foster Care program.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2003-53

STATE CHILDREN'S INSURANCE PROGRAM – CFDA 93.767
Administered by: Department of Human Services (DHS)

ELIGIBILITY

The basic objective of the State Children's Health Insurance Program (SCHIP) as authorized by Title XXI of the Social Security Act is to initiate or expand health insurance programs for low-income, uninsured children. States are afforded flexibility in the implementation of programs to meet this objective. In Rhode Island, the State has obtained waivers from the federal government that allow reimbursement of medical insurance coverage provided to certain individuals previously under the Medicaid program at the enhanced SCHIP federal financial participation rate.

Eligibility for both the Medicaid and the SCHIP programs is determined through the Department's INRHODES computer system, however, specific SCHIP eligibility criteria has not been programmed into that system. Instead, all individuals first become Medicaid eligible. The Department's procedures to identify and claim amounts eligible under SCHIP consist primarily of disbursing capitation or fee-for-service payments initially as Medicaid eligible expenditures and then, using queries against the Medicaid Management Information System (MMIS), reclassifying certain amounts based on eligibility characteristics. The queries isolate individuals meeting the SCHIP eligibility criteria and then accumulate expenditures (both fee-for-service and capitation payments) for the defined time period.

The Department uses queries rather than programming its systems to identify SCHIP eligible individuals because of existing system design constraints, continual changes regarding eligibility for SCHIP, and federal limits on funding for the SCHIP program. Controls over eligibility could be improved by subjecting the results of the queries used to accumulate SCHIP eligible individuals and related program costs to a quality control process to ensure individuals meet program eligibility and allowable cost criteria.

The State, as outlined in its SCHIP State plan, has required that information about the existence of health insurance from other sources be considered in determining eligibility for SCHIP. This information may not be fully considered as intended in the SCHIP State Plan because of the manner in which eligibility is determined.

Medicaid eligibility criteria within the INRHODES computer system inquires about the existence of other health insurance coverage primarily for third party liability purposes -- the existence of other health insurance coverage is recorded for cost avoidance purposes but does not automatically deny eligibility. SCHIP eligibility criteria require a more thorough examination of

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

the applicant's access to health insurance coverage at a certain cost and consideration of whether the applicant denied or canceled coverage within the recent period preceding application. While the application for SCHIP collects information related to other insurance, the INRHODES system is not programmed to fully consider these unique SCHIP eligibility characteristics. Individuals that may not be SCHIP eligible because of other insurance related issues would still be considered Medicaid eligible.

DHS structures its queries designed to accumulate costs for SCHIP eligible children by excluding those with verified existence of other medical coverage. This does not fully meet the eligibility criteria outlined in the State's SCHIP plan.

Further, the terms and conditions of the program that were applicable during fiscal 2003 included the provision that parents covered as part of the demonstration population be uninsured. In designing queries to accumulate costs to be charged to the SCHIP program, there was no evidence that this criterion was considered for demonstration parents. Our analysis of the 151,195 monthly capitation payments (totaling in excess of \$25 million) for the SCHIP Demonstration population revealed that 18,599 or 12.3% of these payments totaling \$3,227,215 (federal share = \$2,219,678) were for parents that had verified third party liability coverage (as recorded in the MMIS) during the month of capitation. In addition, 5,964 fee-for-service claims totaling \$433,793 (federal share = \$298,363) were also charged to SCHIP for periods in which third party coverage was indicated. Although these payments do not appear to meet stated criteria allowable for enhanced SCHIP reimbursement (FFP = 68.78%), these costs would be eligible for reimbursement through the Medical Assistance Program (Avg . FFP for FY 2003 = 55.40%).

During our audit, we tested capitation and fee-for-service claims identified by ad-hoc queries and charged to the SCHIP program. Our testing resulted in the identification and financial statement adjustment of the following questioned costs related to the program:

- DHHS's Center for Medicare and Medicaid Services approved the coverage of unborn children with family income up to and including 250 percent of the Federal poverty level and not eligible for Medicaid as part of the SCHIP program. This amendment, effective November 1, 2002, provided children of undocumented immigrants with prenatal care and associated health services from conception through birth. Our audit tests identified 79 capitation payments and 315 fee-for-service claims charged to the SCHIP program for this new SCHIP eligibility category totaling \$3,681 (federal share = \$2,532) and \$510,523 (federal share = \$351,137), respectively, with dates of service prior to the amendment effective date of November 1, 2002.
- In addition, we noted 7 out of a sample of 20 claims totaling \$71,803 (approximate federal share = \$49,386) charged to the program for individuals who did not meet SCHIP program eligibility requirements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

These exceptions further illustrate the department’s need to begin subjecting SCHIP claiming resulting from ad-hoc queries to a quality control process similar to the process in place over all Medicaid claims. Such a process should provide additional control over the SCHIP eligibility process by evaluating eligibility based on the specific income and insurance criteria mandated for the program instead of relying solely on an individual’s coding characteristics within the MMIS.

Questioned Costs: \$2,518,041 – SCHIP Program (net questioned costs after reflecting costs are eligible for Medicaid reimbursement is \$489,843)

RECOMMENDATIONS

- 2003-53a Subject the results of queries used to accumulate eligible SCHIP program costs to a quality control process to ensure eligibility and allowable cost program criteria are met.

- 2003-53b Credit federal reports for expenditures that do not comply with the terms and conditions of the SCHIP program.

- 2003-53c Implement procedures to fully consider the existence or availability of other insurance when determining eligibility for SCHIP.

Finding 2003-54

STATE CHILDREN’S INSURANCE PROGRAM – CFDA 93.767
Administered by: Department of Human Services (DHS)

COST RECOVERIES - PROGRAM PARTICIPANT COST SHARING COLLECTIONS

Some SCHIP eligible individuals participate in a managed care cost-sharing component of the State’s Medicaid program. The State pays a monthly capitation amount to a managed care provider and then seeks reimbursement from the individuals for their “co-pay” amount. “Co-pay” collections reduce federal program expenditures and claims.

The Department bills family units for applicable co-pay amounts based upon family income and other program criteria. Data is not currently available to apply collection of co-pay amounts to Medicaid (CFDA 93.778) or SCHIP (CFDA 93.767) based upon the program that was charged for the capitation amount. Instead all collection of co-pay amounts is applied to the Medicaid program.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

Consequently, the federal share of program expenditures for the Medicaid program is understated and the federal share of SCHIP expenditures is overstated. The under/overstatement between the two programs is not offset because of the difference in federal financial participation rates (55.4% for Medicaid (FY 2003 average) vs. 68.78% for SCHIP). Cost sharing collections in fiscal 2003 totaled \$3.2 million, however, the Department cannot determine the amount that should be applied to each program.

The auditee disagrees, in part, with this finding and its views are outlined in the accompanying corrective action plan (Section E of this report – refer to corresponding finding number).

Questioned costs: None

RECOMMENDATION

2003-54 Implement procedures to allow crediting the appropriate federal program for the collection of co-pay amounts under the State's RIte Care Cost Share program.

Finding 2003-55

STATE CHILDREN'S INSURANCE PROGRAM – CFDA 93.767
MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

CASH MANAGEMENT

During fiscal 2003, all SCHIP program expenditures were initially claimed as Medicaid program expenditures and then later adjusted and claimed as SCHIP expenditures. Accordingly, cash is first drawn at the Medicaid federal financial participation (FFP) rate and then, at a later time when SCHIP eligible expenditures are identified, an adjustment is processed to reduce Medicaid expenditures eligible for a cash draw and the full SCHIP FFP rate is drawn for the eligible SCHIP expenditures. Although the State is not over reimbursed in total, during a quarter, expenditures that will eventually be reimbursed through SCHIP are reimbursed through Medicaid.

As described in Finding 2003-53, the MMIS does not identify SCHIP expenditures at the time of disbursement. SCHIP expenditures are later identified by query. Since system changes to identify SCHIP expenditures at the time of payment are not being considered, the Department should estimate the SCHIP share of expenditures for purposes of drawing cash against the

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

appropriate cash award and letter of credit for each program. Adjustments should be made once the actual share of SCHIP program costs is determined.

The auditee disagrees, in part, with this finding and its views are outlined in the accompanying corrective action plan (Section E of this report – refer to corresponding finding number).

Questioned costs: None

RECOMMENDATION

2003-55 Estimate the federal share of eligible SCHIP program expenditures for the purposes of drawing cash against the appropriate cash award and letter of credit.

Finding 2003-56

STATE CHILDREN’S INSURANCE PROGRAM – CFDA 93.767
MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

MANUALLY DETERMINED ELIGIBILITY SEGMENTS

DHS’s INRHODES system currently defaults eligibility coverage to the date of application and requires manual intervention to establish eligibility retroactively for individuals determined to be eligible in prior periods. Certain situations exist within the Medical Assistance program that require eligibility technicians to create segments (called ISLA determinations) within the INRHODES System to retroactively date an individual’s eligibility. These situations mostly include the addition of newborns to Medicaid cases and the dating of eligibility for undocumented immigrants requiring emergency medical services back to the date of their hospitalization. These segments ultimately require supervisor approval prior to being activated within the INRHODES System.

During our audits of the Medical Assistance and SCHIP programs, we reviewed 23 manually determined eligibility segments to ensure that these determinations were for purposes that appear reasonable. In all cases, we concluded that these segments were created for reasonable purposes, however in 7 cases, the aid category manually assigned to the individual did not agree with that individual’s specific characteristics (income, citizenship, etc.). An incorrect aid category assignment within the INRHODES System, when translated to the MMIS, can result in the following incorrect claim payments:

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

- ❑ Payment for a wider scope of medical services than an individual may be entitled to,
- ❑ Denial of payment for a medical service that an individual may be entitled to,
- ❑ Incorrect capitation amounts for managed care coverage,
- ❑ Claims being charged to SCHIP for individuals ineligible for that program.

While the incorrect aid category assignment did not have an impact on the Medical Assistance Program, 3 cases did result in the claiming of SCHIP enhanced reimbursement for individuals that did not meet SCHIP eligibility requirements (related questioned costs already quantified as part of finding 2003-53). In these cases, the incorrect assignment of aid categories within the INRHODES system ultimately resulted in claims for these individuals being selected by ad-hoc queries utilized by DHS to identify eligible SCHIP expenditures.

Due to DHS's reliance on the INRHODES system to directly determine Medicaid eligibility and, in some cases, SCHIP eligibility based on the system's initial aid category coding, it is crucial that adequate controls be in place over any manual override of the eligibility determination process.

Questioned costs: None

RECOMMENDATION

- 2003-56 Improve controls and policies relating to manually determined eligibility segments within INRHODES to ensure that correct aid category codes are assigned to medical benefit recipients within the Medical Assistance and SCHIP programs.

Finding 2003-57

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

CONTROLS OVER HOMEMAKER SERVICE BILLINGS

Payments to homemaker service providers are processed through the State's Medicaid Management Information System (MMIS) for both Medicaid and non-Medicaid sources of funding. Approximately \$1.5 million was charged to the Social Services Block Grant program and \$18.3 million (state and federal share) was charged to the Medicaid program. We found that controls over these expenditures could be improved to ensure that (1) payments are only for authorized individuals, (2) amounts billed do not exceed the level and duration of service authorized, and (3) amounts are correctly allocated to the appropriate funding source based upon eligibility criteria for the respective programs.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Department personnel complete an HS-3 *Authorization of Homemaker / Home Health Aide Services Adult Day Care* for each client. The form indicates general client information, the funding source to be used when billing, as well as the authorization period and hours authorized. DHS forwards a copy of the HS-3 authorization form to the homemaker service providers, however, this form is not provided to the fiscal agent processing billings for payment. Consequently the fiscal agent cannot match the authorized amount or period of service to billed amounts.

For Medicaid eligible individuals, an electronic case record is established within the Department's INRHODES computer system. The case record indicates funding source code, hours authorized and authorization period for homemaker services. Although the INRHODES computer system electronically transmits certain information to the MMIS on a daily basis, this information is not transmitted. Case records have not been established for individuals receiving homemaker services under the SSBG program.

Vendors are responsible for billing under the proper funding code based upon information contained on the HS-3 *Authorization of Homemaker / Home Health Aide Services Adult Day Care*. Since information within the MMIS is incomplete regarding eligibility for all individuals receiving homemaker services, controls are not adequate to ensure that all payments for homemaker services are authorized and charged to the appropriate funding source. During fiscal 2003, the department processed an expenditure adjustment transferring approximately \$606,831 from the SSBG to Title XIX (Medical Assistance) to correct erroneous funding source codes indicated by the homemaker service vendors.

Questioned Costs: None

RECOMMENDATION

2003-57 Strengthen procedures to ensure that vendor billings for homemaker services are verified as to authorized recipient, funding source, authorization period and authorized hours prior to payment.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2003-58

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

TIMELY IDENTIFICATION OF CLAIMS PAID ON BEHALF OF INELIGIBLE INDIVIDUALS

DHS utilizes an integrated computer system (INRHODES) as the official database used to determine and track eligibility for Medicaid. Transactions affecting eligibility are transmitted daily from INRHODES to update the MMIS recipient subsystem. As designed, Medicaid eligibility data from INRHODES should be replicated in the MMIS. In a limited number of instances, differences occur between the two databases. These differences can be summarized into three categories:

- ❑ Cases active in INRHODES, but inactive in the MMIS;
- ❑ Cases active in the MMIS, but closed in INRHODES; and
- ❑ Other differences, such as personal data, recipient income, category codes, etc.

A monthly variance report identifying the differences between the two systems is generated by the MMIS, and forwarded to DHS for review. DHS is responsible for making the appropriate corrections to ensure the accuracy and reliability of the two systems. Variances occur in about 1,000 cases each month. DHS is now researching and making corrections on a relatively timely basis. However, when investigation of the case indicates that a case should have been considered ineligible, DHS is not quantifying, on a timely basis, the amount of claims paid on behalf of the ineligible individual.

For calendar year 2002, 187 cases were deemed ineligible. Claims paid during the periods of ineligibility totaled \$26,455 (federal share \$14,052). An additional 129 cases have been determined to be ineligible for calendar 2003; however, quantification of claims paid for these cases during the period of ineligibility has not been made. Identified questioned costs relating to claims paid on behalf of ineligible individuals were adjusted during our audit.

DHS believes that these eligibility variances will continue to occur due to the design of both INRHODES and the MMIS and further, any solution to completely eliminate these variances would require substantial and costly redesign of either or both systems. Accordingly, DHS's investigation of eligibility variances must be performed timely to minimize the likelihood and effect of payments made on behalf of ineligible individuals. Additionally, a complete resolution of eligibility variances must include determination of claims paid for ineligible individuals. Documentation should be maintained to support the investigation of cases

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

determined to be ineligible and any quantification of claims paid during the period of ineligibility.

Questioned Costs: None

RECOMMENDATION

2003-58 Determine, on a timely basis, the amount of claims paid on behalf of ineligible individuals and reimburse the federal government for its share.

Finding 2003-59

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

FISCAL AGENT OVERSIGHT

DHS is highly dependent on its fiscal agent's extensive and complex computer system (MMIS), which includes controls for processing payments on behalf of eligible Medicaid beneficiaries as well as controls over disbursing state and federal funds. Oversight of these operations by DHS is essential to ensure that the fiscal agent complies with program regulations, and controls are functioning as designed. This is critically important considering the authority delegated to and dollar value of disbursements processed by the fiscal agent.

We have recommended in prior audit reports that DHS improve its oversight by monitoring the internal control procedures and financial activities employed by the fiscal agent. Monitoring is necessary to ensure that effective controls are in place over program disbursements, and that financial data is being accurately reported for presentation in the State's financial statements and federal reports. Financial monitoring procedures have not been fully developed, and responsibility for financial monitoring has not been centralized or well coordinated. DHS may need additional resources to fully accomplish these objectives.

We noted the following matters:

- ❑ *DHS should ensure that the fiscal agent has adequate internal control policies and procedures in place to pay claims in accordance with program regulations and to control cash disbursements made on behalf of the State.* The internal control structure through which the fiscal agent processes Medicaid claims is totally separate and distinct from the State's accounting system and related control procedures used to disburse other state expenditures. We recommended previously that DHS or its fiscal agent obtain an annual examination of its internal control policies and procedures by independent

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

certified public accountants attesting to the adequacy of the design and operation of key internal controls utilized by the fiscal agent. This type of examination is referred to as a “SAS 70” review. A “SAS 70” review of the MMIS is particularly important because (1) DHS has limited resources to perform effective monitoring of the fiscal agent, and (2) a claims processing quality control function is not in place, and (3) many program functions are fully delegated to the fiscal agent.

- *DHS has not developed procedures to effectively monitor the financial activities of the fiscal agent.* For example, DHS has not implemented sufficient procedures to verify MMIS financial data used to record program activity and prepare federal reports. Additionally, procedures are not in place to ensure all prescription drug rebates are billed and collected, provider accounts receivable balances are accurately reported, and third party liabilities have been identified and collected. Most importantly, the fiscal agent performs incompatible functions of billing, recording, and receiving drug rebates, third party liability collections, and provider refunds. DHS performs no oversight procedures to ensure receipt of all collections by its fiscal agent.

Questioned Costs: None

RECOMMENDATIONS

- 2003-59a Obtain an annual examination (“SAS 70” review) performed by independent certified public accountants of the fiscal agent’s internal control policies and procedures.
- 2003-59b Improve financial oversight of the fiscal agent by enhancing procedures to (1) verify information from the MMIS used to record program activity and prepare federal reports, (2) monitor the billing and collection of drug rebates and (3) ensure third party liabilities are identified and collected.

Finding 2003-60

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

THIRD PARTY LIABILITY IDENTIFICATION

Federal regulation (42 CFR 433.138) requires the State to maintain an action plan for pursuing third party liability (TPL) claims. States must develop procedures for determining the legal liability of third parties to pay for Medicaid services and integrate these procedures within

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

the MMIS. Medicaid must exhaust third party resources prior to payment. When a third party liability is established after payment, reimbursement should be sought.

Although DHS performs certain TPL related functions, the fiscal agent is primarily responsible for the TPL process, including verifying recipients' TPL information, maintaining the systems used to identify TPL-related claims, and collecting from insurance carriers.

TPL information originates from the Department's INRHODES computer system and is then electronically communicated to the MMIS. The fiscal agent must verify this TPL data before it becomes effective. When the TPL information is verified, the MMIS generates a third party billing for claims paid during the time period when other third party insurance was effective. If the insurance is verified at the time the claim is submitted, the MMIS has a cost avoidance mechanism in place to deny payment of the claim.

During fiscal 2003, recovery from third party insurers was not attempted for claims totaling \$1.7 million (federal share approximately \$942,000) because the time limit for submission of claims had expired. Claims totaling \$631,272 (federal share - \$349,725) were submitted for reimbursement but were subsequently denied mostly due to untimely filing.

In addition, attempted Medicare recoveries in excess of \$2 million were also denied due to exhausted benefits for related Medicaid recipients. The amount of denials related to the untimely identification of Medicare coverage is unable to be determined by the fiscal agent.

DHS's inability to recover for TPL was caused mostly by failure to identify TPL information on a timely basis during fiscal 2003 and in prior years. DHS should seek to share data with other medical insurers to facilitate the identification of third party liability coverage. Electronic interfaces or sharing files to allow data matches could streamline the process and allow for more timely identification of other medical coverage.

Due to the amount of authority delegated to the fiscal agent with respect to TPL identification and collection, DHS should improve its monitoring of the fiscal agent's procedures, and all data (billings and collections) generated by those procedures.

Questioned Costs: \$1,291,725

RECOMMENDATIONS

- | | |
|----------|---|
| 2003-60a | Review existing procedures to ensure that third party liabilities are identified on a timely basis. |
| 2003-60b | Reimburse the federal government for its share of uncollected third party liability recoveries. |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

2003-60c Seek to share data electronically with other insurers to facilitate the identification of third party liability.

Finding 2003-61

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

CONTROLS OVER PROGRAM EXPENDITURES

Benefit Type Expenditures

Medical Assistance program expenditures, other than administrative costs, are primarily processed through the Medicaid Management Information System (MMIS). The MMIS is designed to provide the basic controls over eligibility, types of services allowed and payment rates as well as enhanced controls to prevent duplicate payments, identify unusual patterns of utilization of services, and identify and collect third party liabilities.

During fiscal 2003, program expenditures (federal and state share) in excess of \$70 million were processed by systems independent of the MMIS. These consist primarily of Home and Community Based Waiver services processed by the Department of Mental Health Retardation and Hospitals (MHRH), Medicare Part A & B premium payments, and transitional payments to community health centers.

Other independent systems have not been designed to contain all the control procedures of the MMIS. Further, the potential for duplicate payment of the same claim exists – a claim could be submitted and paid from both the MMIS and the independent accounting system. Processing all program expenditures through a unified system substantially enhances controls over programs administered by agencies outside the Department of Human Services. The Department of Human Services continues to move towards processing all Medicaid claims expenditures through the MMIS and has reduced the volume and dollar amount of expenditures processed independent of the MMIS from prior years.

The Department of Children, Youth and Families utilizes the MMIS in a limited manner to “process” claims. Disbursements to providers are still made independent of the MMIS. After payment, DCYF’s computer system sorts Medicaid eligible claims for transmission to the MMIS. The MMIS performs limited edits on the claims and records the claims information within its database. Because many of DCYF’s provider payments are allocated to multiple funding sources and other unique payment arrangements are utilized, the department believes it cannot use the MMIS to pay its providers. This current payment and claims processing structure

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

enhances controls over eligibility and limits the potential for duplicate payment, however, all the enhanced control features of the MMIS are not applied to these claims.

Payment to all providers should be based on actual claims submitted and processed through the MMIS.

Rate Setting – State Operated Facilities

We found that there is no oversight of the rate setting process for state operated facilities (hospital and group homes) by DHS. There is review of the rate setting process for the Eleanor Slater Hospital (a state operated hospital) by the federal Medicare intermediary since the same rate is used to charge the Medicare program when patients qualify for coverage. While federal regulations are not specific as to rate setting for state operated facilities, the memorandum of understanding (MOU) (interagency agreement) between the Department of Human Services (State Medicaid Agency) and the Department of Mental Health, Retardation and Hospitals (operator of the hospital and group homes) should specify the process to be followed, documentation to be maintained and the approval process required.

Administrative Expenditures

Six separate departments of the State administer elements of the Medicaid cluster of programs. We noted inadequate controls to ensure compliance with program requirements for administrative expenditures incurred by departments other than the Department of Human Services. This occurs because there are no centralized controls in place, across departmental lines, to ensure that administrative expenditures comply with program requirements. While all administrative expenditures are disbursed through the State's centralized accounting system, controls to ensure compliance with federal program requirements are employed at the department level. Each department designs its own procedures and controls to meet federal program requirements. Expenditures charged to the Medicaid program by other departments are not reviewed or approved by DHS -- the single state Medicaid agency.

The Department of Human Services enters into a memorandum of understanding (MOU) with each state department that administers aspects of the Medicaid program. The MOU details specific program services to be provided under the Medicaid program. We believe the portions of the MOU which concern administrative costs reimbursable under the Medicaid program should be enhanced by requiring annual budgets which (1) detail personnel costs to be reimbursed under the program and (2) describe the allocation methodology when less than 100% of an individual's effort is devoted to the program. These annual budgets should be provided to and reviewed by DHS as the single state Medicaid agency. Additionally, purchase of goods and services over \$25,000 which will be reimbursed with Medicaid administration funds should require approval of DHS prior to expenditure.

During our testing of administrative expenditures charged by other State agencies, we noted the following:

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

- ❑ \$22,826 (federal share) of administrative claiming was charged by the Department of Elderly Affairs (DEA) for certain indirect costs not specifically authorized in the department's interagency agreement with DHS. In addition, DEA also charged 100% of all indirect costs to a Federal Medicaid account, resulting in no recorded State match at June 30, 2003 (Federal Share = \$6,547).
- ❑ The Department of Mental Health, Retardation, and Hospitals (MHRH) claimed enhanced (75%) federal reimbursement for social worker personnel costs allocated to Medicaid based on conducted random moment time studies. These personnel costs totaling \$325,872 were not deemed to satisfy the skilled medical training definition required for enhanced Medicaid reimbursement (resulting federal share disallowance = \$101,885). In addition, MHRH also allocated certain indirect costs at enhanced rates instead of the allowable 50% federal reimbursement percentage (federal share = \$6,080).
- ❑ \$294,138 in administrative costs relating to utilization review and quality assurance services contracted for by the Department of Health (DOH) charged 100% to a Federal Medicaid Account, resulting in no recorded State match at June 30, 2003 (Federal Share = \$147,069).

In addition, our review of administrative expenditures charged by other State agencies noted several examples where amounts charged to the Medicaid program did not clearly demonstrate the required State matches. Although we were able to verify the existence of the required State match for these expenditures, agencies are not complying with requirements stipulated in interagency agreements with DHS. Interagency agreements require that expenditures are recorded into approved federal and state accounts at the time expenditures are incurred. Compliance by other State agencies is necessary to ensure that administrative expenditures are charged in accordance with federal regulations.

Identified questioned costs resulting from our audit of administrative claiming by other State agencies were adjusted during our audit.

In relation to the issue of administrative expenditures charged by other State agencies, the Center for Medicare and Medicaid Services (CMS) has recommended the disallowance of \$2.26 million (federal share = \$1,130,776) in expenditures relating to utilization review services charged by DCYF that were not authorized by the department's interagency agreement with DHS. These amounts have been adjusted in the State's financial statements and have been credited back to the federal grantor on reports for the quarter ended March 2004.

Questioned Costs: \$1,130,776

RECOMMENDATIONS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

- | | |
|----------|---|
| 2003-61a | Improve controls by requiring all benefit-type program expenditures to be processed through the MMIS. |
| 2003-61b | Implement oversight procedures for the determination of per-diem rates established for state operated facilities. |
| 2003-61c | Implement control procedures to ensure the allowability of administrative expenditures charged to the Medicaid program by other departments. |
| 2003-61d | Implement monitoring procedures to ensure that other State agencies are complying with MOU and/or interagency agreements that mandate their allowable Medicaid claiming activity. |

Finding 2003-62

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

SUSPENSION AND DEBARMENT

DHS utilizes various service providers and contractors for the operation of the Medical Assistance Program. Federal regulations prohibit States from contracting with or making subawards under covered transactions to suspended or debarred parties. Covered transactions include procurement contracts for goods or services equal to or exceeding \$100,000 and all non-procurement transactions (e.g., subawards to subrecipients). Contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred.

Revised provider agreements, which included required certifications that the organization and its principals are not suspended or debarred from participating in the Medical Assistance Program, were mailed to all providers in November 2000. During our testing of claims paid in fiscal 2003, we found that 2 out of 97 providers tested did not have updated provider agreements in place that contained the required suspension and debarment certifications.

The Department of Mental Health, Retardation and Hospitals and the Department of Elderly Affairs contracted for Medicaid eligible services with vendors that were paid \$444,845 and \$191,701, respectively. We found that the contracts with these vendors did not contain certifications that the vendor was not suspended or debarred from participating in the Medicaid program.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

The Department of Human Services should ensure that all contracts for the provision of Medicaid eligible services contain required certifications concerning suspension and debarment including contracts entered into by other departments. These requirements should be included in the memoranda of understanding that the Department of Human Services has with each state department which participates in the Medicaid program.

As part of our audit, we updated the status of two findings resulting from a Program Integrity audit conducted by the Centers for Medicare and Medicaid Services (CMS). CMS found that the State Medicaid Agency is failing to comply with provisions of the Social Security Act that require the State to ensure that it does not do business with excluded parties, that is, those listed on the Office of the Inspector General's List of Excluded Individuals/Entities, the Medicare Exclusion Database, or other similar listings. Our audit testing did note one provider listed on the Inspector General's List of Excluded Individuals that was not made inactive in the department's claims processing system in a timely manner.

CMS also found that the department's provider agreement addendum requiring providers to certify that they have not been debarred or suspended from participating in the Medical Assistance Program did not fully comply with 42 CFR 455.106. The department has not addressed this issue as of the time of our audit.

Questioned Costs: None

RECOMMENDATIONS

- | | |
|----------|---|
| 2003-62a | Review and strengthen procedures to ensure current agreements containing the required suspension and debarment certifications are in place for all providers. |
| 2003-62b | Implement procedures to ensure that individuals/entities participating in the Medical Assistance Program have not been excluded from participation by any federal organization. |
| 2003-62c | Revise Addendum I to the department's standard provider agreement to fully comply with 42 CFR 455.106. |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2003-63

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

PROGRAM OVERPAYMENTS

Federal regulation 42 CFR 433.20 requires the State to refund the federal share of overpayments that are subject to recovery to CMS through a credit on its Quarterly Statement of Expenditures (Form CMS-64). The federal share of overpayments subject to recovery must be credited on the Form CMS-64 report submitted for the quarter in which the 60-day period following the discovery is made regardless of whether or not the overpayment has been recovered by the State.

During our audit, we noted the following provider overpayments requiring recovery to CMS:

- ❑ The State entered into an agreement with an HMO to provide capitated managed care coverage for the State's foster care population. This agreement was established with a no-risk provision for the provider and required calendar year settlements through December 31st within 180 days of the calendar year-end. As of the last settlement date of December 31, 2002 related to our audit period, the State had overpaid \$348,357 (federal share=\$192,990) to the provider relating to this contract. DHS had not sought reimbursement nor credited the federal government for this overpayment during our audit period.

- ❑ The State operates its Rite Share program to provide health insurance through employers for Medicaid eligible individuals and families as a cost effective alternative to its Rite Care program. Rite Share involves paying the employee share of health insurance coverage directly to the employer or in many cases, the employee. During our audit, we noted several instances where individuals left employment and terminated their health coverage but still continued to receive payments from DHS for their coverage. A review of a sample of receivable balances at June 30, 2003 resulting from employment terminations noted four instances where individuals enrolled in the program received \$5,545 (federal share = \$3,072) for health insurance premiums but no longer had active medical coverage. These amounts represent overpayments to Medicaid recipients that should have been credited back to CMS.

The above amounts have been adjusted on the State's financial statements, which should result in the necessary credit on Form CMS-64.

Questioned Costs: None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

RECOMMENDATION

2003-63 Reimburse the federal government for program overpayments within 60 days of their discovery.

Finding 2003-64

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

DISPROPORTIONATE SHARE PAYMENTS

The Department amended its State Medicaid Plan to allow certain non-governmental hospitals providing mental health services to qualify for disproportionate share payments. Among other criteria, the plan defined eligible hospitals as meeting the criteria set forth in Section 1923(b) of the Social Security Act. The provisions of this section of the Act require that a hospital have a Medicaid inpatient utilization rate at least one standard deviation above the mean Medicaid inpatient utilization rate for hospitals receiving Medicaid payments in the State, or, the hospital's low-income utilization rate exceeds 25 percent.

Disproportionate share payments to one hospital for \$2.24 million (federal share = \$1,231,006) did not meet the criteria of Section 1923(b).

The auditee disagrees, in part, with this finding and its views are outlined in the accompanying corrective action plan (Section E of this report – refer to corresponding finding number).

Questioned Costs: \$1,231,006

RECOMMENDATION

2003-64 Adhere to provisions in the State Plan regarding disproportionate share hospital reimbursements to qualifying mental health services hospitals.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2003-65

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

FEDERAL REPORTING

Controls should be improved over the preparation of the quarterly reporting of Medicaid expenditures on Form CMS-64 report. We found that the process to accumulate information needed to prepare the report is complex and requires extensive manual effort. Most of the information regarding claims paid is provided through the MMIS operated by the State's fiscal agent, however, other data must be derived from the State accounting system. Further, a complete reconciliation is not performed between amounts reported on the CMS-64 and Medicaid program expenditures reported in the State's accounting system, most notably administrative expenditures.

Although the reconciliation and reporting of program expenditures has improved, the overall process could be streamlined by better aligning the account structure within the State's accounting system with the categories of expenditure data generated by the MMIS and required for preparation for the CMS-64. Better alignment of accounts and coding would facilitate preparation of the CMS-64 as well as the reconciliation of data reported by the fiscal agent which ultimately is recorded in the State's accounting system.

DHS currently reports administrative expenditures claimed by other State agencies (DEA, DOH, MHRH, DCYF) based on cost certifications filed by these departments or transactions recorded in the State Accounting System. For certain administrative expenditure categories, DHS imputes State matches for federal expenditures certified by other State agencies to derive total costs reported on the CMS-64. As previously recommended in finding 2003-61, DHS should require other State agencies charging expenditures to the Medicaid program to record transactions into designated State and Federal accounts. This should allow DHS to completely reconcile administrative expenditures reported in the State Accounting System with those reported on Form CMS-64.

We also found that the CMS-64 did not include information regarding the collection of health care related taxes as required by federal regulation for three of the four quarters during fiscal year 2003. Additionally, drug rebates receivable were not correctly reported based upon detail drug rebate data maintained by the fiscal agent.

No review process is in place to ensure consistent and accurate reporting of program expenditures on the CMS-64.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

DHS is also required to complete Form PMS-272 Report for the Medical Assistance Program. The main function of the PMS-272 is to detail both administrative and program grants authorized for the program and actual expenditures reported on the CMS-64 for the program. We noted two instances during fiscal year 2003 where DHS reported cumulative disbursements on Form PMS-272 that exceeded actual expenditures to date for the fiscal year due to the use of estimated or preliminary CMS-64 expenditure data.

Questioned Costs: None

RECOMMENDATIONS

- | | |
|----------|---|
| 2003-65a | Reconcile Medicaid program expenditures reported on the CMS-64 with amount included in the State's accounting system. Implement a review process to ensure the consistent and accurate reporting of program expenditures. |
| 2003-65b | Align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS. |
| 2003-65c | Include information relative to the collection of health care related taxes on the CMS-64. |
| 2003-65d | Ensure data reported on the CMS-64 regarding outstanding drug rebates is consistent with supporting records maintained by the fiscal agent. |
| 2003-65e | Completely reconcile administrative expenditures reported on the CMS-64 with those reported in the State's accounting system. |
| 2003-65f | Report cumulative disbursements on the PMS-272 based on actual expenditures in accordance with report guidelines. |

Finding 2003-66

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

HOSPITAL SETTLEMENTS

DHS requires inpatient hospital providers to file cost settlement reports within one year from the end of the hospital's fiscal year. DHS uses these settlement reports to determine amounts owed to or from participating hospitals. Our review of hospital settlement information

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

during fiscal year 2003 noted one hospital that had recently submitted overdue settlement reports for fiscal years 1995 through 2001. Calculated settlements by DHS resulted in amounts due from the hospital of \$3.1 million for the periods submitted.

The hospital provider is currently disputing the settlement amount. DHS should resolve this settlement with the provider in a timely manner to ensure the timely credit of these amounts to the federal government.

Questioned Costs: None

RECOMMENDATIONS

2003-66 Recover identified hospital settlements from providers in a timely manner and credit the federal government for their share within 60 days.

Finding 2003-67

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778

Administered by: Department of Human Services (DHS)

MANAGED CARE

The State's RItE Care program provides families on the Family Independence Program and eligible uninsured pregnant women, parents, and children up to age 19 with comprehensive health insurance coverage. DHS has contracted with three Health Maintenance Organizations (HMOs) to provide this comprehensive medical coverage to eligible Medicaid recipients for a fixed monthly capitation fee. The fee reimbursed to participating HMOs is based on the age and sex of the Medicaid recipient and ranged from \$277 per month for children under age 1 to \$67 per month for children between the ages of 6 and 14 during fiscal year 2003. DHS's Medicaid Management Information System (MMIS) determines required payments to participating HMOs based on specific capitation coding assigned by the system to each Medicaid recipient.

We tested 60 monthly capitation payments made during fiscal year 2003 as part of our audit. We noted 1 monthly capitation payment where the MMIS had assigned an incorrect capitation code to an individual resulting in an overpayment of \$199, with a total overpayment of \$2,375 (federal share = \$1,316) during fiscal year 2003.

Further investigation of this exception revealed that the error was caused because the recipient's aid category did not correctly crosswalk from the INRHODES system (system that determines Medicaid eligibility) to the MMIS (Medicaid claims payment system). The incorrect

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

aid category in the MMIS ultimately generated the incorrect capitation code and subsequent payments by the MMIS for this recipient.

While such errors are believed to occur in only a limited number of cases, DHS needs to develop a process to identify these discrepancies to prevent overpayments over extended time periods and to recoup any overpayments identified from participating HMOs.

The auditee disagrees, in part, with this finding and its views are outlined in the accompanying corrective action plan (Section E of this report – refer to corresponding finding number).

Questioned Costs: \$1,316

RECOMMENDATIONS

- | | |
|----------|---|
| 2003-67a | Develop a process to identify incorrectly assigned capitation codes within the Rite Care population. |
| 2003-67b | Identify all cases with incorrect capitation codes and determine amounts to be recouped from participating HMO providers. |

Finding 2003-68

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

LOCAL EDUCATION AGENCIES

School-based health services reimbursable under the Medicaid program are provided by local education agencies (LEAs) to students with special needs pursuant to an Individualized Education Plan (IEP). Services are provided in the school setting or another site in the community and include speech therapy, physical therapy, occupational therapy, audiological services, behavior management, counseling, and other medical services.

As part of our audit of the Medicaid program, we updated the status of a report on school-based medical services issued by the Office of Inspector General (OIG) from the Department of Health and Human Services. The OIG reported the following audit findings relating to Medicaid claiming by LEAs:

- ❑ Sufficient documentation was not always maintained to ensure that services prescribed in the student's IEPs were delivered,

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

- ❑ Claims were submitted for students on days they were indicated as absent from school,
- ❑ Inconsistencies existed between IEPs and medical services performed, and
- ❑ Medicaid was sometimes incorrectly billed, either for an ineligible student or for medical services that were unallowable based on billing regulations.

The OIG ultimately concluded that ineligible claims were reimbursed and privacy information was disseminated because DHS's oversight and monitoring of school-based services was less than adequate. Medicaid program guidance was not always disseminated, and/or adequately explained. DHS did not monitor or review the LEA's degree of compliance with federal and state regulations applicable to LEA's participation in the Medicaid school-based program.

The auditee disagrees, in part, with this finding and its views are outlined in the accompanying corrective action plan (Section E of this report – refer to corresponding finding number).

Questioned Costs: None

RECOMMENDATION

2003-68 Enhance oversight and monitoring procedures related to school-based medical services to address the findings in the report issued by the DHHS.

Finding 2003-69

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

CONNECT CARRE PROGRAM

Connect CARRE is a voluntary care management and wellness program implemented by DHS to assist chronically ill individuals within the Medical Assistance Program. The program is designed to provide care management services to these individuals with the goal of reducing their utilization of emergency and inpatient hospital services. DHS contracted the care management function of the program to a private health maintenance organization at a cost of \$225 per individual per month.

Our office conducted a performance audit of the *Connect CARRE* program (that included all related care management activities conducted during fiscal year 2003) that focused on evaluating the current practices and procedures employed by DHS in administering the program.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

Our audit included reviewing participant files maintained by the *Connect CARRE* provider as well as the Medicaid claiming activity relating to the program.

Our audit resulted in control weaknesses relating to the following aspects of program operations:

- ❑ Program recruitment,
- ❑ Participant enrollment,
- ❑ Patient confidentiality,
- ❑ Care management,
- ❑ Financial monitoring, and
- ❑ Program oversight

In addition, we noted provider reimbursements in instances contrary to program guidelines outlined by DHS. These instances included;

- ❑ Reimbursements for individuals who had refused participation in the program when contacted by the program provider in the amount of \$4,950 (federal share = \$2,742),
- ❑ Monthly reimbursements to the program provider of \$450 instead of the contracted \$225 per month resulting in total fiscal year 2003 provider overpayments of \$1,125 (federal share = \$623).
- ❑ Reimbursements for cases where attempted enrollment exceeded six months totaling \$10,125 (federal share = \$5,609), and
- ❑ A reimbursement for a deceased participant in the amount of \$225 (federal share = \$125).

The above amounts have been adjusted on the State's financial statements, which should result in the necessary credit on Form CMS-64.

DHS needs to re-evaluate and improve its current oversight and monitoring of the *Connect CARRE* provider to ensure that the program is operating effectively and meeting its primary objectives.

Questioned Costs: None

RECOMMENDATIONS

- | | |
|----------|---|
| 2003-69a | Improve oversight and monitoring procedures over care management activities for the <i>Connect CARRE</i> program. |
| 2003-69b | Adopt all recommendations communicated in conjunction with the above mentioned performance audit to provide enhanced controls over payments to the <i>Connect CARRE</i> provider. |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2003-70

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

RITE SHARE

As previously stated, the State operates its Rite Share program to provide health insurance through employers for Medicaid eligible individuals and families as a cost effective alternative to its Rite Care program. Rite Share involves paying the employee share of health insurance coverage directly to the employer or in many cases, the employee.

As part of the Rite Share enrollment process, DHS accumulates necessary health insurance information to determine the cost effectiveness of the coverage provided by the employer. Such information includes the benefits covered by the plan, the cost of the plan, the employee's share, employee co-payments, etc. DHS does not obtain any documentation from the health insurance plan as verification of coverage. Verification is only made with the employer.

Once enrolled, DHS does not currently have any means of verifying that Medicaid recipients maintain their employment and ultimately their health insurance coverage. This represents a significant control weakness considering that DHS, in many cases, pays premiums directly to Medicaid recipients.

During our audit, we noted four cases where individuals were paid directly for health insurance coverage after they had terminated their employment and benefits. In all cases, the recipient did not return the premiums to DHS. As previously reported in finding 2003-69, premium overpayments related to these cases totaled \$5,545.

In addition to paying premiums to these individuals, DHS also subsequently retroactively dated their insurance coverage termination date in the MMIS to the date the individual terminated their employment. This resulted in the State paying all fee for service claims submitted on behalf of these individuals in addition to paying the premiums for their employer coverage. Total fee-for-service claims paid for the periods when these individuals should have had employer coverage totaled \$34,824. Had timely identification of employment termination been made and these individuals were re-enrolled in Rite Care, DHS would have incurred approximate capitation expenditures of \$4,774 only. DHS's untimely identification of terminated health coverage resulted in unnecessary costs of approximately \$30,050 (federal share = \$16,648)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

DHS should improve controls to monitor the employment and sustained health insurance coverage of Rite Share participants to prevent overpayments and unnecessary benefit liabilities from being incurred by the Medicaid program.

Questioned Costs: \$16,648

RECOMMENDATION

2003-70 Improve controls to ensure that Rite Share participants enroll and sustain valid health insurance coverage to prevent program overpayments.

Finding 2003-71

BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE –
CFDA 93.959

Administered by: Department of Mental Health, Retardation and Hospitals – Division of
Substance Abuse (DSA)

SUBRECIPIENT GRANT AWARDS

Grants to subrecipients may be funded with a combination of federal block grant funds and state funds appropriated for similar substance abuse prevention and treatment purposes. At the time of the award, the Division of Substance Abuse does not identify the portion of the total grant that is funded from federal sources. Delineating the amount of federal block grant funds awarded at the time of the award is important so that the agency can plan to comply with all applicable federal requirements including the Single Audit provisions of OMB Circular A-133. Subsequently, at fiscal year end, the Division of Substance Abuse informs the subrecipients of the grant award amount that is from federal funds.

OMB Circular A-133 requires that the pass-through entity (Division of Substance Abuse (DSA) – MHRH) is responsible for identifying to the subrecipient at the time of the award the federal award information namely the CFDA title and number, award name, name of the Federal agency and all applicable compliance requirements. In response to previous audit recommendations, the Division of Substance Abuse enhanced its grant documentation to meet some of the OMB Circular A-133 requirements, however, the federal awarding agency and the amount of federal funds is not specified.

The auditee disagrees, in part, with this finding and its views are outlined in the accompanying corrective action plan (Section E of this report – refer to corresponding finding number).

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Questioned Costs: None

RECOMMENDATION

2003-71 Identify the amount and source of federal funds included in each grant award to subrecipients at the time of the award.

Finding 2003-72

BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE –
CFDA 93.959

Administered by: Department of Mental Health, Retardation and Hospitals – Division of
Substance Abuse (DSA)

SUBRECIPIENT PROGRAM REVIEWS

The Division of Substance Abuse (DSA) is responsible for monitoring subrecipient activities to provide reasonable assurance that each subrecipient administers Federal awards in compliance with Federal requirements. DSA utilizes a form to prompt and document its required site monitoring reviews of treatment facilities receiving substance abuse block grant funds. We found program review worksheets were not fully completed for certain facilities. The final reports, which are compiled based on the program review worksheets, indicated there were no findings for the areas with incomplete documentation. We also found there was no documentation of follow-up by the DSA for facilities where findings were noted and communicated as a result of site monitoring reviews.

DSA is required by federal regulation to complete monitoring reviews of all treatment facilities on a federal fiscal year basis. During federal fiscal year 2003 one treatment facility was not subjected to a program review. DSA indicated that they met the monitoring requirements for this facility through alternative procedures which were not documented as part of the monitoring process.

Questioned Costs: None

RECOMMENDATIONS

2003-72 a Complete all questions on the program review worksheet during subrecipient monitoring reviews. Indicate on work sheet "not applicable, or none" for those areas where there are no findings to report.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

2003-72b Complete reviews or monitoring of all treatment facilities as required by federal regulations.

Finding 2003-73

BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE –
CFDA 93.959

Administered by: Department of Mental Health, Retardation and Hospitals – Division of
Substance Abuse (DSA)

REVOLVING LOAN FUND

The Division of Substance Abuse (DSA) operates, through a subrecipient, a revolving loan fund for individuals with alcohol and drug abuse problems residing in groups. Individual loans may not exceed \$4,000. Our review of the revolving loan fund program indicated the following:

- ❑ Loan balance amounts on the Loan Status Report prepared by the subrecipient administering the loan program did not agree with related bank statements. DSA did not identify or investigate these discrepancies. We determined that these discrepancies were the result of timing differences.
- ❑ Two loans were over the \$4,000 maximum limit set by federal regulations. There is no formal written policy defining permitted exceptions to this regulation.
- ❑ There is no formal written policy for recourse when a loan is in default. One loan (\$1,270) was in default as of September 30, 2002.

DSA should enhance its oversight and monitoring of the subrecipient administering the revolving loan fund to ensure compliance with all applicable federal regulations.

Questioned Costs: None

RECOMMENDATIONS

- 2003-73a Improve monitoring of the subrecipient administering the revolving loan fund.
- 2003-73b Implement formal written policies and procedures regarding maximum loan amount limits and permitted exceptions.
- 2003-73c Implement formal written policies and procedures regarding loan defaults.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2003-74

BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE –
CFDA 93.959

Administered by: Department of Mental Health, Retardation and Hospitals – Division of
Substance Abuse (DSA)

SPECIAL TESTS AND PROVISIONS - PEER REVIEW

The Division of Substance Abuse has identified five modalities of substance abuse treatment within the State - detoxification services, residential treatment services, outpatient services, narcotics services (methadone maintenance and detox services), and intensive outpatient (day treatment services). Federal regulation {45 CFR 96.136 (a)}, requires that one facility from each modality must be selected for peer review each year. During fiscal 2003, no detoxification services provider was selected for peer review. A detoxification service provider underwent the licensing/certification process during fiscal 2003; however, federal regulations require that the State ensure that independent peer review is not conducted as part of the licensing/certification process.

Further, the State is required, pursuant to 45 CFR 96.136 (e), to ensure that the independent peer review will not involve practitioners/providers reviewing their own programs, or programs in which they have administrative oversight, and that there be a separation of peer review personnel from funding decision makers. We found that some of the names of proposed peer review team members were not provided in advance to the facility selected for review. Consequently, a potential conflict of interest may not be identified by the facility.

The auditee disagrees, in part, with this finding and its views are outlined in the accompanying corrective action plan (Section E of this report – refer to corresponding finding number).

Questioned Costs: None

RECOMMENDATIONS

- | | |
|----------|--|
| 2003-74a | Conduct peer reviews for each of the 5 modalities of treatment in accordance with federal regulations. |
| 2003-74b | Verify all the team members in advance with the selected facility in accordance with federal regulations in order to identify potential conflicts of interest with peer review team member prior to beginning the peer review. |

Corrective Action Plan



Corrective Action Plan -
Findings Included in 2003 Single Audit Report

Finding 2003-1

Corrective Action:

2003-1a

Condition of State Financial Management Systems:

The single audit findings continue to point to a need for complete overhaul of the State's financial management system capabilities and financial management procedures. The current RI-SAIL system is not what was envisioned as the "statewide integrated financial management system." Only one component, the general ledger (G/L), of the Oracle financial suite is currently implemented. Almost all of the State's financial transactions are first processed thru the Buy Speed system. Buy Speed was originally procured to support purchasing and accounts payables. However, as implemented, most of the state's financial transactions are processed through Buy Speed where the detailed transactions are stored and only summary totals are entered into the G/L for each affected account.

The current system as configured is not capable of providing the kinds of security, automated reporting and automated controls the state requires of an integrated system. This system does not contain all the information required for proper financial management, and cannot be fixed in its present state. The results being achieved by the system today rely on an extensive set of paper documents, manual procedures for controls and duplicate entry of basic accounting information. The resulting information is error prone, and posting of data often lags behind the occurrence of the event.

In addition the State has major requirements for financial management information that lay outside the audit findings:

1. The Budget office and Agencies desperately need a system that has budget, encumbrances, actual expenditures, and all revenue receipts in a single integrated database for reporting as well as tracking cash.
2. Most agencies using federal funds have a need to capture their labor expenses in a manner that supports their needs to manage grants and receive timely reimbursements. Agencies have spent millions on developing and maintaining their own subsidiary islands of information for performing these functions with mixed results.

In order to move toward an integrated accounting system that fully meets the State's operations management and financial reporting needs, we will have to fund and re-implement the Oracle Financial Management suite.

Accomplishments since the findings included in 2002 Single Audit Report

Corrective Action Plan - Findings Included in 2003 Single Audit Report

- The program to reinstall and deploy the Oracle integrated financial management suite began on May 10th, 2004.
- The State has piloted the Oracle Financial Management Suite including Projects, Grants, GL, Accounts Payable, Accounts Receivable, Human Resources and Purchasing modules within the Department of Transportation.
- The State has also piloted the Oracle Fixed Assets module and trained Accounts and Controls staff in its capabilities and use.
- The Department of Information Technology hosted six full day training sessions for all State financial and operations management personnel on each major business process implemented within the Oracle financial suite of software.
- The Department of Information Technology has initiated a review, confirmation and modification of the original requirements and business case, including definition of:
 - a. Goals to be achieved by an integrated system
 - b. Definition of the State's business requirements
 - c. Agency functions and processes to be addressed
 - d. Business processes to be reengineered
 - e. Benefits to be achieved by the Program
- The Department of Information Technology and the Department of Accounts and Controls has initiated the development of a plan, budget, and technical hosting architecture required to complete the implementation of the system, including external and internal resources. This plan will be published on January 10th, 2005. The scope of this engagement includes each of the Branches of State Government, the Treasurer's Office, the Budget Office, the Controller's office, and all major state department and agencies.

Plan to continue moving forward

The next steps necessary to remediate this set of Audit issues are:

- Presentation and approval of the Business Case justifying the Program goals, the two year schedule (FY 2006 and 2007), and seeking approval of \$20 million to be financed over five years.
- Establishment of a governance structure to provide program reviews and oversight. Because of the magnitude of the effort, the criticality to the State and the close interaction between the implementation of the integrated financial system and the efforts to address the other audit recommendations, an executive Financial Systems Steering Committee will be established to direct both efforts.

Corrective Action Plan - Findings Included in 2003 Single Audit Report

This group would be in charge of providing direction and resources to the subordinate teams to accomplish the tasks assigned.

This Steering Committee will meet monthly, and will provide the Program:

- Overall guidance and management oversight
 - An ability to resolve changes in scope that affect the budget, milestones, and deliverables
 - An ability to address issues and address risks that cannot be handled by the program team
 - Interpretations of policy, and the leadership to change the State's business processes and procedures in order to meet the Program's objectives.
 - Management of all communication with the leadership of the State, the project team and the citizens.
 - Review of plans and practices for compliance with the Audit findings and to monitor the progress of the team's implementation.
-
- Program completion is targeted for June 30, 2007
 - The Program will be deployed in phases that are driven by the various business processes of the State. These will include but not limited to:
 - Procurement through payment process
 - Budgeting process
 - Personnel benefits enrollment
 - Project and grant accounting
 - Accounts receivables and cash management
 - Property and facilities management
 - Fixed assets tracking and depreciation

Contact persons: Lawrence Franklin, Jr.
 State Controller
 (401) 222-6731
 e-mail: larryf@gw.doa.state.ri.us

 Thomas Collins
 State Chief Information Officer
 (401) 222-4444
 e-mail: TCollins@DoIT.ri.gov

2003-1b

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

The Office of Accounts and Control will investigate possible modifications to “positive pay” file format so that it cannot be modified prior to transmission to the bank.

Anticipated completion date: June 30, 2005

Contact person: Lawrence Franklin, Jr.
State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

2003-1c

The Office of the General Treasurer and the Office of Accounts and Control will work together to improve controls over the approval of receipt transactions to prevent the duplicate recording of transactions.

Anticipated completion date: June 30, 2005

Contact persons: Catherine King Avila,
Deputy General Treasurer for Administration
(401) 222-2287

Lawrence Franklin, Jr.
State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

2003-1d

The Office of Accounts and Control plans to reduce the number of natural accounts and improve their titles to reduce problems associated with current structure. Account titles will be revised by November 30, 2004. Budget Office will begin using the new one in preparing the FY 2006 budget.

Anticipated completion date: January 1, 2005

Contact person: Lawrence Franklin, Jr.
State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

2003-1e

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

Some unexplained transaction processing anomalies occurred at the beginning of FY 2003. During that time the state was installing new releases of the A/P application software, to which we attribute these anomalies. They have not recurred since.

Anticipated completion date: June 30, 2003

Contact person: Lawrence Franklin, Jr.
State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

Finding 2003-2

Corrective Action:

2003-2a

During FY 2005, the Office of Accounts and Control will post general ledger journal entries as cash settlements occur to implement this recommendation.

2003-2b

During FY 2005, the Office of Accounts and Control will work with Treasury to implement an overall settlement of inter-fund receivables and payables on a more frequent basis.

Anticipated completion date: June 30, 2005

2003-2c

The Office of Accounts and Control will explore options towards implementation.

Anticipated completion date: June 30, 2005

Contact person: Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

Finding 2003-3

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

Corrective Action:

2003-3a

During fiscal 2003, Treasury had to rely on auxiliary systems for the reconciliation of some General Funds due to the lack of adequate RISAIL reports. With the development of new reports in February of 2004, Treasury was able to abandon the use of “shadow” systems, allowing reconciliation directly to Buyspeed/GL transactions.

Numerous corrective actions have been implemented to improve the reconciliation process, including changes to the processing of certain transactions, such as EDS, EBT, and Tax refund Payments. One of the most significant developments came in 2004 with the allocations of cash accounts by Bank, eliminating the need to perform a combined reconciliation for all the General Funds. Due to the improvements implemented during 2002 and 2003, bank reconciliation has progressed from a 15 month backlog in fiscal year 2003 to a projected completion date of 6 months after fiscal year end in 2004.

Anticipated completion date: December 30, 2004

Contact person: Catherine King Avila
Deputy General Treasurer for Administration
(401) 222-2287

2003-3b

Beginning in July 2004, accounting procedures were revised to record these transactions on a daily basis. The Office of Accounts and Control will work with Treasury to implement posting on a transaction level detail basis.

Anticipated completion date: July 1, 2005

Contact person: Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

2003-3c

Discussions between Treasury, Accounts and Control and DOIT were initiated during fiscal 2004 to explore the feasibility of electronic matching of bank and accounting transactions to assist the reconciliation process. Treasury also involved the State’s financial institutions in testing preliminary data. Treasury and the Office of Accounts and Control will continue to explore options to automate as much of the reconciliation process as possible.

Anticipated completion date: June 2005

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

Contact persons: Catherine King Avila
Deputy General Treasurer for Administration
(401) 222-2287

Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

2003-3d

During fiscal year 2004 the existing configuration of bank accounts was assessed with the objective of streamlining the number of accounts and the number of inter-account transactions, to identify accounts appropriate for consolidation. The TDI Admin A and TDI Admin B accounts have been targeted for merger into the existing TDI Reserve account.

Anticipated completion date: January 2, 2005

Contact person: Catherine King Avila
Deputy General Treasurer for Administration
(401) 222-2287

Finding 2003-4

Corrective Action:

Beginning in July 2004, accounting procedures were revised to record these transactions on a daily basis. The Office of Accounts and Control will work with Treasury to implement posting on a transaction level detail basis.

Anticipated completion date: July 1, 2005

Contact persons: Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

Joan Caine
Deputy General Treasurer for Finance
(401) 222-2287

Finding 2003-5

Corrective Action:

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

The Department of Administration is configuring the Oracle Fixed Assets and Assets Manager modules to implement this recommendation. New modules planned to be operational by July 2005. Updates to the database for vehicle acquisitions are reconciled to State Fleet database. During FY 2003, all purchase requisitions and payments related to furniture and equipment purchases are reviewed prior to payment to insure that the procedures for preparation and submission of capital asset acquisitions is adhered to consistently. Beginning in FY 2005, physical inventories of furniture & equipment will be planned to insure adequate coverage of those agencies with the largest dollar value of assets.

Anticipated completion date: July 1, 2005

Contact person: Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

Finding 2003-6

Corrective Action:

Implementation of this recommendation will be part of the implementation of an ERP system for the state. See response to recommendation 2003-1a.

Anticipated completion date: June 30, 2006

Contact person: Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

Finding 2003-7

Corrective Action:

Estimates will be analyzed annually after close of each fiscal year to ensure their accuracy. Changes will be made to the estimates used for the ensuing fiscal year.

Anticipated completion date: June 30, 2005

Contact person: Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

Finding 2003-8

Corrective Action:

The Office of Accounts and Control plans to insure that all state agencies submit the FGIS timely and will review each one received for completeness and accuracy. The follow-up and review process will begin with the FGIS forms submitted for FY 2004.

Anticipated completion date: January 1, 2005

Contact person: Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

Finding 2003-9

Corrective Action:

The Office of Accounts and Control and DOT will work to ensure accurate encumbrance data is provided for financial reporting prior to implementation of the DOT Financial Management System.

Anticipated completion date: January 1, 2005

Contact person: Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

Finding 2003-10

Corrective Action:

State Controller will require all departments and agencies, which currently do not do so, to report earned and discharged vacation and sick hours through the State's payroll accounting system by June 2005.

Anticipated completion date: June 30, 2005

Contact person: Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

Finding 2003-11

Corrective Action:

2003-11a

The State Controller will reorganize duties of the accounting staff to insure liability accounts are analyzed and reconciled on a regular basis.

Anticipated completion date: Reassignment/realignment of duties to be complete and analysis and reconciliation to begin by January 1, 2005.

2003-11b

New accounts to segregate current activity from old variances will be established as needed.

Anticipated completion date: January 1, 2005

2003-11c

Additional accounts to segregate accounts for amounts accumulated for future settlement of payroll related costs from current amounts owed to providers will be established as needed.

Anticipated completion date: January 1, 2005

Contact person: Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

Finding 2003-12

Corrective Action:

2003-12a

The Division of Taxation will separate duties relating to the processing of electronic funds transfers.

2003-12b

The Division of Taxation will contact the state's bank to inquire regarding use of an encryption modem by the bank to send the data.

2003-12c

The Division of Taxation will work with the auditors to devise acceptable policies and procedures for reconciling and recording EFT data.

Anticipated completion date: December 31, 2004

Contact person: R. Gary Clark, Tax Administrator
(401) 222-3050

Finding 2003-13

Corrective Action:

State Controller has reviewed the access of all RI SAIL users to ensure access is appropriate to their assigned functions. His review concluded that, based upon the current BUYSPEED security functionality, all users have appropriate access. (The BUYSPEED software application vendor no longer supports this application so changes to security features cannot be made at this time.)

Anticipated completion date: December 31, 2003

Contact person: Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

Finding 2003-14

Corrective Action:

This recommendation will require a significant computer programming effort. The controller and the project staff will work with the auditors to develop complete and accurate specifications before implementing it.

Anticipated completion date: January 1, 2006

Contact person: Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

Finding 2003-15

Corrective Action:

The Division of Taxation will enhance access controls to our mainframe computer systems by implementing formal best practices and procedures to the extent that the computer systems will allow.

Anticipated completion date: December 31, 2004

Contact person: R. Gary Clark, Tax Administrator
(401) 222-3050

Finding 2003-16

Corrective Action:

2003-16a

The state is in the final stages to signing a contract with SunGard Availability Services for recovery services pertaining to the State Data Center. The first element of implementation of the contract will be to establish testing protocols. The hot site test will be an exercise of disaster recovery/business resumption procedures for the Data Center. The result will be a fully documented and tested plan. Thereafter, the plan and the hot site will be tested annually.

Using the experience of the Data Center test, the state team will be in a good position to document and test the much less complex operations at One Capitol Hill. Work is in progress to

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

install a central UPS and generator to support One Capitol Hill operations; these will be instrumental to disaster recovery/business resumption there.

The State Risk Manager is engaged in preparing a disaster recovery/business resumption plan for the Department of Administration. DoIT's work in this area will be closely coordinated with Mr. Carvalho's work as well.

Anticipated completion date: June 30, 2005

2003-16b

A Division of Information Technology (DoIT) staff member is currently leading a team that is developing just such a policy as part of the centralization of Information Technology services throughout state government. That plan's first iteration will be available for comment January 31, 2005. It will be reviewed regularly thereafter.

Anticipated completion date: January 31, 2005

2003-16c

A senior manager of the DoIT staff has been assigned to monitor and maintain the plan.

Anticipated completion date: January 31, 2005

Contact person: Thomas Collins
 State Chief Information Officer
 (401) 222-4444
 e-mail: TCollins@DoIT.ri.gov

Finding 2003-17

Corrective Action:

The State Accounting System (SAS) was never capable of handling the sophisticated grant tracking and multiple year funding and expenditure tracking that is needed to implement the Highway Program. Financial statements were prepared from a combination of reports from the SAS and the antiquated Highway Finance System running on the state mainframe. Because of this, the Department has had in development an internal accounting system based on Oracle Financials and Oracle Grants.

During fiscal year 2002, the State implemented the RISAIL system, which exacerbated the problem. The system was not set up to handle multiyear encumbrances. Simple construction purchase orders could not be entered but instead had to be created as blanket contracts with

Corrective Action Plan - Findings Included in 2003 Single Audit Report

individual “releases” to expend funds. The system was unable to give us purchase order balances and the tracking of expenditures-to-contracts had to be tracked on internal systems.

Progress has been made toward the implementation of this system. We have undergone and passed an extensive certification process by a team from several states that was assembled by the American Association of State Highway and Transportation Officials (AASHTO.) The project has been brought under the umbrella of the Department of Administration’s Information Technology Group and the project team undergoes bi-weekly reviews of their progress.

I am confident that the implementation of this system will allow us to better track the encumbrances, payables and receivables. The preparation of the Financial Statement from the State Accounting System cannot produce accurate results. A system specifically designed to track the unique nature of the Federal Highway funding system is needed.

The Earned but Unbilled (EBUB) amount at end of fiscal year 2003 was \$9.9 million. The EBUB amount reflects project expenditures that are eligible for federal reimbursement, but have not been authorized, and hence not billed.

Federal highway funding is fixed. The amount of funding allocated to each state is set by Congress in each reauthorization and is set for several years. Unlike other federal programs, determining federal eligibility does not “earn” the states additional funds.

Each year, a spending plan is developed based on the Transportation Improvement Program. Funding is allocated for construction, design, enhancements, etc. A reserve for project modifications is also established. When projects exceed their budgets, the project modifications are submitted against the reserve. When the reserve is depleted, scheduled projects must be canceled. If no projects can be canceled, State funds can be used to meet the obligation, but by classifying the expenditure as EBUB, the state reserves the right to bill Federal Highway at a later time through a project modification.

The EBUB amount represents the cumulative total of projects that exceeded their authorization, and the expenditures were covered by state funds. It is the Department’s goal to continue to reduce the Earned but Unbilled total. The following chart shows the Earned but Unbilled at the close of each fiscal year since Fiscal Year 1995:

| | |
|-------|----------------|
| FY 95 | \$17.9 million |
| FY 96 | \$13.7 million |
| FY 97 | \$18.0 million |
| FY 98 | \$18.6 million |
| FY 99 | \$15.6 million |
| FY 00 | \$12.8 million |
| FY 01 | \$12.6 million |
| FY 02 | \$10.9 million |
| FY 03 | \$9.9 million |

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

The Department will continue its efforts to reduce the cumulative Earned but Unbilled total without sacrificing the approved Transportation Improvement Program.

2003- 17a

The Department has significantly reduced the amount of time from payment of a voucher to reimbursement from the federal government. This will be improved further with the implementation of the new financial management system. The new system will bill—in compliance with the Cash Management Improvement Act—automatically after a vendor check is processed. (The Department’s average clearance pattern this year has been increased from three days to five days.)

The Department has been reducing the cumulative earned but unbilled amount for the past seven fiscal years. We will continue our effort to reduce this amount without sacrificing the approved Transportation Improvement Program.

2003-17b

The Department concurs and necessary changes have been submitted. CFDA numbers are included in several documents and better coordination between the internal systems, the state accounting system, and the state budget system is needed to insure compliance.

2003-17c

The transfer of bond funds is done by the Department of Administration not the Department of Transportation.

The Department however does not agree with this recommendation. Because the federal highway funds are received on a reimbursement basis—which cannot be received until five days after a payment is made—we need a balance in the highway fund to operate from. Additionally, three years ago, the Legislature changed the way gas tax is collected which caused the department to lose one month’s gas tax collection. Because of this, gas tax revenue received in the first month of the fiscal year is credited to prior fiscal year. This effectively removed \$7 million of working cash from the highway fund.

2003-17d

The department concurs that this is necessary, however this is not possible under the current accounting system. We are working with the state controller to implement this when we implement the Oracle system.

2003-17e

The department concurs.

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

Contact person: Brian Peterson,
Associate Director for Financial Management
(401) 222-6590 ext. 4634

Finding 2003-18

Corrective Action:

See corrective action plan for Finding 2003-59.

Finding 2003-19

Corrective Action:

See corrective action plan for Finding 2003-5.

Finding 2003-20

Corrective Action:

2003-20a

The Department of Administration agrees that federal cash management will improve with the implementation of a central cash management monitoring function. Upon implementation of an ERP system implementation of this recommendation will become more feasible.

2003-20b

All interest calculations will be properly calculated and documented in the future. Problems associated with implementation of new accounting system caused problems in FY 2002. Each year the annual interest report is completed by December 31st.

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

2003-20c

The State Controller will establish a more formal review and revision process for making needed amendments to the TSA. Each year a review of the previous TSA is completed by May 31st.

Contact person: Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

Finding 2003- 21

Corrective Action:

1. The inventory for all USDA commodities is taken on a monthly basis. Procedures have been established where each pallet is tagged with the corresponding USDA Commodity Code. This in turn allows for orders to be picked according to a specific number rather than item description. This process has now been adjusted to allow for the distinction of the same commodity for different USDA programs where the commodity code will be followed by a specific letter for that program. It is the intention of this process to eliminate one program getting more commodities than it has been allocated.
2. During the month of July, 2004 a commodity location system has been established to show where each individual pallet has been stored along with the corresponding commodity code. If a shipment has to be split into more than one location, the warehouse personnel will now know how many pallets are left in stock and the exact location. This will help eliminate the possibility that a few pallets or partially filled pallet will be missed when an inventory is being conducted. This system is being tested in the freezer and the refrigerated area where there is the most pallet congestion during certain times of the year and it is hopeful that it will be utilized in the entire warehouse in the near future.
3. The CDC has been short-staffed in the warehouse section. When discrepancies are found, it is a labor-intensive project to try to discover where the problem originated and due to staff shortages this past year it has been almost impossible. However, we are expecting to have a full complement by mid-October. We are also working towards further enhancing the worker complement through the use of inmate assistants. Target date for implementation is November 1, 2004.
4. The staff of the Central Distribution is now reviewing the sequence of the paper work that deals with the USDA program in an effort to eliminate mishandled paper work that can disrupt the whole inventory process. Physical counts will now be performed and compared to the computer count if there is a discrepancy then a second physical count

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

will be performed if there is still a variance then the paper trail audit will be started. This process will hopefully eliminate the compounding of any error made.

5. The above corrective actions should minimize, but not eliminate all discrepancies. The problem we have now is that the current inventory system is not a real-time system; i.e. data entry takes place after the fact. Additionally, some functions are still kept manually in a ledger. Hence, the inevitable discrepancy does not immediately come to our attention, but only days or weeks later, making it more difficult to identify the source of the discrepancy.

The Department is now looking into the possibility purchasing a new warehouse management system where the staff of the Central Distribution Center is working in conjunction with the Management Information System unit to explore this option. The plan is to review the various programs of the Central Distribution Center perform a needs analysis and then to see if this plan will fall within the confines of the Department of Corrections finances. If it cannot, such improvement may have to wait for statewide implementation of a RISAIL-based inventory maintenance process. Target date for completion of review is December 31, 2004.

Contact person: Terrence McNamara, Administrator of Physical Resources
Department of Corrections
(401) 462-2043

Finding 2003-22

Corrective Action:

Response: Agree and will implement

In order to fully meet all Federal Reporting requirements, RIDE is currently in the process of improving controls over federal reporting by resolving application program design limitations and functionality deficiencies.

RIDE has taken action to correct the deficiencies related to database design and/or application functionality of SNACS. A new version of the SNACS application program (V2) was designed to address most of the functionality inadequacies. SNACS-V2 was implemented in October 2002 with a number of functionality modifications pending completion. In September 2003, an assessment was conducted on SNACS-V2 to identify what was completed, what was pending completion, and what still remained to be done. Below is a list of SNACS-V2 modifications that directly relate to reporting requirements:

- 1) A redesigned database structure to track information more accurately

Corrective Action Plan - Findings Included in 2003 Single Audit Report

Response: Implemented

The redesigned database includes additional tables and views to track data submitted in a more efficient manner. The SNACS database interfaces with RIDE's schools table to ensure that sponsors and sites are accurate. This eliminates the possibility of duplicating sponsors and sites. Security Control tracking is also part of the new design structure. Completed by July 2003.

- 2) An enhanced claiming/payment function that provides the ability to accept multiple claims for one month (adjustments), the ability to make individual payments without carrying the balance forward to the next pending month and the ability to receive overpayments via a check

Response: Implemented

This functionality provides the ability to receive and process multiple claims for one month (adjustments to the original claim). This functionality also provides the ability for the adjustment amount (negative/positive) to be carried forwarded to the next pending month or to receive a check for a negative amount. The claim screen now provides the ability to "pull up" the worksheet for the month (Claim Reimbursement Earned Worksheet), the daily counts for each site (Daily Meal Participation Report), and the consolidated month information by each site (Sponsor Site Meal Count Report) without having to leave the claim screen and go to the reports menu. Completed during FY-2004

- 3) The ability to handle sponsors in multiple programs within the school meal programs with reporting capabilities

Response: Partially Implemented

SNACS-V2 can separate and track sponsors in multiple programs. The redesign of the database provides additional functionality to accommodate sponsors, using their same sponsor number and site number, if applicable. Reports are in the development stage to query sponsors in multiple programs to streamline the program application renewal process, to track Federal reimbursement funds by sponsor, and to aid in requesting subrecipient audit (annual requirement) information. Anticipated time to complete this item with the needed output is by September 30, 2004, if work continues and delays are not encountered.

- 4) An accurate Severe Need Calculation

Response: Implemented with Future Changes

SNACS-V2 can recognize individual sites/schools for accurate severe need calculations and perform recalculations for adjusted claims initiated by the sponsor. To address non-

Corrective Action Plan - Findings Included in 2003 Single Audit Report

meal changes affecting severe need reimbursements, an Administrative Claim Adjustment process has been added to SNACS-V2 that allows recalculations based on criteria/data changes to a paid claim by authorized RIDE staff. This will provide RIDE Nutrition staff (authorized staff) the ability to recalculate the claim for non-meal recalculations as a site/school identified as severe need and paid as such when it should have been the opposite or visa versa. This will provide the supporting documentation and audit trail for the recalculation. Completed during FY-2004.

Change: A USDA change to the Severe Need Breakfast Program that eliminates the cost accounting requirement of the severe need breakfast calculation goes into effect July 2004. This change to the severe need breakfast calculation will be precisely free and reduced-price breakfasts served in approved severe need sites/schools by the maximum severe need rates for the breakfasts claimed for those sites/schools for the month being claimed. This change will require a vital modification to SNACS, beginning July 2004, while ensuring that the cost accounting severe need calculation for prior months (years) remain intact for adjustments, reviews, etc. One problem will be the reporting for this change because it is within a Federal fiscal year where 9 months calculated reimbursement would be based on cost while three months will be pure meals by the appropriate rate.

- 5) The modifications to existing screens and additional screens where needed, (e.g., more data on claim screen for approval process such as number of applications, adult breakfasts served for severe need schools, and severe need breakfast costs)

Response: Implemented

SNACS-V2 has additional information displayed on the LAN screen to help in approving monthly claims. This is more efficient than being required to print a report to check the number of eligibility applications, number of schools/sites approved and reported, and severe need details such as the number of adult breakfasts and severe need breakfast costs. Completed by July 2003 with additions during 2004.

- 6) The modifications to existing reports and additional reports where needed, (e.g., cumulative reports)

Response: Implemented and Evaluating

Existing reports have been modified to provide accurate data that utilize set formats and standards (e.g., report name, totals). These include the Sponsor Listing, Sponsor Directory, and the Site Catalog Reports.

The Cumulative Earned Report has been completely over-hauled to provide flexibility requesting data for a single sponsor, for multiple sponsors, or for all sponsors by a single

Corrective Action Plan - Findings Included in 2003 Single Audit Report

month or by multiple months that furnishes totals for each month or aggregate totals for each meal program and for all sponsors.

The Claim Reimbursement Earned Worksheet now provides reimbursement and meal totals for each meal served (free, reduced-price and paid) and payment history for the base claim and all subsequent adjusted claims for that month. The report also displays the number of sites approved and number of sites claiming meals for the month (this helps to identify if a site is missing).

The FNS-10 Report has been corrected to reflect the proper number of half-pints of milks served in schools and in non-residential milk programs and the proper number of snacks served in the after-school snack program (regular snacks and area-eligible snacks). In addition totals for the School Breakfast Program have been reworked to comply with the instructions of the FNS-10 Report. The average daily participation (ADP) is now calculating correctly.

A new Payment History Report has been added that provides detail or summary payment information for a single sponsor or multiple sponsors. Totals have been added to all reports for money amounts and data.

The Free, Reduced, and Paid Report has been revamped to provide summary totals for individual sponsor types (Districts, Independents, RCCIs, Milk Only, and Summer Milk) and a grand total for all sponsor types. This will be used often not only for reporting capabilities and requirements but also when responding to the many inquiries we receive internally and externally (RIDE). The data would always require manual interpretation by the RIDE Finance staff to present the data in an accurate, readable format

The Daily Meal Participation Report and the Sponsor Site Summary Report have been improved to add meal totals, number of sites participating for the month, and accurate number of operating days.

The RIDE Claim Status Report has been improved to provide not only more accurate information about the status of the claims but more functionality--such as--for any month, this report can identify when no data for the month has been entered in SNACS via the web as "missing," data entered for the month by the sponsor and pending approval by the sponsor (data becomes a claim when approved by the sponsor), claims submitted to RIDE (pending RIDE's acceptance), claims accepted (approved) by RIDE, claims on hold, or an adjusted claim pending submission, RIDE's approval and payment. If a sponsor does not appear on the report, the sponsor's claim for the month has been paid. This report aids greatly in the payment process and the reporting process to identify missing claims that require estimations for data and funding.

- 7) New reports have been designed specifically for reconciling Federal financial reports with the State's accounting system

Corrective Action Plan - Findings Included in 2003 Single Audit Report

Response: Implemented and Evaluating

New reports and functions have been added to SNACS-V2 that will aid in Federal financial reporting and Federal/State reconciliation. A site delete function has been added so sites that are carried into the new fiscal year, upon renewal, can be deleted if not going to open for the current fiscal year. This will provide accurate numbers of approved sites that can be compared to sites being reported on the monthly claim for reimbursement.

The Payment History Report will be essential in researching differences discovered during the "3-way check" (see Summary) analysis. This report also will provide data in the format needed to identify how much reimbursement a sponsor received for a selected period of time. Many inquiries are received requesting data and reimbursement for one sponsor, multiple sponsors, sponsor types or all for a variety of timeframes.

New functions to the existing reports have been added that provide the capabilities to request data for more than one sponsor or for more than one timeframe, i.e., Cumulative Earned Report and FRP Report. The regular claim function now provides the ability to accept and pay adjusted claims, to recalculate for rate changes (severe need and free milk--rates that change monthly). The Administrative Claim Adjustment function will allow recalculations to claims for non-meal adjustments. These new functions provide an audit trail of the changes, significantly improving the process where a programmer was the only one with the ability to correct prior data/payments based on corrections made outside of SNACS-V2.

The RI-Sail Interface function provides a method to approve payments from SNACS-V2 that automatically transfers the payment data to a flat file (via a diskette) ready for the Department of Administration-Accounts and Control payment processing. This method provides an audit trail of all the payments from SNACS-V2 submitted for processing in RI-Sail without a manual "break" between the two systems. The system is organized and prints out all required reports (report of the flat file, report specially for Accounts and Control, and a formatted Report for RIDE).

Summary

The 2003 Recommendation is approximately 95% completed. The new and the improved reports will be used to compile the SF-269 Report for the 3rd quarter Federal FY-2004 report. Once the most optimal reports/process used to compile the SF-269 report is identified, written procedures will be drafted and finalized when the 4th quarter report is compiled. The "3-way check" will be conducted to ensure 1) earned amounts equal 2) reimbursed amounts equals 3) drawn down amounts (Federal funds request). The RI-Sail interface will aid in the reconciliation of reimbursements paid in SNACS-V2 to RI-Sail expenditures. The RI-Sail interface will also be used to support drawn down amounts (funding requests), which will also aid in the

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

reconciliation of cash management. The Child Nutrition Programs collect a substantial level of detailed data that goes through a series of edit checks to ensure good data is used to calculate meal reimbursements that are paid to program sponsors. SNACS-V2 has required additional time to ensure that all its functionality and data sort and retrieval procedures provide accurate and consistent information via displayed on the LAN/Web screens or on output reports. The closeout of Federal FY-2004 will be the ultimate test of the great number of improvements implemented in SNACS-V2.

In summary:

Implemented: Functions and reports are being utilized: 1) a redesigned database structure that tracks information more accurately with more flexibility for sponsors participating in more than one Nutrition Program, 2) an enhanced claiming/payment function, 4) an accurate severe need calculation, 5) the modifications to existing screens and additional screens. (Item #s 1, 2, 4 and 5)

Implemented and Evaluating: Functions and reports are being utilized but the evaluation is still in process, especially for reporting/reconciliation requirements: 6) the modifications to existing reports and 7) the new reports designed for reporting. (Items 6, and 7)

Partially Implemented: Function working but reporting not complete 3) the ability to handle sponsors in multiple programs with reporting capabilities. (Item 3)

Contact person: Adrienne DiMeo
(401) 222-4600 Ext. 2454

Finding 2003-23

Corrective Action:

As part of the EDA semi-annual reports due for the periods ending March 31st and September 30th, RIEDC will submit the following documentation:

- The RIEDC Small Business Loan Fund Corporation will make certain that Part V, Section E of the semi-annual report will only be checked on the report dated September 30th as required by the EDA guidelines.
- Currently the Corporation has an independent person review the EDA reports prior to being overviewed and signed by the Director of Finance and Accounting.

Contact person: Earl Queenan, Director – Finance & Accounting
(401) 222-2601

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

Finding 2003-24

Corrective Action:

We agree with the finding. Although the transaction was somewhat unique in that it involved two divisions competing for the same equipment from a common vendor who was also providing programming services, state procurement requirements were inadvertently violated. Internal purchasing controls were immediately strengthened through communication with Senior Staff. A series of continuing education sessions on purchasing laws, policies and procedures will be held to ensure understanding and compliance.

Contact person: Robert Christie
 Assistant Director for Business Affairs
 (401) 462-8181
 E-Mail: bchristie@dlt.state.ri.us

Finding 2003-25

Corrective Action:

We agree with the finding. The finding clearly attributes the problem to certain isolated instances where the statewide accounting system (RISAIL) erroneously recorded encumbrances as expenditures and credits DLT staff with reporting this condition identified during our reconciliation process.

Our understanding is this condition has been rectified by the Office of Accounts and Controls in conjunction with the Division of Information Technology.

Excess funds drawn for erroneous expenditures were offset against subsequent expenditures.

Contact person: Robert Christie,
 Assistant Director for Business Affairs
 (401) 462-8181
 E-Mail: bchristie@dlt.state.ri.us

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

Finding 2003-26

Corrective Action:

We agree with the finding. To ensure the accuracy of Workforce Investment Act data collected and reported to the federal Department of Labor (DOL) DOL has initiated two data collection and validation processes. To start with, all annual performance report data is now generated using a software program created by DOL. States must submit the text file that is used to generate the annual performance report data. A copy of the text file will be retained by the State Workforce Investment Office. The data contained in that text file is then compiled by DOL's software program to create each state's annual performance report. Therefore states are no longer required to manually generate an annual performance report.

In order to determine the accuracy of the data contained in the text file, states must conduct data element validation. DOL has developed standardized software, which is utilized to conduct this validation of the reporting elements. The State Workforce Investment Office will undertake data element validation, using DOL's software, to validate data contained in the annual performance report. DOL plans to implement data validation accuracy standards in a phased approach.

Contact person: Sandra Powell
 Acting Administrator, E & T Programs
 (401) 462-8803
 Email: spowell@dlt.state.ri.us

Finding 2003-27

Corrective Action:

The standard Rhode Island Airport Corporation Bidding Requirements document utilized for projects bid on behalf of the Corporation has been reviewed to insure that The Certification Regarding Debarment, Suspension and Other Responsibility Matters is included, that it contains signature and date lines and that it is included on the list of "required signatures."

A worksheet has been developed for use by each project manager to be utilized when a construction bid package is received from a consultant for review prior to the package being released for bid. This worksheet lists all documents required by 49 CFR 29 to be signed and the language that must be included. The worksheet will be completed by the project manager prior to release for bid and will be included in the project file.

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

Each of the consultants the Rhode Island Airport Corporation has worked with in the past and with which we have a continuing relationship has received a copy of the current Bidding Requirements with instructions to utilize this most current document in all future bid packages.

Contact person: Michael Cheston, Director
(401) 737-4000

Finding 2003-28

Corrective Action:

As a result of a joint review with FHWA in 2003—prior to any audit findings—RIDOT recognized the fact that a small number of non-oversight projects were inadvertently advertised for construction bids without obtaining FHWA funding authorization. As a result of this joint review with FHWA, and RIDOT, the Department has taken corrective steps to enhance communication between the different sections involved and to prevent any projects from being advertised prior to obtaining Federal Funding Authorization.

RIDOT recognized at the time that this oversight was a result of different sections working on different elements of the design, funding authorization and advertising of the project. We have since taken steps to address this situation by providing access to the FMIS to both the Engineering Division and Contracts and Specs Section and as a failsafe measure to ensure full compliance it was agreed that Requisitions for advertising a project are not released by our Federal Finance Section until after Federal Funding Authorization is obtained. In addition as a result of these findings in 2003, RIDOT offered the following assurances to FHWA:

1. RIDOT has acted in good faith and that our error to submit this project for prior approval was not a result of willful violation of federal requirements, but rather of an oversight on our part.
2. Other than the funding authorization, this project has been in substantial compliance with all other requirements prescribed by FHWA and that it has been in full compliance with all requirements mandated by the Federal Statute.
3. The cost of this project will not be in excess of what the cost would have been had the project received federal funding authorization prior to advertising.
4. The quality of the work has not been impaired as a result of this oversight.

In reference to the project that was awarded without obtaining Federal concurrence of award, based on our investigation it was determined that it was as a result of a misunderstanding of the new W96A Federal Authorization form. The new form designates full oversight projects with the letter "N" in the field for "Federal Authorization". Contracts and Specifications staff

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

interpreted the "N" as "No Oversight" and proceeded accordingly. The new Project Management Portal and the new Oversight Agreement provide better methods of communicating whether a project is "Oversight" or not.

These procedures have been implemented as a result of the joint FHWA/RIDOT review.

Contact person: Brian Peterson
Associate Director for Financial Management
(401) 222-6590 ext. 4634

Finding 2003-29

Corrective Action:

The Department concurs. RIDOT Construction Operations will ensure that on a monthly basis, the Labor Compliance Officer will visit each project which is subject to Davis Bacon requirements.

Contact person: Brian Peterson
Associate Director for Financial Management
(401) 222-6590 ext. 4634

Finding 2003-30

Corrective Action:

The Department has been using a labor additive to capture the value of benefits and leave time for several decades. Prior to 1998, state highway agencies were precluded from recovering indirect costs via an A-87 cost center. In 1998, Congress allowed for indirect cost recovery. The labor additive far predates this change.

The labor additive is not an indirect cost recovery plan, but an allocation of direct costs for employees charged the "rotary". There is no budget for these employees, and the account is reimbursed via project charges to state or federal projects. The rate is a calculation of cost of benefits and leave time.

There was a mistake in the calculation of the rate for this fiscal year. The extract file of "exception hours" from the state computer center included leave without pay hours (LWOP). Since these hours are not compensated, they should not have been included and had a mathematical effect on the rate. (The actual rate for 2003 was higher than the provisional, and the corrected rate. As such, the correction will not require any reimbursement.

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

The time off for union business is a cost of doing business in a labor-organized environment. It is an applicable inclusion in the rate as is personal days, holidays, or any other negotiated benefit.

Initial guidance from the Federal Highway Administration supports our position. The Department agrees, however, to seek a formal ruling.

Only eligible costs are used to calculate the labor additive. The use of LWOP hours was an error in the use of the extract file that has been corrected. The Department's position is that union business is eligible. We will seek a ruling from Federal Highway and follow their guidance.

The Department concurs. We will do this manually for 2003 and 2004 and the new financial system reconcile automatically on a continuing basis.

Contact person: Brian Peterson
Associate Director for Financial Management
(401) 222-6590 ext. 4634

Finding 2003-31

Corrective Action:

The Department concurs and will comply with all reporting requirements.

Contact person: Brian Peterson
Associate Director for Financial Management
(401) 222-6590 ext. 4634

Finding 2003-32

Corrective Action:

The Department concurs and will comply with all reporting requirements.

Contact person: Brian Peterson
Associate Director for Financial Management
(401) 222-6590 ext. 4634

Finding 2003-33

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

Corrective Action:

Partially accepted and will implement.

RIDE has instituted several corrective actions with regard to this recommendation. These include ceasing automatic advance start-up payments: in FY 97, allowing only monthly cash advance requests and in FY 98 sending letters to sub-grantees who return significant amounts of cash or maintain excess cash on hand. The above listed procedures have resulted in some minor improvement; however, the issue is part of a larger cash management state issue.

RIDE is committed to improving subrecipient cash management procedures as noted with the above actions. However, because of the large number of grants processed by this agency and a reduction in personnel to handle payments to districts, the grant payment process has not improved as much as we would like. RIDE is exploring ways in which the grantee payment process could be improved and hopefully will move toward reimbursement to the districts.

Consideration will be given to:

- Implementing the auditor's recommendation for only those districts identified as keeping cash on hand for longer than three days.
- Piloting the auditor's recommendation with several districts and community-based organizations.
- Putting all or some grantees on a reimbursement basis as is done with state funds.

Contact person: Carolyn Dias
(401) 222-4600 Ext. 2402

Finding 2003-34

Corrective Action:

The University concurs with the recommendation. The University will diligently follow the policies and procedures currently in place to conduct exit interviews. The University conducts group and individual interviews with thousands of students each year. The University also assists students access to the Direct Loan website for information concerning loan counseling and their actual indebtedness. The University's diligence in providing exit loan counseling can be noted in the cohort default rate.

The University will strengthen its procedure of recording that exit interview materials were mailed to those students who withdraw or are retroactively withdrawn administratively for medical, military, or other personal reasons.

Contact person: Harry Amaral

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

Director of Enrollment Services
(401) 874-5118

Finding 2003-35

Corrective Action:

The College has implemented procedures to ensure more timely mailings of exit interview requirements to students who have withdrawn or graduated from the institution.

Contact person: Paul Forte, Assistant Vice President for Finance and Controller
(401) 456-8224

Finding 2003-36

Corrective Action:

There was a delay in implementing the “right to cancel” notification requirements after conversion to a new information system. This process was implemented at the start of the fall 2003 semester, and the College is now in compliance with this requirement.

Contact person: Paul Forte, Assistant Vice President for Finance and Controller
(401) 456-8224

Finding 2003-37

Corrective Action:

The three FFELP recipients missing entrance counseling had all entered the College and had borrowed from FFELP over three years ago. Entrance counseling procedures have been tightened since that time, and we are pleased to note that no new borrowers in FY 2003 were found to be missing evidence of entrance counseling.

Contact person: Paul Forte, Assistant Vice President for Finance and Controller
(401) 456-8224

Finding 2003-38

Corrective Action:

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

The University concurs with the recommendation. The University strictly follows the policies and procedures currently in place to transmit all Pell and Direct Loan records to the Department of Education on a scheduled daily basis. However, there were certain technical difficulties in transmitting the appropriate information to the Department of Education. There were instances when the Department of Education could not provide accurate reports and therefore the University was not able to resolve reconcilable issues and some records were accepted beyond the 30-day requirement period.

Contact person: Harry Amaral
Director of Enrollment Services
(401) 874-5118

Finding 2003-39

Corrective Action:

Response: Accepted

The Department's Chief of Purchasing, Deborah Reavey, will be instituting an additional form to the vendor contracts that certify the contracted agency/vendor are not presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded by any federal department or agency. The implementation of this process will begin immediately.

Contact person: Bernard Lane
Acting Chief Financial Officer
(401) 222-1001

Finding 2003-40

Corrective Action:

Response: Accepted

The Department will implement this policy under the direction of the Department's Personnel Director, Edward D'Arezzo. The implementation of this policy will begin October 1, 2004.

Contact person: Bernard Lane
Acting Chief Financial Officer
(401) 222-1001

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

Finding 2003-41

Corrective Action:

A combination of technology improvements and reallocation of personnel resources will be used to address the deficiencies identified in the Auditor-General's review. Following is a summary of those initiatives.

1. Review and correct the 26 cases found by the Auditor-General's review to be deficient in the resolution of the SWICA match.
2. Complete the INRHODES enhancements to the IEVS systems processing. These enhancements include processing changes which allow staff to resolve discrepancies more easily.
3. Enhance INRHODES so that verification forms are sent to all employers identified in the SWICA match process. This will insure that action is begun on all discrepancies and will support staff by automating the process of requesting verification.
4. All discrepancies identified by the Quality Control Unit in its review process will be sent to the Administrator for Field Operations besides the usual process of sending these to the supervisors.
5. The Administrator of Field Operation will include a monthly review of the IEVS process in her meetings with the Regional Managers.
6. Centralize the IEVS process with each Region and assign responsibility to specific staff for the completion of this work

Anticipated completion: The review and correction of cases identified by the Auditor-General will be completed by October 31, 2004.

The INRHODES system changes will be completed as soon as possible within the coming fiscal year 2005. How quickly these occur will depend on the available resources and those changes required to accomplish the Department's other responsibilities.

The changes in monitoring will begin October 1, 2004.

The realignment of staff to centralize responsibility will be completed no later than December 31, 2004.

Contact persons: Edward P. Sneesby, Associate Director - Program Operations

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

(401) 462-2424

Tina Janik, Administrator - Field Operations.
(401) 462-3019

| |
|------------------------|
| Finding 2003-42 |
|------------------------|

Corrective Action:

2003-42a

DHS concurs. The Auditor General identified three typographical errors that could have been avoided had the report been reviewed by Financial Management. Future reports will be reviewed at the DHS Financial Management Office prior to submission. This process will ensure that the ACF-204 is in agreement with the ACF-196.

Anticipated Completion Date: November 30, 2004.

Contact person: Ronald Gaskin
(401) 462-6856

2003-42b

As the ACF-204 is based on the ACF-196 all of the financial documentation and much of the technical documentation supporting number of families served resides in the Office of Financial Management. DHS is not aware of any specific inadequacies regarding documentation. The new Financial Management review procedure will include a check of supporting documentation.

Anticipated completion date: November 30, 2004.

Contact person: Ronald Gaskin
(401) 462-6856

2003-42c

DHS will submit revised pages of the FFY 2002 ACF-204 report to the Federal Government.

Anticipated completion date: November 30, 2004.

Contact person: Ronald Gaskin
(401) 462-6856

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

Finding 2003-43

Corrective Action:

2003-43a

We agree that a unified ADP risk analysis and review process should be a goal of DHS in order to ensure that all applicable security rules and standards are met in a single cohesive system security program. As is noted, there are multiple databases and communications deployed within DHS with varying security requirements. The need to comply with the HIPAA Security Rule and recommendations from the DHHS OIG, has also detailed the need for an enterprise wide team responsible for managing all department security programs and audits.

In response to these recommendations, DHS created a department-wide Security Team, which began meeting in March 2004. The impetus for the Team's formation was the implementation of recommendations from the DHS HIPAA Security assessment completed in February 2004. The need for an integrated system security effort became clear when the parties met and discussed the myriad standards, and often lack thereof, with which the Department must comply. Although there are at least six different rules and regulations with which DHS must comply, the goal of the Team is to seek a single standard for common requirements and to develop written policies and procedures for those areas not currently addressed. The DHS Security Team will have HIPAA compliant policies by April 2005. Additional documentation will also be included with the ADP System Security Plan to be effective July 2004.

DHS has also requested bids in its MMIS Fiscal Agent RFP issued July 6, 2004, for a comprehensive Disaster Preparedness Program that will address the needs of ongoing risk assessment and live testing of business continuity and contingency plans. Responses to the RFP are due September 17, 2004.

Contact person: Jim FitzGerald
 (401) 462-1879

2003-43b

The DHS Security Team will address the need for additional and ongoing risk assessment protocols as system functionalities change. The high visibility of the HIPAA Security Rule has raised awareness of the need to have formal programs of system security management. In addition, new State policies are being developed with which DHS will also need to comply. We are a highly networked organization and maintain two of the Federal government's ten mission critical systems. It is incumbent upon the Department to ensure the safety and integrity of the

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

most sensitive of personal data and we welcome the opportunity to address these needs in an integrated fashion.

Contact person: Jim FitzGerald
(401) 462-1879

2003-43c

We have sought to utilize industry standards in the development of our various system security and business contingency plans. Due to the multiple Federal requirements and industry standards (NIST, FISCAM, etc.) that abound, a goal of the Security Team will be to evaluate applicable standards and deploy those which meet our various regulatory and policy requirements.

Contact person: Jim FitzGerald
(401) 462-1879

| |
|------------------------|
| Finding 2003-44 |
|------------------------|

Corrective Action:

2003-44a and 2003-44b

CSE concurs with these recommendations and continues to make progress towards correcting the deficiencies cited in this audit report (and in previous reports) relative to the reconciliation of child support collections and distributions that are reported by the State's INRHODES Automated Child Support Enforcement System and those reported by the State accounting system. One of the primary reasons why the two systems are not currently reconcilable is that the OCSE-34A collections report excludes Non-IVD child support collections that have not been garnished. Additionally, our computer consultant has informed us that certain adjustments also are not included on the OCSE-34A report.

We received an estimate from our computer consultant about the effort that would be required to make an enhancement to the INRHODES computer system that would result in more collections and distributions being included on the system-generated OCSE-34A report. It was concluded that a minimum of 24 billable hours would be incurred to research and program changes to the system; however, this did not include the processing time necessary to run the job, and it was also noted that additional research would be needed to ensure that all collections are listed on the OCSE-34A report.

Severe budgetary constraints have forced CSE to prioritize programming changes to the INRHODES system, so we are currently implementing only those computer enhancements that are mandated by federal requirements. If we have sufficient additional financial resources once

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

these required changes have been programmed, then the enhancement to the OCSE 34A report will be implemented.

Contact person: Robert Farley, CSE Accounting
(401) 222-3782

2003-44c

CSE concurs with this recommendation.

The primary reason for this condition was the fact that the CSE Business Office was short staffed during much of the audit period. The person who performed daily reconciliations left for another position in January 2003 and we were unable to fill the position until October 2003. Additionally, we have also devised an Excel spreadsheet to assist us in these daily reconciliations.

Contact person: Robert Farley, CSE Accounting
(401) 222-3782

Finding 2003-45

Corrective Action:

CSE concurs with this recommendation.

We will perform this reconciliation in future quarters.

Contact person: Robert Farley, CSE Accounting
(401) 222-3782

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

Finding 2003-46

Corrective Action:

For the last several years there have been procedures in place to alert agents of available medical insurance when (a) the obligor is in Court and testifies that insurance is available or (b) if information is received through State New Hire reports. Please note that these procedures will be changing once the National Medical Notice is moved to production (this will be discussed in more detail below).

- If the obligor has the insurance information with him, he is asked to fill out a Medical Insurance form, available at Court, which is then forwarded to the assigned agent for input into the system.
- If the obligor testifies that he has insurance but does not have the policy information with him, the agent is advised through written Special Instructions provided by the attorney to contact the employer and obtain the necessary policy information. Some attorneys provide the obligor with a copy of the Medical Insurance form instructing him/her to return the completed form to the agency.
- If medical insurance availability is indicated through State New Hire and the obligor was ordered to **obtain** medical insurance (if available through his/her employer at a reasonable cost), a notice is automatically sent to that employer requiring that employer to enroll the child(ren). The employer must also inform the agency (response form provided to employer) of the policy information, and whether the child(ren) is/are already enrolled. If the child(ren) has/have not been enrolled, the employer must inform the agency and state the reason(s) why (e.g., insurance no longer available, family coverage not available, insurance too costly, etc.).
- If the obligor has been ordered to **maintain** insurance coverage for the child(ren) and no insurance panel exists for the child(ren), a DAIL message goes on the automated case instructing the agent to file for medical contempt. In addition, other enforcement actions, such as license suspension, can be initiated based upon this message. However, because we were aware that in the past insurance information did not always get to the assigned agent for input on the INSU screen, it was decided to make an effort to rectify the situation before taking any mass enforcement actions. During FY 2002 a mass mailing was sent to all obligors, for whom this DAIL message appeared, requesting that they provide the necessary medical insurance information or face contempt action. In the alternative, they were instructed to file for an amended order if, in fact, insurance was no longer available. Information that was returned was made available to the assigned agent for input on the INSU screen. We anticipate that enforcement efforts will be increased once the National Medical Notice is moved to production.

Corrective Action Plan - Findings Included in 2003 Single Audit Report

- We are currently exploring the possibility of auto-generating support and contempt motions based on DAIL messages. No decision has yet been made as to when or if such an enhancement will be implemented.

CSE and DHS have been regularly meeting to discuss issues surrounding medical support and to devise policy and procedures. Issues such as reasonable cost, accessibility, and comprehensiveness of available insurance were addressed. As an example, in FY 2003 Cash Medical orders were implemented through legislation. Instead of just ordering the obligor to obtain insurance if available through his/her employer, Family Court now has the option of ordering regular cash payments towards medical support either to reimburse the Medicaid agency or the non-Welfare custodial parent for the cost of medical care. In addition, we are exploring the use of various insurance interfaces currently available to the Medicaid agency that could be used to verify, update, or even initiate INSU panels.

The implementation of the National Medical Notice is planned for some time in FY 2005. Through this federally standardized form, insurance data will be more frequently verified and/or, when appropriate, children will be enrolled in employer-sponsored insurance. It is a comprehensive form with detailed procedures that provide for better enforcement of medical support orders. Once this is implemented, CSE will review and, where appropriate, implement other enforcement remedies for medical support orders.

This notice will be forwarded to the employer and after the response is received, data entry staff will capture the pertinent medical insurance information. This should reduce instances of missed information tremendously. In addition, the Child Support Director has distributed a memo to legal staff emphasizing the importance of capturing the medical insurance information at court and referring this information to the data entry staff so that it can be captured on INRHODES.

While some of the medical support enforcement tools have not yet been programmed due to severe budgetary constraints, we are light years ahead of other child support programs in terms of obtaining cash medical orders. Lastly, we will run an ad-hoc report of all cases in which medical coverage was ordered but not obtained and file for a cash medical order instead.

Contact persons: Sharon Santilli, CSE Director
(401) 222-2847

Edward Keenaghan, CSE Systems
(401) 222-2847

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

Finding 2003-47

Corrective Action:

The State Energy Office and the Central Business Office within the Department of Administration will implement a time study of employees' time allocation. Three times a year, Energy Office staff will be asked to complete a weekly time sheet indicating the hours worked on the various programs and activities within the State Energy Office operations.

Contact persons: Matteo Guglielmetti, LIHEAP Program Manager
Manuel DelSanto, Central Business Office
(401) 222-6920

Finding 2003-48

Corrective Action:

In past years, the State Energy Office distributed LIHEAP fuel funds to its subrecipients based on estimated need. This need was determined after analyzing weekly program and financial reports. At times this resulted in excessive cash balances at the subrecipient agencies.

In fiscal year 2005 a new payment procedure will be implemented. LIHEAP fuel payments made to our regulated fuel vendors (i.e. gas and electric companies) by our subrecipients will be made on a reimbursement basis. 56% of the LIHEAP fuel payments are made to a utility vendor. This procedure should greatly reduce the cash balances at our subrecipients and put us in compliance with federal regulations.

Contact persons: Matteo Guglielmetti, LIHEAP Program Manager
Manuel DelSanto, Central Business Office
(401) 222-6920

Finding 2003-49

Corrective Action:

The recommendations have been implemented for fiscal year 2004.

Contact persons: Matteo Guglielmetti, LIHEAP Program Manager
Manuel DelSanto, Central Business Office
(401) 222-6920

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

Finding 2003-50

Corrective Action:

During fiscal year 2003, the Department was engaged in the enormous task of updating and converting the Child Care Assistance Program to a new operating program in the INRHODES computer system. The conversion effort began January 4, 2004 and resulted in the Child Care Assistance Program being included in the same integrated database as the rest of the Department's programs. This should result in information obtained and documented for other programs being available to Child Care Assistance program staff for use in determining eligibility for, and the amount of, child care assistance. As a part of this effort, childcare policy was revised to better define income and training by Staff Development of staff was conducted. This included proper documentation of income.

In ten (10) of the forty-five (45) cases reviewed, deficiencies were noted by the Auditor-General. The first step will be to correct these cases to insure that proper documentation is maintained in the case file. The second step will be a review of the policy and procedures regarding the correct case file documentation of income and family circumstances. If that documentation is physically located in another program's case file (e.g., a Medical Assistance case file), it should be annotated in the INRHODES case chronology. The third step is for the Child Care program supervisors to review case files on a regular basis to insure staff are complying with the policy and procedures for documenting case files.

Completion Date: It is anticipated that the completion of steps one and two will be October 31, 2004. Step three will be continual.

Contact persons: Edward P. Sneesby, Associate Director - Program Operations
(401) 462-2424

Tina Janik, Administrator - Field Operations.
(401) 462-3019

Finding 2003-51

Corrective Action:

DCYF accepts the audit findings and will reimburse the federal government for the unallowable maintenance costs charged during fiscal year 2003.

In preparation for the federal "Primary Review" in September 2004, the Management and Budget office of DCYF completed a major review of all Title IV-E claims. We believe that past

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

errors and practices have been corrected. The department passed that review with only one exception.

Contact person: Peter Keenan, Chief Financial Officer, DCYF
(401) 528-3632

Finding 2003-52

Corrective Action:

We have implemented an interim process to properly compile and allocate daycare costs between the Foster Care and Adoption Assistance programs.

Using the RICHIST system, we are also developing a process so that these costs can be properly allocated and claimed as part of the RICHIST reimbursement module.

Contact person: Peter Keenan, Chief Financial Officer, DCYF
(401) 528-3632

Finding 2003-53

Corrective Action:

The Division of HCQFP continues to review and refine quality control procedures necessary to ensure eligibility and allowable costs are correct. The identified federal funds will be verified for correct application of the FFP and will be reported on quarterly reports submitted on September 30, 2004.

The identification of other insurance has improved since the TPL tape match process was implemented in April 2003. This continues to provide information which area will also result from the Cost Improvement strategies that will impact FY 05.

Contact person: Tricia Leddy
(401) 462-2501

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

Finding 2003-54

Corrective Action:

The Department disagrees with this recommendation. This situation results from “blended” families, i.e., a combination of Medicaid and SCHIP eligible individuals within the same family. Under the terms of our combined Title XIX / Title XXI Waiver, as well as Rhode Island General Law, the co-payment obligation applies to the household rather than the individual members of the household. As the make-up of each household is distinct and changeable, it is the Department’s opinion that the cost of the system changes necessary to address this concern would be out of scale to the perceived problem.

Contact person: Tricia Leddy
(401) 462-2501

Finding 2003-55

Corrective Action:

The Department disagrees with this finding. Estimates will result in over or under draws of federal cash causing reactions from federal officials and auditors. Estimates cannot be used for federal expenditures and cash management reporting. The unique method of SCHIP funding causes delays in receiving Grant awards from the federal government. Federal funds cannot be requested until Grant Awards are posted to the letter of credit. If we were to estimate and charge SCHIP accounts based on estimates and the SCHIP funds were not available to draw the State would be funding 100% of these expenditures.

Contact person: Ronald Gaskin
(401) 462-6856

Finding 2003-56

Corrective Action:

The Division of HCQFP will review the procedures for changes to the eligibility segments; however, the Department generally believes that the requirement for supervisory approval prior to manual adjustment to be an appropriate level of control.

Contact person: Frank Spinelli
(401) 462-1892

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

Finding 2003-57

Corrective Action:

The Department of Human Services, Center for Adult Health has designed and tested protocols for the post payment review of homemaker claims (both Title XX and XIX), and is in the process of automating these protocols. As month-to-month fluctuations in service needs are common, the Department believes that a six-month review is more appropriate. The Department will implement a manual review of a sample of Title XX claims until the automated solution is implemented.

The Department is modifying its claims processing system to resolve the inappropriate funding source issue, as payment will be tied to program eligibility. This system modification is scheduled to be completed in October 2004.

Contact person: Frank Spinelli
(401) 462-1892

Finding 2003-58

Corrective Action:

The Department of Human Services, Center for Adult Health has documentation that identifies each of the individuals and the period of eligibility in question. The Center copies screen prints from MMIS that verifies claims processed during the period in question and summarizes the inappropriate payments. These materials are maintained in a separate area. Personnel are working on completion of this review and, when determined, the federal share will be returned within 60 days.

Contact person: Frank Spinelli
(401) 462-1892

Finding 2003-59

Corrective Action:

The Division of HCQFP has received CMS approval (May 2004) to solicit bids for the fiscal intermediary contract; an RFP incorporating the SAS-70 requirement has been drafted and is expected to be released in July 2004.

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

The oversight of the fiscal agent continues to improve and changes are implemented on a regular basis. The Division has met with the fiscal agent to begin the process of preparing federal reports through the MMIS; completion of this is estimated to be June 2005. The drug rebate billing and collection has improved; however, there is still dependency on the drug manufacturers to respond. The TPL tape matches have resulted in more accurate records and we continue to improve and refine the process of facsimile claiming. The Department is also in the process of finalizing one or more contracts that will expand and enhance TPL and other cost control and cost avoidance measures.

Contact person: Jim FitzGerald
(401) 462-1879

Finding 2003-60

Corrective Action:

The Department supported legislation to require insurance companies to perform data matches with DHS. This process was implemented in April 2003 and resulted in identification of approximately 48,000 new TPL segments, generated additional facsimile claims, increased recoveries and cost avoidance and has also increased the number of claims denied for timely filing. The Department disagrees that there is responsibility to reimburse the federal government (many of the facsimile claims denied are from Medicare). The claims were processed and paid based on the most accurate information available at the time.

Contact person: Jim FitzGerald
(401) 462-1879

Finding 2003-61

Corrective Action:

DHS continues to work with the other departments to integrate their benefit programs within the MMIS, and the Managing Director of the Office of Health and Human Services has issued a directive to the Directors of the cognizant state agencies that this process should be completed as early as possible in FY 2005. HIPAA has naturally been the overriding priority for systems change effort for the past three years, although the Department has made changes to accommodate this requirement during those efforts.

The Division implemented new approval rules in fiscal 2004, to better control the filing of rate changes by other agencies.

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

Financial management will review the claiming of administrative expenditures by other departments to ensure that the MOU is followed. Any necessary adjustments will be identified on the following federal report. The credit for the DCYF issue appears on the March 2004 report.

Contact person: Ronald Gaskin
(401) 462-6856

Finding 2003-62

Corrective Action:

The Division of HCQFP and our fiscal agent have improved procedures for enrolling providers and reviewing reports from several sources to identify providers restricted from participation. Further, we have begun to disenroll inactive providers and / or providers failing to comply. We will review the Addendum I to ensure compliance with 42 CFR 455.106; any appropriate changes will be implemented. This will be complete by September 2004.

Contact person: Jim FitzGerald
(401) 462-1879

Finding 2003-63

Corrective Action:

The enrollment of foster children in the Rite Care was accomplished using an administrative services payment model, where the health plan was paid a "working rate" subject to later reconciliation against actual claims experience. DHS closely monitored the monthly amount paid to the health plan in comparison to the plan's cost for serving this population, but a full reconciliation could not be accomplished until there was a confidence that a full claims run-out had been achieved. Once that was accomplished, and tested over several months, DHS reduced the working rate and began a set-off process to satisfy the receivable due to the Department. As the payments are matched with federal funds, the reduction in payment also concurrently reduced the federal draw.

The Department has implemented a premium collection module within the MMIS. It is anticipated that this will improve the identification of the situation described. DHS will verify the recipients identified; if it is determined that a refund is due, it will be recorded on the following report, no later than September 30, 2004.

Contact person: Tricia Leddy
(401) 462-2501

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

Finding 2003-64

Corrective Action:

The Department disagrees with this recommendation. There is within the Act a provision to allow for a disproportionate share payment to a hospital having a Medicaid utilization rate of at least 1 %. This criteria is met in the situation cited. The correction to the SPA from fiscal 2003 was not made as this section of the DSH plan was not referenced in the SPA for fiscal 2004.

Contact person: Ron Lebel
 (401) 462-2326

Finding 2003-65

Corrective Action:

2003-65a

DHS performs quarterly analysis of all Medicaid accounts prepared for the CMS-64 expenditure report. This process includes the review of various MMIS fiscal reports and the transaction posted to the State Accounting System. The total expenditures reported on the CMS-64 quarterly report are recorded on the State Accounting System. This is an on-going initiative.

Contact person: Ronald Gaskin
 (401) 462-6856

2003-65b

Under the State Accounting System, R.I.-S.A.I.L., any changes of the current account structure must be accomplished by the State Controller. The MMIS procedures for posting and processing are linked to the State chart of accounts to post expenditures to the correct accounts which becomes the basis to request the required federal dollars. DHS will review the current account structure.

Contact person: Ronald Gaskin
 (401) 462-6856

2003-65c

This information is maintained at the R.I. Division of Taxation. DHS will contact them to implement a process to obtain this information.

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

Contact person: Ronald Gaskin
(401) 462-6856

2003-65d

The H.H.S. Office of the Inspector General conducted a review of the drug rebate program. As a result of that review, the reporting of the drug rebates on the CMS-64 has been corrected.

Contact person: Ronald Gaskin
(401) 462-6856

2003-65e

DHS Financial Management requires all other State agencies to provide a reconciliation of all Medicaid accounts. The CMS-64 report includes expenditures reported on the signed expenditure report.

Contact person: Ronald Gaskin
(401) 462-6856

2003-65f

DHS Financial Management prepares the PMS-272 report based upon the federal financial reports. However, if this information is not available by the due date of the PMS-272 report, estimates are used to ensure the receipt of federal funds.

Contact person: Ronald Gaskin
(401) 462-6856

Finding 2003-66

Corrective Action:

The Department is recovering funds from the hospital in question while negotiating a final settlement number for the outstanding years. The hospital challenged several issues relative to the settlement of \$3.1 million; this is under review. The federal share is being refunded as the settlements are finalized. This will be resolved by December 31, 2004.

Contact person: Jim FitzGerald
(401) 462-1879

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

Finding 2003-67

Corrective Action:

The Division of HCQFP will review and implement necessary changes to the procedures currently in place. We have discussed several options to assist in resolution of this issue and will be implementing the improvements as resources permit. Some of these changes will be completed by December 2004. Our analysis of the issue resulted in a projected underpayment of capitation as this rate changes at many age differentials; therefore we do not agree that a refund is due the federal program.

Contact person: Jim FitzGerald
 (401) 462-1879

Finding 2003-68

Corrective Action:

The Department disagreed with the OIG's assertion that oversight was inadequate, as there is no standard to which the State is obligated to adhere, and believed that the degree implied to be necessary by the OIG to be over-reaching. The Department has rewritten and distributed a "Medicaid Direct Services Guidebook for Local Education Authorities", and designed and implemented a training program for the LEA's which was attended by CMS representatives. Interagency agreements have also been revised and are being circulated for signatures. The training was conducted in May 2004.

Contact person: Sandy Reniere
 (401) 462-2187

Finding 2003-69

Corrective Action:

The Center for Adult Health, implemented this program in fiscal 2003. This is constantly being reviewed and updated as issues are identified. Outcome measures will be monitored on a quarterly basis beginning June 2004; previously this was annually. Policies and procedures have been continually evaluated and modified based on "Lessons Learned" and experience with this difficult population. Current provider manuals reflect updates in September, October and November of 2003. The DHS plans to continue this as an ongoing activity.

Contact person: Ellen Mauro

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

(401) 462-6311

Finding 2003-70

Corrective Action:

The Employer Contract Unit tracks and validates insurance coverage and employment. This has been a manual process, but transition of the Premium Collection System to the MMIS, revisions to INRHODES, and the TPL data matches will assist in identifying these changes. Any verified error in funding will be made to the federal program by September 30, 2004.

Contact person: Lissa DiMauro
(401) 462-6356

Finding 2003-71

Corrective Action:

Reject the Recommendation

As the ultimate objective of this item is to alert contract agencies to specific federal requirements related to the Substance Abuse and Prevention (SAPT) Block Grant, MHRH - Division of Behavioral Healthcare's (DBH) current procedures of (a) identifying applicable CFDA number(s) and title(s) on the contract award notice when the award includes federal funds, and (b) including in the contract itself all of the Substance Abuse and Prevention (SAPT) requirements, adequately achieves the overall purpose. Further in relationship to the need for an audit under A-133, at the close of each program year, the DBH informs each contractor of the amounts paid during the program by service and by fund source, which then establishes the basis for the type of audit conducted. Also, the contractors are generally multi-service agencies with funding support beyond DBH's contract services.

Implementing this recommendation does not substantively add anything to the notification process and in fact could be counter productive if for example at the start of the program year the federal funds contracted exceeded the A-133 threshold and during the operating period funding changes dropped the contractor below the threshold, meanwhile they had already expended/committed funds for an A-133 audit which now under the lower threshold would not qualify for reimbursement.

Contact person: John Murray
(401) 462-5698

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

Finding 2003-72

Corrective Action:

The Division concurs with the recommendations.

Contact person: Kathryn Lyon
(401) 462-0229

Finding 2003-73

Corrective Action:

The Division concurs with the recommendations.

Contact person: John Murray
(401) 462-5698

Finding 2003-74

Corrective Action:

2003 – 74a

Partially Agree with Recommendation

All detox services are contracted with a single entity, SSTAR of RI. As recommended, this program as the only provider in the detox modality would be subject to an annual peer review.

While we agree that the detox modality should be part of peer review, the intervals between reviews should be comparable to the time intervals that occur with contract programs in other multi-program modalities. We propose that generally detox undergo a peer review at least every three years.

Anticipated completion date: June 30, 2005

Contact person: Nancy Rosati
(401) 462-5689

Corrective Action Plan -
Findings Included in 2003 Single Audit Report

2003 – 74b

The Division concurs with the recommendation. We would note that there were two situations that applied to this item, one of which involved the newly hired substance abuse consumer advocate. As the consumer advocate, a conflict of interest would not exist.

Anticipated completion date: June 30, 2005

Contact person: Nancy Rosati
(401) 462-5689

Summary Schedule
of Prior Audit Findings



| Summary Schedule of Prior Audit Findings Table of Prior Findings by Federal Program | | |
|--|------------------------|---|
| Program Title | CFDA Number | Findings included in Previous Single Audit Reports |
| Food Stamp Cluster: | | |
| Food Stamps | 10.551 | 02-19, 02-20 |
| State Administrative Matching Grants for Food Stamp Program | 10.561 | 02-16, 02-17, 02-18 |
| Child Nutrition Cluster: | | |
| School Breakfast Program | 10.553 | 02-17, 02-21, 02-22 |
| National School Lunch Program | 10.555 | 02-17, 02-21, 02-22 |
| Special Milk Program for Children | 10.556 | 02-17, 02-21, 02-22 |
| Summer Food Service Food Program for Children | 10.559 | 02-17 |
| Special Supplemental Nutrition Program for Women, Infants and Children | 10.557 | 02-17, 02-23 |
| Public Works and Economic Development Cluster: | | |
| Grants for Public Works and Economic Development Facilities | 11.307 | 02-24, 02-25, 02-26 |
| Section 8 Project Based Cluster: | | |
| Section 8 New Construction and Substantial Rehabilitation | 14.182 | 02-27 |
| Community Development Block Grants/ State's Program | 14.228 | 02-17, 02-28, 02-29, 02-30 |
| Unemployment Insurance | 17.225 | 02-16, 02-17, 02-31, 02-32, 02-33, 02-34, 02-35, 02-36 |
| Trade Adjustment Assistance – Workers | 17.245 | 01-22 |
| Workforce Investment Act | 17.255 | 01-23, 01-24 |
| Highway Planning and Construction | 20.205 | 02-17, 02-37 |
| Federal Transit Cluster: | | |
| Federal Transit - Capital Investment Grants | 20.500 | 02-17 |
| Federal Transit - Formula Grants | 20.507 | 02-17 |
| Highway Safety Cluster: | | |
| State and Community Highway Safety | 20.600 | 01-26 |
| Title I Grants to Local Educational Agencies | 84.010 | 02-17, 02-38 |
| Special Education Cluster: | | |
| Special Education – Grants to States | 84.027 | 02-17, 02-38 |
| Special Education – Preschool Grants | 84.173 | 02-17, 02-38 |

| Summary Schedule of Prior Audit Findings Table of Prior Findings by Federal Program | | |
|--|------------------------|---|
| Program Title | CFDA Number | Findings included in Previous Single Audit Reports |
| Student Financial Assistance Cluster: | | |
| Federal Family Education Loans | 84.032 | 02-39 |
| Rehabilitation Services – Vocational Rehabilitation Grants to States | 84.126 | 02-16, 02-17 |
| Vocational Education – Basic Grants to States | 84.048 | 98-24 |
| Class Size Reduction | 84.340 | 02-38, 02-40 |
| Temporary Assistance for Needy Families | 93.558 | 01-37, 02-17, 02-18, 02-20, 02-41 |
| Child Support Enforcement | 93.563 | 02-17, 02-42, 02-43 |
| Low-Income Home Energy Assistance | 93.568 | 01-41, 02-17, 02-44, 02-45, 02-46 |
| Community Services Block Grant | 93.569 | 01-45 |
| Child Care Cluster: | | |
| Child Care and Development Block Grant | 93.575 | 02-17, 02-47, 02-48, 02-49 |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund | 93.596 | 02-17, 02-47, 02-48 |
| Foster Care – Title IV-E | 93.658 | 00-41, 01-47, 02-17, 02-50, 02-51 |
| Social Services Block Grant | 93.667 | 01-45, 02-17, 02-18, 02-49, 02-52, 02-53 |
| State Children’s Insurance Program | 93.767 | 02-17, 02-54, 02-55, 02-56 |
| Medicaid Cluster: | | |
| State Medicaid Fraud Control Units | 93.775 | 02-17 |
| State Survey and Certification of Health Care Suppliers and Providers | 93.777 | 02-17 |
| Medical Assistance Program | 93.778 | 02-17, 02-53, 02-56, 02-57, 02-58, 02-59, 02-60, 02-61, 02-62, 02-63, 02-64, 02-65 |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | 01-61, 01-62 |
| Social Security – Disability Insurance | 96.001 | 02-17, 02-66 |

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

| Finding and Recommendation Number | CFDA | PRIOR YEAR FINDINGS AND RECOMMENDATIONS | Prior rec. number | Imple-mented | Partially Imple-mented | Not Imple-mented | No Longer Valid | Comments |
|-----------------------------------|------------------|--|-------------------|--------------|------------------------|------------------|-----------------|---|
| 98-24 | 84.048 | The department did not have adequate procedures in place to ensure subrecipients did not have federal cash on hand in excess of their immediate needs. | | | | | | |
| | 98-24 | Monitor advances to subrecipients to ensure that they conform to standards required by 34 CFR 80.21(c), 80.37 (a) (4), and 31 CFR 205.10(a). | 97-25 | | | X | | See status of finding 02-38 |
| 00-41 | 93.658 93.778 | DCYF has no procedures in place to ensure the accuracy of administrative costs determined by the cost allocation system. The department does not obtain and review the supporting documentation of the cost allocation system generated by the consultant each quarter. | | | | | | |
| | 00-41a | Adjust federal reports and claims for reimbursement for questioned costs relating to the overstatement of administrative expenditures for fiscal year 2000. | | X | | | | |
| 01-22 | 17.245 | The Department of Labor and Training (DLT) lacks adequate internal control procedures to ensure the reliability of data reported on federal report form ETA 563 (<i>Quarterly Determinations, Allowance Activities and Reemployment Services Under the Trade Act – OMB No. 1205-0016</i>). | | | | | | |
| | 01-22a | Improve internal control procedures to ensure the accuracy and completeness of ETA 563 report information. Report all information required by the instructions and in the manner specified, and on the proper federal reports. | 00-20a | X | | | | |
| | 01-22b | Maintain adequate detailed supporting documentation for amounts reported. | 00-20b | X | | | | |
| | 01-22c | Seek to automate the process using existing and more sophisticated systems. | 00-20c | | X | | | Staff continue in their efforts to fully automate generation of the ETA 563 report. |
| | 01-22d | Assess the accuracy of ETA 563 reports previously submitted during fiscal 2000 and fiscal 2001. Submit revised reports as necessary, | | | X | | | Staff has attempted to replicate data elements in previous reports for correction and re-submittal. |

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

| <i>Finding and Recommendation Number</i> | <i>CFDA</i> | <i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i> | <i>Prior rec. number</i> | <i>Imple-mented</i> | <i>Partially Imple-mented</i> | <i>Not Imple-mented</i> | <i>No Longer Valid</i> | <i>Comments</i> |
|--|-------------|---|--------------------------|---------------------|-------------------------------|-------------------------|------------------------|---|
| 01-23 | 17.255 | Our review of the WIA Financial Status Reports revealed several exceptions in amounts reported and accounting methods used. | | | | | | |
| 01-23 | | Improve controls to ensure the accuracy and completeness of Financial Status Report information in accordance with the report instructions. | | | X | | | The financial reports are complete concerning all reportable items, but did not include full accruals for all WIA funded programs. |
| 01-24 | 17.255 | The Workforce Investment Office within the Department of Labor and Training and the two local workforce investment areas do not have procedures to continually monitor and ensure compliance with the low-income earmarking/eligibility requirement. | | | | | | |
| 01-24 | | Develop control procedures to continually monitor and ensure compliance with the 95% disadvantaged low-income requirement and the 5% exception criteria for youth activities. | | X | | | | |
| 01-26 | 20.600 | The Governor's Office on Highway Safety did not reconcile expenditures recorded in the State Controller's accounting system to the expenditure reports submitted to NHTSA. The State Controller's accounting system did not identify expenditures by grant award. | | | | | | |
| 01-26a | | Record expenditures for each federal grant in a separate appropriation account in the State Controller's accounting system. | | X | | | | |
| 01-37 | 93.558 | Programming changes were made to the IRS interface program that resulted in no discrepancies being reported to caseworkers. The programming change was neither documented nor reviewed. | | | | | | |
| 01-37a | | Strengthen control procedures to ensure that changes to application software and all subsequent modifications are controlled, properly documented, reviewed and approved. | | | X | | | The Department has indicated that control procedures have been strengthened to ensure software modifications are controlled, properly documented, reviewed and approved. The changes in control procedures have not been formally documented. The IRS interface program has been corrected. |
| 01-37b | | Correct the IRS interface program and rerun fiscal 2001 IRS data matches. | | | X | | | |

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

| <i>Finding and Recommendation Number</i> | <i>CFDA</i> | <i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i> | <i>Prior rec. number</i> | <i>Imple-mented</i> | <i>Partially Imple-mented</i> | <i>Not Imple-mented</i> | <i>No Longer Valid</i> | <i>Comments</i> |
|--|------------------|--|--------------------------|---------------------|-------------------------------|-------------------------|------------------------|--|
| 01-41 | 93.568 | LIHEAP needs to improve its subrecipient monitoring procedures to ensure it fully meets its responsibilities as a pass-through entity and also to ensure that subrecipients are complying with program requirements. | | | | | | |
| 01-41c | | Update subrecipient contracts to reflect the current requirements of OMB Circular A-133. | | | | X | | See Corrective Action Plan for finding 2003-49 |
| 01-45 | 93.569 93.667 | Controls over subrecipient monitoring could be improved. Subrecipient audit reports are not received and reviewed on a timely basis. Management decisions are not issued as required by OMB Circular A-133. | | | | | | |
| 01-45b | | Perform alternative monitoring procedures when audit reports do not provide timely and reasonable assurance of a subrecipient's compliance with program requirements. | <u>99.569</u> 98-40 | | | X | | See status of finding 02-52 |
| 01-47 | 93.658 | We found one case that was not eligible for federal participation because there was no evidence of a criminal records check or a fire inspection of the foster home. | | | | | | |
| 01-47 | | Adjust federal reports to reimburse the federal government for the unallowable maintenance costs charged during fiscal year 2001. | | X | | | | |
| 01-61 | 93.959 | MHRH did not require vendors to certify that the organization and its principals are not suspended or debarred from participation in the Block Grants for Prevention and Treatment of Substance Abuse Program. | | | | | | |
| 01-61 | | Include certifications regarding suspension and debarment in contracts with childcare institutions participating in the Block Grants for Prevention and Treatment of Substance Abuse Program. | | X | | | | |
| 01-62 | 93.959 | MHRH does not specifically identify to a subrecipient the amount of federal funds awarded. The department failed to obtain audit reports from a subrecipient to which it had awarded \$700,000. | | | | | | |

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

| Finding and Recommendation Number | CFDA | PRIOR YEAR FINDINGS AND RECOMMENDATIONS | Prior rec. number | Imple-mented | Partially Imple-mented | Not Imple-mented | No Longer Valid | Comments |
|-----------------------------------|--------------------------------------|--|---|--------------|------------------------|------------------|-----------------|--|
| | 01-62a | Identify the specific federal award and all relevant compliance requirements when funds are provided to subrecipients. | | | X | | | The Department of Mental Health, Retardation and Hospitals (MHRH) has indicated that contract amendments for the 2003 funding period identify Federal awards by catalog of federal domestic assistance number. MHRH indicated that due to the transmittal of the state fiscal year 2001 report in March 2002, the Department was unable to implement this recommendation in 2002. See Corrective Action Plan for finding 2003-71 |
| 02-16 | Various | The State did not have adequate controls to ensure compliance with regulations governing the use, management and disposition of equipment purchased with federal funds. | 97-10 98-07 99-09 00-09 01-08 | | | X | | See Corrective Action Plan for finding 2003-19 |
| 02-17 | Various | The State did not have adequate controls to ensure compliance with federal cash management requirements in drawing cash for federal programs. | | | | | | |
| | 02-17a | Implement a centralized monitoring system to ensure compliance with cash management requirements. | 97-11 98-08 99-10 00-10 01-09 | | | X | | See Corrective Action Plan for finding 2003-20 |
| | 02-17b | Strengthen procedures to ensure that all interest liability calculations are performed and documented as required by Federal regulations. | | | | X | | See Corrective Action Plan for finding 2003-20 |
| | 02-17c | Review the basis for requesting Federal funds (i.e., funding techniques) for applicable Federal assistance programs, and modify the Treasury/State agreement to more accurately match funding techniques to current practices. | | | | X | | See Corrective Action Plan for finding 2003-20 |
| 02-18 | 10.561 93.558 93.667 93.778 | During fiscal 2002, the DHS did not compare the cost allocation results to program expenditures within the State accounting system and initiate the required adjustments. | | | | | | |

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

| Finding and Recommendation Number | CFDA | PRIOR YEAR FINDINGS AND RECOMMENDATIONS | Prior rec. number | Imple-mented | Partially Imple-mented | Not Imple-mented | No Longer Valid | Comments |
|-----------------------------------|----------------------------|--|-------------------------|--------------|------------------------|------------------|-----------------|--|
| 02-18 | 02-18a | Conduct quarterly reconciliations of expenditures processed through and recorded in the RISAIL accounting system and cost allocation expenditure reports to ensure the accuracy and completeness of data used for allocation purposes. | | X | | | | |
| | 02-18b | Reconcile federal financial reports, as supported by the quarterly cost allocation process, to State accounting records and initiate any required adjustments. | | X | | | | |
| 02-19 | 10.551 | The EBT system operating during the year did not provide sufficient information to reconcile the total funds entering into, exiting from, and remaining in the EBT system each day. | | | | | | |
| | 02-19 | Strengthen procedures to fully reconcile total funds entering into, exiting from and remaining in the EBT system each day. | 99-12 00-12 01-11 | X | | | | |
| 02-20 | 10.551 93.558 | Controls over the delivery of food stamps and Temporary Assistance to Needy Families (TANF) benefits are weakened because some individuals have access to the Department's INRHODES eligibility system and Deluxe Data's EBT card personal identification number authorization system. | | | | | | |
| | 02-20 | Segregate responsibilities such that no individual has access to both initiate or modify case data within the Department's INRHODES system and the ability to generate EBT cards and establish personal identification numbers. | 99-11 00-60 01-12 | X | | | | |
| 02-21 | 10.553 10.555 10.556 | RIDE implemented a new computer system to administer the child nutrition programs. User access was not adequately restricted and controlled through the use of specific user ID's and passwords. | | | | | | |
| | 02-21 | Enhance system security features by (1) assigning all users unique passwords, (2) defining and controlling access to system data through user ID's and passwords, and (3) implementing standard password administration procedures. | 01-13 | | X | | | Most of the system security enhancements were implemented in fiscal 2003, with the final feature being implemented in fiscal 2004. |

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

| Finding and Recommendation Number | CFDA | PRIOR YEAR FINDINGS AND RECOMMENDATIONS | Prior rec. number | Imple-mented | Partially Imple-mented | Not Imple-mented | No Longer Valid | Comments |
|-----------------------------------|--------|--|-------------------|--------------|------------------------|------------------|-----------------|--|
| 02-22 | 10.553 | The computer system installed by RIDE to administer child nutrition programs lacked the capability to fully meet the department's federal reporting requirements. Manual calculations resulted in errors being reported. The system also incorrectly calculated some meal reimbursements. | | | | | | |
| | 10.555 | | | | | | | |
| | 10.556 | | | | | | | |
| 02-22a | | Improve controls over federal reporting by resolving the computer system design and implementation deficiencies. | 01-14a | | | X | | See Corrective Action Plan for finding 2003-22 |
| 02-22b | | Reconcile the expenditures included on quarterly reports (SF-269) to amounts included in the State Accounting System. | 01-14b | | X | | | The final SF-269 report for the fiscal 2003 award was reconciled at closeout in February 2004; however, the final SF-269 for the fiscal 2002 award was not reconciled. An annual reconciliation to the State Accounting System at year-end is not performed. |
| 02-23 | 10.557 | We could not account for several series of blank check stock delivered to the local agencies. | | | | | | |
| | 02-23 | Maintain adequate documentation at the WIC office whenever significant changes are made to the delivery of blank check procedures. | | X | | | | |
| 02-24 | 11.307 | The EDC does not complete the <i>RLF Income and Expense Statement</i> and attach the <i>Annual RLF Plan Certification</i> . Errors were noted in the Semi-Annual RLF Reports for several projects. Reports are not reviewed by a person independent of the preparer and no review of compliance requirements is performed to ensure all required reports have been prepared in accordance with those requirements. | | | | | | |
| | 02-24 | We recommend that a person independent of the person preparing the reports detail review each report, and compare the requirements of the U.S. Department of Commerce and OMB Circular A-133 to the reports prepared to determine whether all required reports have been prepared and reports prepared are completed in accordance with such requirements prior to being overviewed by the Corporation's Director of Finance and Administration. | | | | X | | See Corrective Action Plan for finding 2003-23 |

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

| <i>Finding and Recommendation Number</i> | <i>CFDA</i> | <i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i> | <i>Prior rec. number</i> | <i>Imple-mented</i> | <i>Partially Imple-mented</i> | <i>Not Imple-mented</i> | <i>No Longer Valid</i> | <i>Comments</i> |
|--|-------------|---|--------------------------|---------------------|-------------------------------|-------------------------|------------------------|--|
| 02-25 | 11.307 | The EDC does not have specific policies and procedures to obtain from borrowers, weekly payrolls certified by the borrower's contractors or subcontractors in order to ensure the borrower complies with the Davis-Bacon Act. | | | | | | |
| | 02-25 | We recommend that the Corporation institute specific policies and procedures to obtain from borrowers, where applicable, weekly payrolls certified by each respective borrower's contractors or subcontractors in order to comply with the requirements related to the Davis-Bacon Act as included in the Manual. | | X | | | | |
| 02-26 | 11.307 | The EDC does not complete all of the financial, performance, and special reports required by the federal awarding agency. Reports are not reviewed by a person independent of the preparer and no review of compliance requirements is performed to ensure all required reports have been prepared in accordance with those requirements. | | | | | | |
| | 02-26 | We recommend that a person independent of the person preparing the reports compare the requirements of the U.S. Department of Commerce, OMB Circular A-133, and the Standard Terms and Conditions and all related agreements to the reports prepared to determine whether all required reports have been prepared. | | | | X | | See Corrective Action Plan for finding 2003-23 |
| 02-27 | 14.182 | It was noted in 5 of 13 files selected that RI Housing did not issue their reports on Management & Occupancy (M&O) reviews within the required time period. The development reviewed must respond to any findings within 30 days. In 6 of 13 cases, the development did not respond within the required time period. | | | | | | |
| | 02-27a | We recommend that Rhode Island Housing designate a member of the Program's management to be responsible for and track the issuance of all M&O reporting. | | X | | | | |
| | 02-27b | We recommend that the same member of the Program's management who will track Rhode Island Housing's timely issuance of the M&O report also be responsible to monitor the developments in their timely response with a CAP. | | X | | | | |

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

| <i>Finding and Recommendation Number</i> | <i>CFDA</i> | <i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i> | <i>Prior rec. number</i> | <i>Imple-mented</i> | <i>Partially Imple-mented</i> | <i>Not Imple-mented</i> | <i>No Longer Valid</i> | <i>Comments</i> |
|--|-------------|---|--------------------------|---------------------|-------------------------------|-------------------------|------------------------|-----------------|
| 02-28 | 14.228 | The Department did not monitor its compliance with the matching requirements of the Community Development Block Grant (CDBG). | | | | | | |
| 02-28 | | Maintain documentation to support required State matching expenditures for administrative costs that exceed \$100,000. | 00-16 01-17 | X | | | | |
| 02-29 | 14.228 | Certain salary and fringe benefit costs charged to the CDBG program were questioned. | | | | | | |
| 02-29 | | Allocate employees' salaries and fringe benefits to the appropriate activities based on completed weekly time sheets. | 00-17 01-18 | X | | | | |
| 02-30 | 14.228 | The Department needs to improve its monitoring procedures to ensure that subrecipients are using CDBG funds for authorized purposes in compliance with laws, regulations and the provisions of contract and grant agreements. | | | | | | |
| 02-30a | | Improve subrecipient monitoring procedures by ensuring all required subrecipient site visits are conducted and by reviewing all subrecipient audit reports on a timely basis. | 01-19 | | | X | | |
| 02-30b | | Update the checklist used to review subrecipient audit reports to include the current terminology and reporting requirements of OMB Circular A-133. | | | | X | | |
| 02-31 | 17.225 | The rate of payments made to claimants who had not registered with the Job Services Division increased in calendar 2002, indicating a weakening of controls. | | | | | | |
| 02-31 | | Strengthen controls to ensure compliance with the job services registration eligibility requirement. | | X | | | | |
| 02-32 | 17.225 | Questioned costs relating to payroll charges incurred by Office of the General Treasurer for the Unemployment Insurance Program. | 01-20 | X | | | | |
| 02-33 | 17.225 | The Department did not always obtain required approvals from the Division of Purchasing prior to ordering goods and services from vendors or exceeding existing purchase order amounts. | | | | | | |

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

| Finding and Recommendation Number | CFDA | PRIOR YEAR FINDINGS AND RECOMMENDATIONS | Prior rec. number | Imple-mented | Partially Imple-mented | Not Imple-mented | No Longer Valid | Comments |
|-----------------------------------|--------|--|-------------------|--------------|------------------------|------------------|-----------------|--|
| 02-33 | | Implement and enforce enhanced control procedures to ensure compliance with State purchasing laws and regulations. | | | X | | | See Corrective Action Plan for finding 2003-24 |
| 02-34 | 17.225 | The DLT lacks adequate controls to ensure the reliability of data reported on federal report form ETA-227 <i>Overpayment Detection and Collection Activities</i> . | | | | | | |
| 02-34 | | Implement controls to ensure that ETA 227 report information is prepared in the manner prescribed by the federal government. Document supervisory reviews and approvals. | | | X | | | The finding was not implemented prior to the end of the audit period. The corrective action was fully implemented in July, 2003. |
| 02-35 | 17.225 | Controls should be enhanced to ensure the reliability of employer state unemployment tax information reported to the federal government. | | | | | | |
| 02-35 | | Improve controls to ensure that employer tax information is properly reported and certified to the federal government in accordance with specific IRS guidelines. | | X | | | | |
| 02-36 | 17.225 | The DLT lacks adequate controls to ensure compliance with the period of availability requirements for automation acquisitions made with unemployment insurance administrative grant funds. | | | | | | |
| 02-36 | | Strengthen control procedures to ensure compliance with period of availability requirements for unemployment insurance administrative grants. | | X | | | | |
| 02-37 | 20.205 | We found that the RI Department of Transportation (RIDOT) billed twice and, in two cases, three times for reimbursement of certain expenditures in fiscal 2002. | | | | | | |

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

| Finding and Recommendation Number | CFDA | PRIOR YEAR FINDINGS AND RECOMMENDATIONS | Prior rec. number | Imple-mented | Partially Imple-mented | Not Imple-mented | No Longer Valid | Comments |
|-----------------------------------|--------------------------------------|--|--|--------------|------------------------|------------------|-----------------|---|
| 02-37 | 02-37a | Strengthen internal control over data entry to reduce the risk of duplicate billings. | | X | | | | |
| | 02-37b | Reconcile the RIDOT internal accounting system to RISAIL and verify that payments through the state accounting system have been reimbursed only once by the Federal Highway Administration. | | X | | | | |
| | 02-37c | Require that credits processed in the federal billing system have been authorized by department management or authorized agents. Currently staff personnel have the ability to process credits without authorization or oversight. | | X | | | | |
| 02-38 | 84.010 84.027 84.173 84.340 | RIDE does not have adequate procedures in place to ensure subrecipients do not have federal cash on hand in excess of their immediate needs. Cash requests by subrecipients are generally processed once a month and funds are generally advanced based on forecasts prepared by the subrecipient for the month. | | | | | | |
| | 02-38 | Monitor advances to subrecipients to ensure that they conform to standards required by 34 CFR 80.21(c), 80.37 (a) (4), and 31 CFR 205.10(a). | <u>84.010</u> 97-25 98-24 99-29 00-24 01-27 | | | X | | See Corrective Action Plan for finding 2003-33 |
| | | | <u>84.027</u> <u>84.173</u> 99-29 00-24 01-27 | | | X | | See Corrective Action Plan for finding 2003-33 |
| | | | <u>84.340</u> 01-27 | | | | X | This program was discontinued after fiscal year 2002. |
| 02-39 | 84.032 | 12 out of 25 student files selected did not contain a record of an exit interview being performed or mailed. | | | | | | |

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

| Finding and Recommendation Number | CFDA | PRIOR YEAR FINDINGS AND RECOMMENDATIONS | Prior rec. number | Imple-mented | Partially Imple-mented | Not Imple-mented | No Longer Valid | Comments |
|-----------------------------------|--------|--|---|--------------|------------------------|------------------|-----------------|---|
| | 02-39 | We recommend that the University strengthen its procedures to ensure that a signed exit interview form or confirmation of on-line counseling be obtained from all borrowers, to ensure compliance with federal requirements regarding exit interviews. | | | | X | | See Corrective Action Plan for finding 2003-34 |
| 02-40 | 84.340 | RIDE does not have procedures in place to determine its compliance with the level of effort requirement. | 01-35 | | | | X | This program was discontinued after fiscal year 2002. |
| 02-41 | 93.558 | TANF eligibility discrepancies resulting from IEVS data matches were not investigated and resolved in a timely manner. | | | | | | |
| | 02-41a | Strengthen control procedures to ensure that discrepancies resulting from data matches are promptly resolved and utilized to determine recipient eligibility and the amount of assistance. | 98-36 99-33a 00-32a 01-36a | | X | | | The Department provided written procedures and performed staff training during FY 2002 and FY 2003. |
| | 02-41b | Maintain documentation supporting the resolution of data match discrepancies. Initiate modifications when discrepancies impact eligibility and/or benefit levels. | 99-33b 00-32b 01-36a | | X | | | See Corrective Action Plan for finding 2003-41 |
| 02-42 | 93.563 | CSE does not reconcile child support collections and disbursements recorded in its computer system (INRHODES) with amounts recorded in the State accounting system. | | | | | | |
| | 02-42a | Accumulate all child support collections and distributions in the department computer system and reconcile to the amounts recorded in the State accounting system. | 97-35 98-37a 99-34a 00-34a 01-38a | | | X | | See Corrective Action Plan for finding 2003-44 |
| | 02-42b | Investigate and resolve the difference regarding child support collections pending distribution reported by the CSE and State accounting systems. | 98-37b 99-34b 00-34b 01-38b | | | X | | See Corrective Action Plan for finding 2003-44 |
| 02-43 | 93.563 | Control procedures are not adequate to ensure that medical support, once ordered by the court, is enforced. | | | | | | |

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

| Finding and Recommendation Number | CFDA | PRIOR YEAR FINDINGS AND RECOMMENDATIONS | Prior rec. number | Imple-mented | Partially Imple-mented | Not Imple-mented | No Longer Valid | Comments |
|-----------------------------------|--------|---|-------------------|--------------|------------------------|------------------|-----------------|--|
| 02-43a | | Enhance control procedures to ensure that medical coverage information is recorded within the CSE INRHODES computer system on a timely basis when medical support is ordered by the court. | 00-35a 01-39a | | | X | | See Corrective Action Plan for finding 2003-46 |
| 02-43b | | Initiate appropriate enforcement action for medical support orders. | 00-35b 01-39b | | | X | | See Corrective Action Plan for finding 2003-46 |
| 02-44 | 93.568 | The State Energy Office did not prepare and submit the required <i>Financial Status Reports (SF-269A)</i> . Other reports contained inaccuracies, incomplete information, and data not reported in accordance with instructions. | | | | | | |
| 02-44a | | Develop control procedures to ensure that federal reports are accurate, complete, and prepared in accordance with report instructions. | | X | | | | |
| 02-44b | | Ensure that all federal reports are submitted to the granting agency as required. Prepare and submit the necessary <i>SF-269A Financial Status Reports</i> . | 01-43 | | X | | | Although the required financial status reports for FY's 2002 and 2003 have been prepared and submitted, the FY 2001 report is still outstanding. It is our understanding that the Central Business Office has been made aware of this finding and will be preparing the 2001 report. |
| 02-44c | | Submit a corrected <i>LIHEAP Carry Over and Reallotment Report</i> . | | | | X | | An amended LIHEAP Carry Over and Reallotment report was submitted to HHS. We have since discovered that our amended report was still not accurate according to our audit. The Central Business Office has been made aware of this and will be submitting another revision. |
| 02-44d | | Develop a system for tracking all of the required Winter/Year Round Crisis and Weatherization data elements. Submit a revised <i>Annual Report on Households Assisted by LIHEAP</i> to identify the basis used in reporting each of the various data elements (actual vs. estimated). | | X | | | | |
| 02-45 | 93.568 | The State Energy Office lacks adequate procedures to ensure that payments to its LIHEAP program subrecipients are limited to their immediate cash needs. | | | | | | |
| 02-45 | | Restrict subrecipient funding to their immediate cash needs and ensure that LIHEAP program funds reports are properly submitted by subrecipients. | | | X | | | See Corrective Action Plan for finding 2003-48 |

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

| <i>Finding and Recommendation Number</i> | <i>CFDA</i> | <i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i> | <i>Prior rec. number</i> | <i>Imple-mented</i> | <i>Partially Imple-mented</i> | <i>Not Imple-mented</i> | <i>No Longer Valid</i> | <i>Comments</i> |
|--|------------------|---|--------------------------|---------------------|-------------------------------|-------------------------|------------------------|--|
| 02-46 | 93.568 | During federal fiscal year 2002, the State Energy Office did not finalize two utility contracts until after the beginning of the fiscal year. The State Energy Office did not require its providers of fuel and utility services or subrecipients to certify that the organization and its principals are not suspended or debarred from participating in the LIHEAP program. | | | | | | |
| | 02-46a | Finalize all provider contracts by the beginning of the fiscal year in which the services will be provided. | | | | X | | See Corrective Action Plan for finding 2003-49 |
| | 02-46b | Require all agreements with utility and fuel providers and subrecipients to include certifications that neither the entity nor its principals are suspended or debarred from participating in the LIHEAP program. | 01-42 | X | | | | |
| 02-47 | 93.575 93.596 | Childcare workers sometimes failed to comply with established procedures regarding hardcopy documentation of eligibility and income. This resulted in errors in the calculation of provider payments and co-payments. | | | | | | |
| | 02-47 | Adhere to internal procedures requiring agency personnel obtain and utilize the appropriate documentation to update electronic case file records prior to approving childcare eligibility and determining payment amounts. | 01-46 | | | X | | See Corrective Action Plan for finding 2003-50 |
| 02-48 | 93.575 93.596 | Cumulative disbursements reported by the Department on the PMS 272-A were under-reported. | | | | | | |
| | 02-48 | Strengthen internal procedures to ensure that cumulative disbursement totals as reported on the quarterly Federal Cash Transaction Report are supported by appropriate documentation. | | X | | | | |
| 02-49 | 93.575 93.596 | The department needs to strengthen its subrecipient cash management procedures to more effectively monitor its subrecipient's cash position and limit payments to immediate cash needs. | | | | | | |
| | 02-49 | Strengthen subrecipient cash management procedures to provide reasonable assurance that subrecipient payments are limited to the entity's immediate cash needs. | 01-44 | X | | | | |
| 02-50 | 93.658 | We found four cases that were not eligible for federal participation. | | | | | | |

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

| <i>Finding and Recommendation Number</i> | <i>CFDA</i> | <i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i> | <i>Prior rec. number</i> | <i>Imple-mented</i> | <i>Partially Imple-mented</i> | <i>Not Imple-mented</i> | <i>No Longer Valid</i> | <i>Comments</i> |
|--|-------------|---|--------------------------|---------------------|-------------------------------|-------------------------|------------------------|---|
| | 02-50 | Adjust federal reports to reimburse the federal government for the unallowable maintenance costs charged during fiscal year 2002. | | X | | | | |
| 02-51 | 93.658 | DCYF did not require vendors to certify that the organization and its principals are not suspended or debarred from participation in the Foster Care program. | | | | | | |
| | 02-51 | Include certifications regarding suspension and debarment in contracts with childcare institutions participating in the Foster Care – Title IV-E program. | 01-48 | X | | | | |
| 02-52 | 93.667 | The department's subrecipient monitoring procedures may not be sufficiently comprehensive to ensure federal sub-awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements. | | | | | | |
| | 02-52a | Perform alternative monitoring procedures when audit reports do not provide timely and reasonable assurance of a subrecipient's compliance with program requirements. | 00-43 | | | X | | The Department does employ several tools to monitor many of its subrecipients in order to insure compliance. Types of monitoring tools used by the Department include reviewing agency board minutes, attending agency program events, sponsoring training sessions for subrecipient staff, and attending agency association meetings. In most cases the Department's subrecipients are also receiving federal and state funds from several other state departments, therefore a statewide approach to onsite monitoring may be a more effective way to ensure that subrecipients are expending federal awards in compliance with laws and regulations. Site visits will be used by the Department as a monitoring tool, within staffing constraints. |

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

| Finding and Recommendation Number | CFDA | PRIOR YEAR FINDINGS AND RECOMMENDATIONS | Prior rec. number | Imple-mented | Partially Imple-mented | Not Imple-mented | No Longer Valid | Comments |
|-----------------------------------|------------------|---|-------------------|--------------|------------------------|------------------|-----------------|--|
| | 02-52b | Perform timely and substantive follow-up on subrecipient audit findings – particular emphasis is warranted when findings remain uncorrected for multiple reporting years. | 01-45b | | X | | | During FY 2003, DHS started a process to issue notification letters to entities overdue in submitting required audit reports. DHS continues to monitor repeat audit recommendations. |
| 02-53 | 93.667 93.778 | Controls are not adequate to ensure that all payments for homemaker services are charged to the appropriate funding source. | | | | | | |
| | 02-53 | Strengthen procedures to ensure that vendor billings for homemaker services are verified as to funding source, authorization period and authorized hours prior to payment. | 00-42 01-49 | | | X | | DHS will modify the claims processing to link the eligibility to the proper funding source. See Corrective Action Plan for finding 2003-57 |
| 02-54 | 93.767 | Specific eligibility criteria for the SCHIP program has not been programmed into the INRHODES system. The Department must use queries to identify SCHIP eligible individuals and program costs. During fiscal 2002, certain SCHIP expenditures were erroneously claimed. The INRHODES system does not adequately consider other insurance when determining SCHIP eligibility. | | | | | | |
| | 02-54a | Subject the results of queries used to accumulate eligible SCHIP program costs to a quality control process to ensure eligibility and allowable cost program criteria are met. | | | | X | | See Corrective Action Plan for finding 2003-53 |
| | 02-54b | Adjust federal reports for the amounts erroneously claimed as program costs. | | | | X | | See Corrective Action Plan for finding 2003-53 |
| | 02-54c | Implement procedures to fully consider the existence or availability of other insurance when determining eligibility for SCHIP. | | | | X | | See Corrective Action Plan for finding 2003-53 |
| 02-55 | 93.767 | Data is not available to apply collection of co-pay amounts to either Medicaid or SCHIP, whichever program was initially charged. All co-pay collections are applied to the Medicaid program. | | | | | | |
| | 02-55 | Implement procedures to allow crediting the appropriate federal program for the collection of co-pay amounts under the State's Rite Care Cost Share program. | | | | X | | See Corrective Action Plan for finding 2003-54 |

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

| <i>Finding and Recommendation Number</i> | <i>CFDA</i> | <i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i> | <i>Prior rec. number</i> | <i>Imple-mented</i> | <i>Partially Imple-mented</i> | <i>Not Imple-mented</i> | <i>No Longer Valid</i> | <i>Comments</i> |
|--|-------------|--|--|---------------------|-------------------------------|-------------------------|------------------------|---|
| 02-56 | 93.767 | SCHIP expenditures were initially claimed as Medicaid program expenditures and later adjusted and claimed as SCHIP expenditures. | | | | | | |
| | 93.778 | | | | | | | |
| 02-56 | | Estimate the federal share of eligible SCHIP program expenditures for the purposes of drawing cash against the appropriate cash award and letter of credit. | | | | X | | See Corrective Action Plan for finding 2003-55 |
| 02-57 | 93.778 | Adequate controls were not in place to ensure that claims were paid only for individuals eligible under the Medical Assistance Program. | | | | | | |
| | 02-57 | Determine, on a timely basis, the amount of claims paid on behalf of ineligible individuals and reimburse the federal government for its share. | 97-42a 98-44b 99-42b 00-46 01-53 | | | X | | DHS provided back up for cases provided for CY 2001 and 2002 and also determined 129 cases for CY 2003, but had not yet quantified the 2003 cases yet. See Corrective Action Plan for Finding 2003-58 |
| 02-58 | 93.778 | The department's oversight of its fiscal agent designated to pay Medical Assistance Program claims was not adequate to ensure the reliability of data reported by the Medical Management Information System and to ensure claims were processed in accordance with the Department's instructions and federal requirements. | | | | | | |
| | 02-58a | Obtain an annual examination ("SAS 70" review) performed by independent certified public accountants of the fiscal agent's internal control policies and procedures. | 97-43a 98-45b 99-43a 00-47a 01-54a | | | X | | See Corrective Action Plan for finding 2003-59 |
| | 02-58b | Improve financial oversight of the fiscal agent by enhancing procedures to (1) verify information from the MMIS used to record program activity and prepare federal reports, (2) monitor the billing and collection of drug rebates and (3) ensure third party liabilities are identified and collected. | 97-43b 98-45a 99-43b 00-47b 01-54b | | | X | | See Corrective Action Plan for finding 2003-59 |
| 02-59 | 93.778 | Delays in verifying TPL information contributed to lost TPL recovery. | | | | | | |

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

| Finding and Recommendation Number | CFDA | PRIOR YEAR FINDINGS AND RECOMMENDATIONS | Prior rec. number | Imple-mented | Partially Imple-mented | Not Imple-mented | No Longer Valid | Comments |
|-----------------------------------|--------|--|-------------------|--------------|------------------------|------------------|--|--|
| 02-59a | | Review existing procedures to ensure that third party liabilities are identified on a timely basis. | 97-45 | | | X | | See Corrective Action Plan for finding 2003-60 |
| | | | 98-47a | | | | | |
| | | | 99-46a | | | | | |
| 02-59b | | Reimburse the federal government for its share of uncollected third party liability recoveries. | 00-49a | | | | | See Corrective Action Plan for finding 2003-60 |
| | | | 01-55a | | | | | |
| | | | 98-47b | | | X | | |
| 02-59c | | Investigate the possibility of sharing data electronically with other insurers to facilitate the identification of third party liability. | 99-46b | | | | | See Corrective Action Plan for finding 2003-60 |
| | | | 00-49b | | | | | |
| | | | 01-55b | | | | | |
| 02-60 | 93.778 | Approximately \$50 million of program expenditures were processed by systems independent of the MMIS. These other accounting systems have not been designed to contain all the control procedures of the MMIS. | 01-55c | | | X | | See Corrective Action Plan for finding 2003-60 |
| | | | 97-52 | | | X | See Corrective Action Plan for finding 2003-61 | |
| | | | 98-51 | | | | | |
| 02-60a | | Improve controls by requiring all benefit-type program expenditures to be processed through the MMIS. | 99-49a | | | | | |
| | | | 00-51a | | | | | |
| | | | 01-56a | | | | | |
| 02-60b | | Implement oversight procedures for per diem rates established for state operated facilities. | 01-56c | | | X | | See Corrective Action Plan for finding 2003-61 |
| | | | 98-48b | | | | See Corrective Action Plan for finding 2003-61 | |
| | | | 99-49b | | | | | |
| 02-60c | | Implement control procedures to ensure the allowability of administrative expenditures charged to the Medicaid program by other departments. | 00-51c | | | X | | See Corrective Action Plan for finding 2003-61 |
| | | | 01-56d | | | | | |
| | | | 98-48b | | | | | |
| 02-61 | 93.778 | DHS did not obtain revised agreements from all its contractors that certify that the organization and its principals are not suspended or debarred from participating in the Medicaid Program. | | | | | | |

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

| <i>Finding and Recommendation Number</i> | <i>CFDA</i> | <i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i> | <i>Prior rec. number</i> | <i>Imple-mented</i> | <i>Partially Imple-mented</i> | <i>Not Imple-mented</i> | <i>No Longer Valid</i> | <i>Comments</i> |
|--|-------------|---|-----------------------------------|---------------------|-------------------------------|-------------------------|------------------------|--|
| 02-61 | | Review and strengthen procedures designed to ensure current agreements containing the required suspension and debarment certifications are in place for all providers. | 98-54b 99-51 00-53 01-58 | | | X | | See Corrective Action Plan for finding 2003-62 |
| 02-62 | 93.778 | DHS has not submitted the required Drug Use Review Program reports for fiscal years 1998 through 2002. | | | | | | |
| 02-62 | | Prepare and submit the required Medicaid Drug Use Review Agency Report annually. | 00-55 01-59 | X | | | | |
| 02-63 | 93.778 | The State must credit the Medical Assistance Program for provider checks outstanding more than 180 days. At June 30, 2002, the total amount outstanding more than 180 days was \$6,372 | | | | | | |
| 02-63 | | Reimburse the federal government for its share of checks outstanding for more than 180 days. | | X | | | | |
| 02-64 | 93.778 | Amounts reimbursed as disproportionate share payments to one hospital did not meet the criteria set forth in Section 1923(b) of the Social Security Act and the State Plan. | | | | | | |
| 02-64 | | Adhere to provisions in the State Plan regarding disproportionate share hospital reimbursements to qualifying mental health services hospitals and seek federal approval of the plan. | | | | X | | See Corrective Action Plan for finding 2003-64 |
| 02-65 | 93.778 | The process to accumulate information for the CMS-64 report is complex and requires extensive manual effort. No review process is in place to ensure consistent and accurate reporting of program expenditures on the CMS-64. | | | | | | |

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

| Finding and Recommendation Number | CFDA | PRIOR YEAR FINDINGS AND RECOMMENDATIONS | Prior rec. number | Imple-mented | Partially Imple-mented | Not Imple-mented | No Longer Valid | Comments |
|-----------------------------------|--------|---|-------------------|--------------|------------------------|------------------|-----------------|---|
| 02-65a | | Reconcile Medicaid program expenditures reported on the CMS-64 with amount included in the State's accounting system. Implement a review process to ensure the consistent and accurate reporting of program expenditures. | | | | X | | See Corrective Action Plan for finding 2003-65 |
| 02-65b | | Align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS. | | | | X | | See Corrective Action Plan for finding 2003-65 |
| 02-65c | | Include information relative to the collection of health care related taxes on the CMS-64. | | | | X | | Healthcare related taxes were reported on 6/30/2003 CMS 64 report. See Corrective Action Plan for finding 2003-65 |
| 02-65d | | Ensure data reported on the CMS-64 regarding outstanding drug rebates is consistent with supporting records maintained by the fiscal agent. | | | | X | | See Corrective Action Plan for finding 2003-65 |
| 02-66 | 96.001 | Disbursements reported on the <i>State Agency Report of Obligations for SSA Disability Programs</i> were understated. The <i>Time Report of Personnel Services</i> is required to be submitted each quarter. Three out of four reports submitted in fiscal 2002 overstated the total number of hours devoted to program activities. | | | | | | |
| 02-66 | | Implement controls to provide reasonable assurance that federal reports are complete and accurate. | | X | | | | |

Mission

“The Office of the Auditor General exists to support the State Legislature and Federal Government in meeting their constitutional responsibilities and to help improve the performance and accountability of government”