



AUDIT SUMMARY

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INTEGRITY ♦ RELIABILITY ♦ INDEPENDENCE ♦ ACCOUNTABILITY

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SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2003

We completed our Single Audit of the State of Rhode Island (the State) for the fiscal year ended June 30, 2003. This audit is required by both State and Federal law. The *Single Audit Report* includes the State's basic financial statements, a schedule of federal program expenditures, and findings and recommendations pertaining to the financial statements and federal programs. It also includes a corrective action plan prepared by the State's management to address each finding and provide a timetable for implementation. The *Single Audit Report* was provided to federal funding agencies in November 2004 as a condition of continued federal assistance.

Financial Statements

The State's basic financial statements include comprehensive information on the State's financial activities during fiscal 2003. The government-wide financial statements provide a broad and longer-term view of the State's finances including capital assets and long-term liabilities. The government-wide financial statements are presented in sections – Governmental Activities (includes most of the State's basic services supported by taxes and grants), Business-Type Activities (Lottery, Convention Center, Employment Security) and Discretely Presented Component Units (entities that are legally separate but for which the State is financially accountable). Financial statements are also presented for major funds of the State

which focus on the individual parts of State government with a focus on current available resources and their use.

We concluded that the State's government-wide financial statements present fairly the State's net assets and the results of its operations for the fiscal year ended June 30, 2003 except for the effects of such adjustments, if any, as might have been required had we been provided sufficient evidence regarding the completeness of the furniture and equipment, and building improvement categories of capital assets. We also concluded that, except for the omission of encumbrances outstanding as a reserved component of fund balances within the governmental funds, the State's major funds are fairly presented. Our report on the financial statements also highlighted two matters for readers of the State's financial statements. The State's Tobacco

Settlement Financing Corporation (the Corporation) early implemented new accounting technical guidance. As a result, the Corporation changed its method of accounting for its purchased interest in tobacco settlement revenues and the State changed its presentation of the Corporation from a discretely presented component unit to a blended component unit. We also highlighted that, as permitted by current accounting standards, the State has included only capital outlays for infrastructure since July 1, 2001 as capital assets. Infrastructure outlays from prior years will be included in future financial statements.

Net assets of the State (exclusive of discretely presented component units) decreased by \$64.5 million during fiscal 2003 to \$82.3 million at June 30, 2003. Fund balance of the State's general fund at June 30, 2003 was \$171.8 million of which \$129.2 million was reserved (budget reserve and appropriations carried forward) and \$42.6 million was unreserved and available for appropriation.

AUDIT HIGHLIGHTS

- ❑ We expressed a qualified opinion on the State's government-wide financial statements and major governmental fund statements.
- ❑ General fund revenues and other sources exceeded expenditures and other uses by \$8 million.
- ❑ We reported significant deficiencies in the State's controls over financial reporting.
- ❑ Total expenditures of federal awards were more than \$2.2 billion in fiscal 2003.
- ❑ The State generally complied, in all material respects, with requirements applicable to federal programs; however, we did report instances of material noncompliance and other findings where controls can be improved to enhance compliance.

We reported 18 significant deficiencies in the State's internal control procedures over financial reporting. Of these deficiencies, 11 were deemed material weaknesses. We reported significant weaknesses in controls over the general ledger, interfund transactions, investment transactions and classification of expenditures. Additionally, bank reconciliations were not performed during the fiscal year which represented a serious weakness in control over cash receipts and disbursements. We also reported that the State needs to improve controls over the recording of federal revenue, long-term obligations, significant accounting estimates, escrow liability balances, and electronic funds transfer receipts at the Division of Taxation. The State also lacks a comprehensive systems security plan and controls need to be improved over access to key computer systems.

We also found that controls are still deficient over the tracking and recording of capital assets. The State conducted an insufficient number of physical inventories during the year and overall efforts to accumulate costs for certain categories of capital assets remained incomplete. Because of these control weaknesses we could not completely satisfy ourselves as to the completeness of furniture and equipment and building improvements reported by the State. We also reported that controls need to be improved to ensure proper identification and recording of capital assets within the accounting system.

Federal Awards

Federal assistance is provided to the State under approximately 400 programs each with specific objectives and requirements. Compliance requirements vary for each program, however, most programs have federal requirements relating to (1) costs which are allowable for reimbursement, (2) individuals who may be eligible for benefits, (3) reports required to be submitted to the federal government, (4) cost sharing or matching provisions, and (5) the timing of

reimbursement from the federal government.

Federal assistance is mostly cash awards that are used to fully or partially fund federal programs. For example, the federal government funds approximately 54% of Medicaid program costs with the State funding the remaining share. The Medicaid program, which pays for medical care for needy individuals is the single largest federal program administered by the State. Total program costs approximated \$1.5 billion for fiscal 2003 with the federal government's share totaling \$831 million.

For many of the programs tested, we found that the State complied in all material respects with applicable compliance requirements. We did report instances where the State should improve controls to ensure compliance with federal requirements. For example, federal funds passed-through to subrecipients must be monitored by the State to ensure compliance with applicable federal program requirements. We found that, for several programs, the State needs to improve its subrecipient monitoring procedures, including cash advanced to subrecipients for program expenditures.

We reported that the State needs to improve oversight of its fiscal agent that processes claims for the Medicaid program. Additional financial monitoring procedures are 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. Other findings reported for the Medicaid program address areas such as controls over billing for homemaker services, identification of claims where a third party might be liable, federal reporting, program overpayments, and the allowability of certain administrative costs.

We found other instances where controls should be improved to ensure compliance with federal requirements. For example, controls need to be strengthened over access to the computer systems which are used to authorize and deliver benefits

through the electronic benefit delivery system for Food Stamp and Temporary Assistance For Needy Families (TANF) programs. Data used to determine eligibility for the TANF program is matched to data contained in other federal and state computer systems. We found that discrepancies resulting from data matches were not always investigated or resolved promptly which weakens controls over the determination of eligibility and benefit levels for the TANF program.

Child Support Enforcement needs to enhance control procedures to ensure that medical coverage information is obtained and recorded within its computer system on a timely basis when the Court has ordered an absent parent to provide medical support.

The State also needs to implement centralized monitoring controls to ensure it draws federal funds in reimbursement of program costs at the appropriate time. We found that, in many instances, the State does not draw cash quickly enough, which adversely impacts its own cash management.

Other findings reported include the need to strengthen controls to ensure the allowability of program expenditures, eligibility for certain federal programs and reporting of program expenditures.

The audit report contains 56 findings related to the administration of federal programs. A corrective action plan, prepared by the State's management, is also included which addresses each finding and provides a timetable for implementation. A summary schedule of prior audit findings is also included which reports the status of findings from prior audits.

Copies of the Single Audit Report can be obtained by calling 222-2435 or by visiting our website at www.oag.ri.gov.