

**State of Rhode Island
and Providence Plantations**

SINGLE AUDIT REPORT

Fiscal Year Ended June 30, 2005

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

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”



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STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS
GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

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

March 17, 2006

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, 2005. 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) internal control over financial reporting and on compliance and other matters, 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

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Financial Statements



Basic Financial Statements

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STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

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- ◆ *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, 2005 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 3% of the assets and 1% of the revenues of the governmental activities and 1% of the assets and 3% of the revenues of the aggregate remaining fund information;
- the Convention Center Authority, a major fund, which also represents 38% of the assets and 2% of the revenues of the business-type activities; and
- component units which represent 100% of the assets and 100% 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.

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

Except as discussed in the following two paragraphs, 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, depreciable intangible, and building improvement categories of capital assets included in governmental activities at June 30, 2005. 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, depreciable intangible, and building improvement capital asset categories represent \$122 million or 8% of total recorded net governmental activities capital assets of \$1,457 million at June 30, 2005.

We were unable to obtain sufficient evidence regarding the completeness of accounts payable and amounts due from other governments and agencies and related expenditures and federal revenue reported for the Intermodal Surface Transportation (IST) Fund, a major fund, due to weaknesses in accounting controls over the accumulation and reporting of information included in these account classifications.

Management has not presented encumbrances outstanding at June 30, 2005 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 accounting principles generally accepted in the United States of America. 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 effects of such adjustments, if any, on the IST Fund as might have been considered to be necessary had we been provided sufficient evidence regarding accounts payable and amounts due from other governments and agencies and related expenditures and federal revenue, and except for the omission of encumbrances outstanding at June 30, 2005 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 each major fund and the aggregate remaining fund information of the State as of June 30, 2005 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.

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In addition, in our opinion, except for the effects of such adjustments, if any, on the governmental activities included in the 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, depreciable intangible, and building improvement components of capital assets, 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, and the aggregate discretely presented component units of the State as of June 30, 2005, 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 note 1 to the basic financial statements, the State adopted the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3* effective July 1, 2004.

As discussed in note 17 to the basic financial statements, beginning net assets of the governmental activities on the statement of net assets were decreased by \$11.4 million for the recording of additional long-term liabilities. Beginning net assets of the discretely presented component units on the statement of net assets were increased by \$11.6 million primarily to reflect a reduction in previously recorded long-term liabilities.

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 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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, on pages A-5 through A-16, the Budgetary Comparison Schedules on pages A-87 through A-110, and the Schedules of Funding Progress on page A-111 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

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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 State, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards 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, except for the effects of such adjustments, if any, on federal expenditures recorded within the Intermodal Surface Transportation Fund as might have been considered to be necessary had we been provided sufficient evidence regarding accounts payable, 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 a whole.



Ernest A. Almonte, CPA, CFE
Auditor General

February 17, 2006

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, 2005. 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 June 30, 2005 by \$347.4 million. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government. Of this amount, (\$946.6) million was reported as unrestricted net assets, \$548.8 million was restricted net assets, and \$745.2 million was invested in capital assets, net of related debt.
- **Changes in Net Assets** In the Statement of Activities the State's total net assets changed by \$211.0 million in fiscal year 2005. Net assets of governmental activities changed by \$211.5 million, while net assets of the business-type activities changed by (\$0.5) million. The primary reason for the \$211.0 million increase was the \$122.0 million increase in fund balances of the governmental funds due primarily to unspent proceeds from the sale of debt instruments of certain capital projects funds and the \$140.9 million increase in invested in capital assets, net of related debt. The primary reason for the difference in the business-type activities was the increase in operating transfers out.

Fund Financial Statements

- The State's governmental funds reported a combined ending fund balance of \$831.6 million, an increase of \$122.0 million in comparison with the previous fiscal year. The primary reason for this is the unspent proceeds in other governmental (capital projects) funds.
- The General Fund ended the current fiscal year with an unreserved, undesignated balance of \$38.7 million, an increase of \$14.2 million in comparison with the previous fiscal year. The primary reason for the increase is that actual general revenue expenditures were \$39.0 million less than budgeted and general revenue was \$26.5 million less than budgeted.
 - ◆ The Budget Reserve Account ended the fiscal year with a balance of \$90.9 million, an increase of \$6.6 million in comparison with the previous fiscal year.
- The Intermodal Surface Transportation Fund ended the fiscal year with an unreserved fund balance of \$32.6 million, which was a decrease of \$3.8 million from the previous year. . The primary reason for this decrease was that actual revenue was \$20.0 million higher than budget while actual expenditures were \$15.5 million over budget.
- The GARVEE Fund ended its fiscal year with a fund balance of \$195.9 million of which \$9.3 million is reserved for debt. The fund balance decreased by \$61.0 million. The primary reason for this decrease was that the \$65.0 million of capital outlay expenditures were out of bond proceeds from prior year issuances.

Management's Discussion and Analysis

- The Rhode Island State Lottery transferred \$307.6 million to the General Fund in support of general revenue expenditures during the fiscal year, an increase of \$26.5 million in comparison with the previous fiscal year.

Overview of the Financial Statements

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

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

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

Changes in Presentation

For the fiscal year ended June 30, 2005, the R.I. Temporary Disability Insurance Fund did not meet the criteria of a major fund as described in Note 1(D). Accordingly, it is included in the Other Governmental Funds column on the fund financial statements in the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements provide a broad view of the State's finances. The statements provide both short-term and long-term information about the State's financial position, which 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.

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

Management's Discussion and Analysis

- **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 20 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.

Governmental funds include the general fund and special revenue, capital projects 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*

Management's Discussion and Analysis

State and Local Governments defines the general fund as a major fund. The criteria for determining if any of the other governmental funds are major funds are detailed in Note 1(D). The Intermodal Surface Transportation Fund and the GARVEE 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 the State's Comprehensive Annual Financial Report (CAFR).

- **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 internal service funds are reported on the basic proprietary fund financial statements in a single combined column. Individual fund data for these funds is provided in the form of combining statements and can be found in the supplementary information section of the State's CAFR.

In anticipation of the implementation of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, in fiscal 2007, the State has obtained an actuarial estimate of the unfunded liability relating to retiree medical benefits. The unfunded liability was estimated to be approximately \$600 million for State employees and \$29 million for the State's share for teachers as of December 2003. The actuarially based funding of this liability is reflected in the State's five-year forecast and would require an estimated rate of contribution of 8.57% of payroll. The State anticipates that it will obtain an updated estimate based upon the actual standard adopted by GASB taking into account the pension reform provisions impacting the State and teacher system which was enacted during the 2005 session of the General Assembly.

- **Fiduciary funds:** These funds are used to account for resources held for the benefit of parties outside the State government. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support the State's programs. These funds, which include the pension 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 the State's CAFR.

Management's Discussion and Analysis

Major Features of the Basic Financial Statements

	Government-wide Financial Statements	Fund 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 fiduciary funds financial statements.

Required Supplementary Information

The basic financial statements and accompanying notes are followed by a section of required supplementary information, including information concerning the State's 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, which follows the required supplementary information in the State's CAFR, includes the combining financial statements for nonmajor governmental funds, grouped by fund type and presented in single columns in the basic financial statements, internal service funds, fiduciary funds, discretely presented component units and the statistical section.

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 \$347.4 million at the end of fiscal year 2005, compared to \$136.4 million at the end of the prior fiscal year. The primary reason for the \$211.0 million increase was the \$122.0 million increase

Management's Discussion and Analysis

in fund balances of the governmental funds due primarily to unspent proceeds from the sale of debt instruments of certain capital projects funds and the \$140.9 million increase in investment in capital assets net of related debt.

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) recorded for fiscal years 2002 through 2005, 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, 2005
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 1,464,055	\$ 1,257,114	\$ 257,003	\$ 276,030	\$ 1,721,058	\$ 1,533,144
Capital assets	1,456,908	1,256,951	124,874	199,644	1,581,782	1,456,595
Total assets	<u>2,920,963</u>	<u>2,514,065</u>	<u>381,877</u>	<u>475,674</u>	<u>3,302,840</u>	<u>2,989,739</u>
Long-term liabilities outstanding	1,992,541	1,879,935	199,987	286,424	2,192,528	2,166,359
Other liabilities	732,911	650,086	30,010	36,915	762,921	687,001
Total liabilities	<u>2,725,452</u>	<u>2,530,021</u>	<u>229,997</u>	<u>323,339</u>	<u>2,955,449</u>	<u>2,853,360</u>
Net assets:						
Invested in capital assets, net of related debt	816,578	675,696	(71,413)	(84,910)	745,165	590,786
Restricted	315,370	301,346	233,476	251,596	548,846	552,942
Unrestricted	(936,437)	(992,998)	(10,183)	(14,351)	(946,620)	(1,007,349)
Total net assets	<u>\$ 195,511</u>	<u>\$ (15,956)</u>	<u>\$ 151,880</u>	<u>\$ 152,335</u>	<u>\$ 347,391</u>	<u>\$ 136,379</u>

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 increased by \$211.0 million during the current fiscal year. Total revenues of \$6,927.0 million were more than expenses of \$6,727.9 million. Approximately 38.8% of the State's total revenue came from taxes, while 27.4% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 31.6% of the total revenues. The State's expenses covered a range of services. The largest expenses were for human services, 37.3% and intergovernmental, 16.8%. In fiscal year 2005, the State ceased reporting grants as separate expenditure line in the financial statements. These grant expenditures were primarily related to education. In fiscal year 2005, governmental activity expenses exceeded program revenues, which resulted in the use of \$3,119.9 million in general revenues (mostly taxes). On the other hand, net program revenues from business-type activities in fiscal year 2005 exceeded expenses by \$263.0 million. In fiscal year 2004, payments from component units were included in miscellaneous general revenue.

Management's Discussion and Analysis

State of Rhode Island's Changes in Net Assets
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 351,784	\$ 342,366	\$ 1,835,511	\$ 1,684,585	\$ 2,187,295	\$ 2,026,951
Operating grants and contributions	1,794,965	1,703,526	2,633	29,492	1,797,598	1,733,018
Capital grants and contributions	97,681	156,372			97,681	156,372
General revenues:						
Taxes	2,687,684	2,477,453			2,687,684	2,477,453
Interest	14,443	9,812	10,875	12,884	25,318	22,696
Miscellaneous	104,411	136,122	7,633	5,568	112,044	141,690
Gain on sale of capital assets	853				853	
Payments from component units	18,503				18,503	
Total revenues	5,070,324	4,825,651	1,856,652	1,732,529	6,926,976	6,558,180
Program expenses:						
General government	503,659	474,640			503,659	474,640
Human services	2,512,628	2,420,998			2,512,628	2,420,998
Education	264,385	75,744			264,385	75,744
Public safety	336,069	321,015			336,069	321,015
Natural resources	65,913	61,839			65,913	61,839
Transportation	226,529	173,935			226,529	173,935
Intergovernmental	1,127,496	1,047,537			1,127,496	1,047,537
Grants		299,291				299,291
Interest	116,171	104,760			116,171	104,760
Lottery			1,330,298	1,200,059	1,330,298	1,200,059
Convention Center			35,746	62,622	35,746	62,622
Employment insurance			209,018	238,220	209,018	238,220
	5,152,850	4,979,759	1,575,062	1,500,901	6,727,912	6,480,660
Increase in net assets before transfers and special items	(82,526)	(154,108)	281,590	231,628	199,064	77,520
Special items			11,948		11,948	
Transfers	293,993	266,886	(293,993)	(266,886)		
Change in net assets	211,467	112,778	(455)	(35,258)	211,012	77,520
Net assets - Beginning	(15,956)	(117,341)	152,335	187,593	136,379	70,252
Cumulative effect of prior period adjustments		(11,393)				(11,393)
Net assets - Beginning, as restated	(15,956)	(128,734)	152,335	187,593	136,379	58,859
Net assets - Ending	\$ 195,511	\$ (15,956)	\$ 151,880	\$ 152,335	\$ 347,391	\$ 136,379

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 \$831.6 million, an increase of \$122.0 million. Reserved fund balances are not available for new spending because they have already been committed as follows: (1) \$90.9 million for a "rainy day" account, (2) \$55.2 million for continuing appropriations, (3) \$91.1 million principally for liquidating debt, (4) \$132.0 million for employment insurance programs

Management's Discussion and Analysis

and (5) \$1.4 million for other restricted purposes. Approximately 50.8% (\$422.3 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 \$38.7 million, while total fund balance was \$184.8 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 0.8% of total General Fund expenditures, while total fund balance represent 3.8% of the same amount. The General Fund's unreserved fund balance increased from \$24.5 million to \$38.7 million, an increase of \$14.2 million during the current fiscal year. The primary reason for the increase is that actual general revenue expenditures were \$39.0 million less than budgeted and general revenue was \$26.5 million less than budgeted.

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 \$32.6 million, while the total fund balance was \$33.9 million. Total fund balance of the ISTEA fund decreased by \$3.8 million during the current fiscal year. The primary reason for this decrease was that actual revenue was \$20.0 million higher than budget while actual expenditures were \$15.5 million over budget.

GARVEE Fund. This fund accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds, related expenditures and the two cents per gallon gasoline tax that is dedicated for the debt service of the RIMFT bonds. The GARVEE Fund ended the fiscal year with a fund balance of \$195.9 million, a decrease of \$61.0 million. The primary reason for this decrease was that the \$65.0 million of capital outlay expenditures were made out of bond proceeds from prior year issuances.

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 continue to require State funds to match the federal funds. Agencies may get additional appropriations providing a need is established. Adjustments to general revenue receipt estimates resulted in an increase of \$79.0 million, 1.6%, between the original budget and the final budget. General revenue appropriations increased from the original budget by \$18.1 million, 0.6%. Some significant changes between the preliminary and final estimated general revenues and the enacted and final general revenue appropriations are listed below.

Management's Discussion and Analysis

General revenues	Change	
Taxes	(In thousands)	Percent
Personal Income	\$ 54,325	5.9%
Business Corporations	20,669	22.6%
Insurance Companies	10,700	26.1%
Sales and Use	(9,500)	-1.1%
Cigarettes	(7,100)	-4.9%
Inheritance and Gift	6,700	26.8%
Departmental Revenue	(8,789)	-2.9%
Other		
Transfer from Lottery	(12,397)	-3.8%
Other General Revenue	24,352	0.8%
Total Increase in Estimated Revenue	<u>\$ 78,960</u>	2.7%
General revenue appropriations		
Department		
Administration	\$ 6,951	1.7%
Children, Youth and Families	11,648	8.1%
Human Services	9,659	1.4%
Mental Health, Retardation and Hospitals	6,025	2.7%
Other	(16,233)	-0.6%
Total Increase in Appropriations	<u>\$ 18,050</u>	0.6%

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, 2005, amounts to \$1,581.8 million, net of accumulated depreciation of \$493.7 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. The total increase in the State's investment in capital assets for the current fiscal year was about 8.6% in terms of net book value. The R.I. Convention Center Authority sold the land and building known as the Westin Hotel. The sale reduced net capital assets of the business-type activities by \$74.6 million.

Actual expenditures to purchase or construct capital assets were \$247.6 million for the year. Of this amount, \$168.2 million was used to construct or reconstruct roads. Depreciation charges for the year totaled \$55.6 million.

Management's Discussion and Analysis

State of Rhode Island's Capital Assets as of June 30, 2005
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Capital assets not being depreciated						
Land	\$ 326,514	\$ 322,369	\$ 31,474	\$ 38,032	\$ 357,988	\$ 360,401
Intangibles	90,989	85,564			90,989	85,564
Construction in progress	133,878	82,810	306	1,189	134,184	83,999
Total capital assets not being depreciated	551,381	490,743	31,780	39,221	583,161	529,964
Capital assets being depreciated						
Land improvements	3,601	3,601			3,601	3,601
Buildings	430,678	429,982	148,481	229,813	579,159	659,795
Building improvements	199,469	198,632			199,469	198,632
Equipment	170,620	158,399	8,196	24,722	178,816	183,121
Intangibles	1,196	898			1,196	898
Infrastructure	530,050	361,850			530,050	361,850
	1,335,614	1,153,362	156,677	254,535	1,492,291	1,407,897
Less: Accumulated depreciation	430,087	387,154	63,583	94,113	493,670	481,267
Total capital assets being depreciated	905,527	766,208	93,094	160,422	998,621	926,630
Total capital assets (net)	\$ 1,456,908	\$ 1,256,951	\$ 124,874	\$ 199,643	\$ 1,581,782	\$ 1,456,594

Significant capital projects under construction include relocation of a segment of interstate highway, a county courthouse, a traffic tribunal courthouse, youth correctional facilities and a State Police headquarters.

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 \$1,779.0 million of which \$801.0 million is general obligation debt, \$228.0 million is special obligation debt and \$750.0 million is debt of the blended component units. The State's total bonded debt decreased by \$15.0 million during the current fiscal year. This decrease is the net of a \$38.0 million increase in general obligation debt, a decrease of \$36.0 million in special obligation debt and a decrease of \$17.0 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 \$87.1 million of general obligation bonds and \$117.0 million 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 \$398.1 million. Additional

Management's Discussion and Analysis

information on the State's long-term debt can be found in the notes to the financial statements of this report.

In October 2005, Standard and Poor's raised the underlying rating for general obligation bonds of the State from AA- to AA.

Economic Factors

The State's economy has continued to perform well, albeit at a slightly lower level than previously forecasted. According to the U.S. Bureau of Labor Statistics, Rhode Island experienced an increase in non-farm employment of 4,900 jobs, or 1.0 percent, in FY 2005. In FY 2004, Rhode Island gained 5,300 jobs, an increase of 1.1 percent over FY 2003. On a calendar year basis, Rhode Island added 9,100 jobs in 2003 and 2004. The November 2005 Revenue Estimating Conference's Consensus Economic Forecast projects Rhode Island non-farm employment to total 494,200 in 2005, an increase of 5,800 jobs, or 1.2 percent, over 2004, and 501,100 in 2006, an increase of 6,900 jobs, or 1.4 percent, over projected 2005.

According to Moody's Economy.com's November 2005 *Forecast Report: U.S., New England, and Rhode Island*, Rhode Island's recent labor market performance "has been steady and solid throughout most of 2005, but has stalled in recent months." Although "[T]he construction, education/health services, and leisure/hospitality sectors continue to advance at a healthy clip," financial and professional services employment has slowed, retail trade employment has stalled, and manufacturing employment has continued to decline. The education and health services sector accounts for 19.0 percent of Rhode Island total non-farm employment well above the U.S. average of 12.5 percent. This sector has been responsible for the creation of 55.0 percent of the State's "industry jobs." Rhode Island construction employment has been increasing since the fourth quarter of 2004 fueled by the State's exceptionally strong housing and commercial real estate markets as well as substantial government spending on road improvement and pollution abatement projects. The State's manufacturing sector, which had begun to stabilize after an employment decline of 1.5 percent in 2004, once again has turned down, decreasing by 4.0 percent over the past year. Finally, Rhode Island's "small business economy" has performed well, recording a 13.0 percent increase in the "number of small business births between 2003 and 2004 to a level that now surpasses the previous high in 2000." In addition, to the sharp increase in small business births, Rhode Island's "small business terminations have fallen 15.0 percent since peaking in 2002." This confluence of rising small business births and declining small business terminations "is a positive development, as it brings new talent and ideas into the marketplace."

Rhode Island personal income growth has also accelerated over the past year; however, the gap between Rhode Island and U.S. personal income growth has narrowed during this period. In FY 2003, Rhode Island personal income growth was 3.96 percent vs. 2.13 percent for U.S. personal income growth, a difference of 183 basis points. In FY 2004, Rhode Island personal income growth was 4.81 percent and U.S. personal income growth was 4.68 percent, essentially equal to that of Rhode Island. In FY 2005, Rhode Island personal income growth once again accelerated to an annual rate of 6.05 percent, however, for the country as a whole the personal income growth rate was 6.49 percent. The reversal of the spread between Rhode Island and U.S. personal income growth is a result of the rebound of the national economy from its recessionary level in 2002. It should be noted that Rhode Island experienced a mild economic downturn in 2002 relative to that of the United States as a whole.

Management's Discussion and Analysis

Moody's Economy.com (11/2005) remains "optimistic about the near-term outlook" for Rhode Island's economy with payroll growth expected "to strengthen in 2006 as the national economy bounces back from the slowdown caused by Hurricane Katrina." Rhode Island "payroll employment growth is forecast to stabilize at around [a] 1.0 percent" annualized rate. One of the catalysts for near- to medium-term growth remains rising national defense spending. Moody's Economy.com (11/2005) notes that "the [S]tate is expected to gain about 861 jobs primarily at Naval Station Newport" from the final approval of the Base Realignment & Closure Commission's recommendations. These jobs tend to be ones that require high levels of human capital and are being added to complement the already existing job base not only at Naval Station Newport but also at nearby Raytheon. Aquidneck Island has become a national center for the development and testing of undersea surveillance, control and warfare systems.

The biotechnology industry cluster that has begun to emerge in Rhode Island should positively impact the State's long term economic performance. According to Moody's Economy.com (11/2005), "[T]he state is putting a lot of effort" into attracting and developing biotechnology companies, with "wide-ranging" initiatives from the creation of the Governor's Science and Technology Advisory Council to "making sure that enough biotech accommodating office/industrial space is available." The State's voters approved a \$50 million bond referendum for the construction of the Center for Biotechnology and Life Sciences at the University of Rhode Island. 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 from 300 to 400 jobs. The State's chief assets for the development of a viable biotechnology industry cluster are its "proximity to academic institutions, a good pool of job candidates", a compact geography, and its responsive government at the state and local levels. From Moody's Economy.com's (11/2005) perspective, these factors "make Rhode Island especially likely to succeed in this endeavor."

One of the "main threats" to the State's economic performance is the high tax burden imposed on Rhode Island businesses and households. Moody's Economy.com (11/2005) notes that "[S]ince 1990, Rhode Island's state and local tax burden has steadily increased...[and is] estimated at 11.4 percent of income,...well above the national average of 10.1 percent." High property taxes at the local level and high personal income tax rates at the state level drive Rhode Island's heavy tax burden. The former discourages businesses that are making relocation decisions from choosing Rhode Island. The latter discourage entrepreneurs and venture capitalists from enhancing new business development in the State giving Rhode Island a less dynamic economy than Connecticut and Massachusetts.

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. 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, 2005

(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business - Type Activities	Totals	
Assets				
Current assets:				
Cash and cash equivalents	\$ 480,750	\$ 10,728	\$ 491,478	\$ 452,913
Funds on deposit with fiscal agent	321,051	165,887	486,938	
Investments	143		143	725,121
Receivables (net)	295,686	61,050	356,736	1,135,451
Restricted assets:				
Cash and cash equivalents		17,063	17,063	209,078
Investments	74,542		74,542	132,004
Due from primary government				2,323
Due from component units	4,686		4,686	
Internal balances	3,059	(3,059)		
Due from other governments and agencies	199,771	1,254	201,025	4,581
Inventories	2,487	754	3,241	9,007
Other assets	49,079	711	49,790	12,742
Total current assets	1,431,254	254,388	1,685,642	2,683,220
Noncurrent assets:				
Investments				143,737
Receivables (net)	780		780	1,168,506
Restricted assets:				
Cash and cash equivalents				102,032
Investments				93,148
Other assets				173,993
Due from component units	22,953		22,953	
Capital assets - nondepreciable	551,381	31,780	583,161	419,625
Capital assets - depreciable (net)	905,527	93,094	998,621	1,010,216
Other assets	9,068	2,615	11,683	85,856
Total noncurrent assets	1,489,709	127,489	1,617,198	3,197,113
Total assets	2,920,963	381,877	3,302,840	5,880,333
Liabilities				
Current Liabilities:				
Cash overdraft	1,761	24	1,785	27
Accounts payable	390,496	11,012	401,508	83,276
Due to primary government				4,686
Due to component units	2,323		2,323	
Due to other governments and agencies	398	1,407	1,805	3,776
Deferred revenue	22,966	1,640	24,606	24,191
Other current liabilities	148,558	2,449	151,007	63,938
Current portion of long-term debt	166,409	6,925	173,334	396,665
Obligation for unpaid prize awards		6,553	6,553	
Total current liabilities	732,911	30,010	762,921	576,559
Noncurrent Liabilities:				
Due to primary government				22,953
Due to other governments and agencies				4,258
Deferred revenue		10,625	10,625	5,379
Notes payable				13,556
Loans payable				213,990
Obligations under capital leases	226,405		226,405	18,976
Compensated absences	17,855		17,855	22,241
Bonds payable	1,706,911	189,362	1,896,273	2,944,612
Other liabilities	41,370		41,370	296,837
Total noncurrent liabilities	1,992,541	199,987	2,192,528	3,542,802
Total liabilities	2,725,452	229,997	2,955,449	4,119,361
Net Assets				
Invested in capital assets, net of related debt	816,578	(71,413)	745,165	795,530
Restricted for:				
Budget reserve	90,887		90,887	
Transportation	1,353		1,353	
Debt	91,094	16,485	107,579	518,231
Employment insurance programs	132,036	216,991	349,027	
Other				155,203
Other nonexpendable				66,678
Unrestricted	(936,437)	(10,183)	(946,620)	225,330
Total net assets	\$ 195,511	\$ 151,880	\$ 347,391	\$ 1,760,972

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

State of Rhode Island and Providence Plantations
Statement of Activities
For the Year Ended June 30, 2005
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Totals	
Primary government:								
Governmental activities:								
General government	\$ 503,659	\$ 141,290	\$ 70,512	\$ 356	\$ (291,501)		\$ (291,501)	\$
Human services	2,512,628	122,212	1,347,214	190	(1,043,012)		(1,043,012)	
Education	264,385	3,469	186,892	33	(73,991)		(73,991)	
Public safety	336,069	46,216	30,680	732	(258,441)		(258,441)	
Natural resources	65,913	30,340	18,129	4,274	(13,170)		(13,170)	
Transportation	226,529	8,257	141,538	92,096	15,362		15,362	
Intergovernmental	1,127,496				(1,127,496)		(1,127,496)	
Interest and other charges	116,171				(116,171)		(116,171)	
Total governmental activities	<u>5,152,850</u>	<u>351,784</u>	<u>1,794,965</u>	<u>97,681</u>	<u>(2,908,420)</u>		<u>(2,908,420)</u>	
Business-type activities:								
State lottery	1,330,298	1,636,638				306,340	306,340	
Convention center	35,746	14,042				(21,704)	(21,704)	
Employment security	209,018	184,831	2,633			(21,554)	(21,554)	
Total business-type activities	<u>1,575,062</u>	<u>1,835,511</u>	<u>2,633</u>			<u>263,082</u>	<u>263,082</u>	
Total primary government	<u>\$ 6,727,912</u>	<u>\$ 2,187,295</u>	<u>\$ 1,797,598</u>	<u>\$ 97,681</u>	<u>(2,908,420)</u>	<u>263,082</u>	<u>(2,645,338)</u>	
Component units	<u>\$ 1,056,770</u>	<u>\$ 736,388</u>	<u>\$ 39,096</u>	<u>\$ 38,239</u>				<u>(243,047)</u>
General Revenues:								
Taxes					2,687,684		2,687,684	
Interest and investment earnings					14,443	10,875	25,318	47,108
Miscellaneous					104,411	7,633	112,044	26,327
Gain on sale of capital assets					853		853	2,897
Special items						11,948	11,948	
Transfers					293,993	(293,993)		
Payments from component units					18,503		18,503	
Payments from primary government								259,463
Total general revenues, special items and transfers					<u>3,119,887</u>	<u>(263,537)</u>	<u>2,856,350</u>	<u>335,795</u>
Change in net assets					211,467	(455)	211,012	92,748
Net assets - beginning, as restated					(15,956)	152,335	136,379	1,668,224
Net assets - ending					<u>\$ 195,511</u>	<u>\$ 151,880</u>	<u>\$ 347,391</u>	<u>\$ 1,760,972</u>

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

State of Rhode Island and Providence Plantations
Balance Sheet
Governmental Funds
June 30, 2005
(Expressed in Thousands)

	General	Intermodal Surface Transportation	GARVEE	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 264,618	\$ 11,176	\$	\$ 190,402	\$ 466,196
Funds on deposit with fiscal agent			211,905	109,146	321,051
Investments				143	143
Restricted investments				74,542	74,542
Receivables (net)	229,063	13,342		41,181	283,586
Due from other funds				7,829	7,829
Due from component units	1,049			10	1,059
Due from other governments and agencies	131,753	65,561		2,457	199,771
Loans to other funds	22				22
Other assets	38,894		212	517	39,623
Total assets	\$ 665,399	\$ 90,079	\$ 212,117	\$ 426,227	\$ 1,393,822
Liabilities and Fund Balances					
Liabilities					
Accounts payable	321,938	28,072	15,343	7,077	372,430
Due to other funds	438	3,202	924	1,446	6,010
Due to component units		2,323			2,323
Due to other governments and agencies		398			398
Loans from other funds				22	22
Deferred revenue	34,183	22,068		66	56,317
Other liabilities	124,038	76		589	124,703
Total liabilities	480,597	56,139	16,267	9,200	562,203
Fund Balances					
Reserved for:					
Budget reserve	90,887				90,887
Appropriations carried forward	55,216				55,216
Debt			9,341	81,753	91,094
State infrastructure bank		1,353			1,353
Employment insurance programs				132,036	132,036
Unreserved, reported in:					
General fund	38,699				38,699
Special revenue funds		32,587		1	32,588
Capital projects funds			186,509	202,320	388,829
Permanent fund				917	917
Total fund balances	184,802	33,940	195,850	417,027	831,619
Total liabilities and fund balances	\$ 665,399	\$ 90,079	\$ 212,117	\$ 426,227	\$ 1,393,822

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

State of Rhode Island and Providence Plantations
 Reconciliation of the Balance Sheet of the Governmental Funds
 to Statement of Net Assets for Governmental Activities
 June 30, 2005
 (Expressed in Thousands)

Fund balance - total governmental funds	\$	831,619
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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.		1,452,214
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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.		(2,158,152)
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		52,398
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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 are reported with governmental activities.		17,432
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Net assets - total governmental activities	\$	195,511
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The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005
(Expressed in Thousands)

	General	Intermodal Surface Transportation	GARVEE	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 2,376,770	\$ 142,696	\$	\$ 168,016	\$ 2,687,482
Licenses, fines, sales, and services	238,256	35		53	238,344
Departmental restricted revenue	105,367	8,222			113,589
Federal grants	1,655,563	226,839		1,702	1,884,104
Income from investments		191	6,495	7,084	13,770
Other revenues	32,563	2,042		46,267	80,872
Total operating revenues	4,408,519	380,025	6,495	223,122	5,018,161
Expenditures:					
Current:					
General government	329,197			183,699	512,896
Human services	2,504,107			2,822	2,506,929
Education	255,762			9,239	265,001
Public safety	328,824			15	328,839
Natural resources	62,338			1,800	64,138
Transportation		203,588	4,830	1,052	209,470
Capital outlays	33,105	106,626	65,449	36,126	241,306
Intergovernmental	1,121,818	1,880		3,798	1,127,496
Debt service:					
Principal	72,848	719	35,905	6,850	116,322
Interest and other charges	52,293	100	12,708	45,142	110,243
Total operating expenditures	4,760,292	312,913	118,892	290,543	5,482,640
Excess (deficiency) of revenues over (under) expenditures	(351,773)	67,112	(112,397)	(67,421)	(464,479)
Other financing sources (uses):					
Bonds and notes issued				87,095	87,095
Refunding bonds issued				117,010	117,010
Proceeds from the sale of Certificates of Participation				139,410	139,410
Premium and accrued interest				17,602	17,602
Operating transfers in	399,257	32,701	51,322	54,338	537,618
Payments from component units	18,503				18,503
Other	34,941			142	35,083
Payment to refunded bonds escrow agent				(123,300)	(123,300)
Operating transfers out	(72,420)	(103,670)		(66,425)	(242,515)
Total other financing sources (uses)	380,281	(70,969)	51,322	225,872	586,506
Net change in fund balances	28,508	(3,857)	(61,075)	158,451	122,027
Fund balances - beginning (restated)	156,294	37,797	256,925	258,576	709,592
Fund balances - ending	\$ 184,802	\$ 33,940	\$ 195,850	\$ 417,027	\$ 831,619

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

State of Rhode Island and Providence Plantations
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2005
 (Expressed in Thousands)

Net change in fund balances - total governmental funds	\$ 122,027
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.	
	198,624
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.	
	(121,576)
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.	
	3,595
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.	
	8,797
Change in net assets - total governmental activities	<u>\$ 211,467</u>

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

State of Rhode Island and Providence Plantations
Statement of Net Assets
Proprietary Funds
June 30, 2005
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds			Governmental Activities	
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Assets					
Current assets:					
Cash and cash equivalents	\$ 7,899	\$ 2,465	\$ 364	\$ 10,728	\$ 14,554
Restricted cash and cash equivalents		17,063		17,063	
Funds on deposit with fiscal agent			165,887	165,887	
Receivables (net)	7,820	828	52,402	61,050	11,885
Due from other funds					3,766
Due from other governments and agencies			1,254	1,254	
Inventories	754			754	2,487
Other assets	201	510		711	9,456
Total current assets	<u>16,674</u>	<u>20,866</u>	<u>219,907</u>	<u>257,447</u>	<u>42,148</u>
Noncurrent assets:					
Capital assets - nondepreciable		31,780		31,780	
Capital assets - depreciable (net)	1,550	91,544		93,094	3,280
Other assets		2,615		2,615	390
Total noncurrent assets	<u>1,550</u>	<u>125,939</u>		<u>127,489</u>	<u>3,670</u>
Total assets	<u>18,224</u>	<u>146,805</u>	<u>219,907</u>	<u>384,936</u>	<u>45,818</u>
Liabilities					
Current Liabilities					
Cash overdraft	24			24	1,761
Accounts payable	9,367	1,645		11,012	18,393
Due to other funds	1,550		1,509	3,059	2,526
Due to other governments and agencies			1,407	1,407	
Deferred revenue	804	836		1,640	
Other current liabilities	551	1,898		2,449	2,426
Bonds payable		6,925		6,925	
Obligations under capital leases					595
Obligation for unpaid prize awards	6,553			6,553	
Total current liabilities	<u>18,849</u>	<u>11,304</u>	<u>2,916</u>	<u>33,069</u>	<u>25,701</u>
Noncurrent Liabilities:					
Deferred contract revenue	10,625			10,625	
Obligations under capital leases					137
Bonds payable		189,362		189,362	
Total noncurrent liabilities	<u>10,625</u>	<u>189,362</u>		<u>199,987</u>	<u>137</u>
Total liabilities	<u>29,474</u>	<u>200,666</u>	<u>2,916</u>	<u>233,056</u>	<u>25,838</u>
Net Assets					
Invested in capital assets, net of related deb	1,550	(72,963)		(71,413)	2,548
Restricted for:					
Debt		16,485		16,485	
Employment insurance program			216,991	216,991	
Unrestricted	(12,800)	2,617		(10,183)	17,432
Total net assets	<u>\$ (11,250)</u>	<u>\$ (53,861)</u>	<u>\$ 216,991</u>	<u>\$ 151,880</u>	<u>\$ 19,980</u>

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

State of Rhode Island and Providence Plantations
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2005
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds			Governmental Activities	
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Operating revenues:					
Charges for services	\$ 1,636,638	\$ 13,110	\$ 183,952	\$ 1,833,700	\$ 211,519
Grants			2,633	2,633	
Miscellaneous		932	879	1,811	
Total operating revenues	1,636,638	14,042	187,464	1,838,144	211,519
Operating expenses:					
Personal services	3,963	5,274		9,237	18,459
Supplies, materials, and services	187,024	9,480		196,504	179,121
Prize awards	1,138,998			1,138,998	
Depreciation and amortization	313	5,924		6,237	750
Benefits paid			202,178	202,178	
Total operating expenses	1,330,298	20,678	202,178	1,553,154	198,330
Operating income (loss)	306,340	(6,636)	(14,714)	284,990	13,189
Nonoperating revenues (expenses):					
Interest revenue		1,435	9,440	10,875	89
Other nonoperating revenue	1,835		5,798	7,633	
Interest expense		(15,068)		(15,068)	
Other nonoperating expenses			(6,840)	(6,840)	9
Total nonoperating revenue (expenses)	1,835	(13,633)	8,398	(3,400)	98
Income (loss) before special items and transfers	308,175	(20,269)	(6,316)	281,590	13,287
Special items		11,948		11,948	
Transfers in		18,083	1,106	19,189	
Transfers out	(307,550)		(5,632)	(313,182)	(1,110)
Change in net assets	625	9,762	(10,842)	(455)	12,177
Total net assets - beginning	(11,875)	(63,623)	227,833	152,335	7,803
Total net assets - ending	\$ (11,250)	\$ (53,861)	\$ 216,991	\$ 151,880	\$ 19,980

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

State of Rhode Island and Providence Plantations
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005
(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	\$ 1,641,923	\$ 18,141	\$ 176,894	\$ 1,836,958	\$ 203,055
Cash received from grants			2,633	2,633	
Cash payments to suppliers for goods and services	(3,544)	(12,767)		(16,311)	(175,504)
Cash payments to employees for services	(3,901)	(6,559)		(10,460)	(17,581)
Cash payments to prize winners	(1,144,881)			(1,144,881)	
Cash payments for commissions	(182,987)			(182,987)	
Cash payments for benefits			(202,205)	(202,205)	
Other operating revenue (expense)			(1,579)	(1,579)	9
Net cash provided by (used for) operating activities	306,610	(1,185)	(24,257)	281,168	9,979
Cash flows from noncapital financing activities:					
Loans from other funds					19,050
Repayment of loans to other funds					(19,150)
Operating transfers in		17,053	1,106	18,159	
Operating transfers out	(307,142)		(5,483)	(312,625)	(1,106)
Net transfers from (to) fiscal agent			27,878	27,878	
Negative cash balance implicitly financed	24			24	1,761
Net cash provided by (used for) noncapital financing activities	(307,118)	17,053	23,501	(266,564)	555
Cash flows from capital and related financing activities:					
Principal paid on capital obligations		(99,465)		(99,465)	(523)
Interest paid on capital obligations		(14,302)		(14,302)	
Acquisition of capital assets	(156)	(5,254)		(5,410)	(247)
Proceeds from the disposition of capital assets		95,002		95,002	
Net cash provided by (used for) capital and related financing activities	(156)	(24,019)		(24,175)	(770)
Cash flows from investing activities:					
Proceeds from sale and maturity of investments		17,174		17,174	
Interest on investments	606	1,359		1,965	90
Net cash provided by (used for) investing activities	606	18,533		19,139	90
Net increase (decrease) in cash and cash equivalents	(58)	10,382	(756)	9,568	9,854
Cash and cash equivalents, July 1	7,957	9,146	1,120	18,223	4,700
Cash and cash equivalents, June 30	\$ 7,899	\$ 19,528	\$ 364	\$ 27,791	\$ 14,554
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	306,340	(6,636)	(14,714)	284,990	13,189
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	313	18,588		18,901	749
Other revenue (expense) and operating transfer in (out)	389	(10,107)	(2,486)	(12,204)	5
Net changes in assets and liabilities:					
Receivables, net	(1,623)	1,068	(7,030)	(7,585)	(10,088)
Inventory	295			295	(199)
Prepaid items		423		423	(8,711)
Other assets	237			237	
Accounts and other payables	110	(2,227)	(27)	(2,144)	14,040
Accrued expenses	171	(2,012)		(1,841)	994
Deferred revenue	14	(282)		(268)	
Prize awards payable	364			364	
Total adjustments	270	5,451	(9,543)	(3,822)	(3,210)
Net cash provided by (used for) operating activities	\$ 306,610	\$ (1,185)	\$ (24,257)	\$ 281,168	\$ 9,979

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

State of Rhode Island and Providence Plantations
Statement of Net Assets
Fiduciary Funds
June 30, 2005
(Expressed in Thousands)

	Pension Trust	Private Purpose	
		Touro Jewish Synagogue	Agency
Assets			
Cash and cash equivalents	\$ 4,622	\$	\$ 15,286
Deposits held as security for entities doing business in the State			67,148
Receivables			
Contributions	23,080		
Due from state for teachers	11,202		
Miscellaneous	3,883		
Total receivables	<u>38,165</u>		
Investments, at fair value			
Equity in Short-Term Investment Fund	18,610		
Equity in Pooled Trust	6,665,539		
Plan specific investments	15,984		
Other investments		2,010	
Total investments before lending activities	<u>6,700,133</u>	<u>2,010</u>	
Invested securities lending collateral	<u>1,010,616</u>		
Property and equipment, at cost, net of accumulated depreciation	<u>13,336</u>		
Total Property and Equipment	<u>13,336</u>		
Total assets	<u>7,766,872</u>	<u>2,010</u>	<u>82,434</u>
Liabilities			
Securities lending liability	1,010,616		
Accounts payable	6,432		
Deposits held for others			82,434
Total liabilities	<u>1,017,048</u>		<u>82,434</u>
Net assets held in trust for pension and other benefits	<u>\$ 6,749,824</u>	<u>\$ 2,010</u>	<u>\$</u>

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

State of Rhode Island and Providence Plantations
Statement of Changes in Fund Net Assets
Fiduciary Funds
For the Year Ended June 30, 2005
(Expressed in Thousands)

	Pension Trust	Private Purpose Touro Jewish Synagogue
Additions		
Contributions		
Member contributions	\$ 154,362	\$
Employer contributions	158,635	
State contributions for teachers	48,835	
Interest on service credits purchased	1,568	
Total contributions	363,400	
Investment income		
Net appreciation (depreciation) in fair value of investments	517,402	172
Interest	84,922	24
Dividends	69,685	
Other investment income	56,284	
	728,293	196
Less investment expense	21,990	
Net income from investing activities	706,303	196
Securities Lending		
Securities lending income	20,479	
Less securities lending expense	18,494	
Net securities lending income	1,985	
Total net investment income	708,288	196
Total additions	1,071,688	196
Deductions		
Benefits		
Retirement benefits	431,370	
Cost of living adjustment	101,340	
SRA Plus Option	27,711	
Supplemental benefits	1,067	
Death benefits	3,087	
Total benefits	564,575	
Refund of contributions	10,730	
Administrative expense	6,452	
Distribution		89
Total deductions	581,757	89
Change in net assets	489,931	107
Net assets held in trust for pension benefits		
Net assets - beginning	6,259,893	1,903
Net assets - ending	\$ 6,749,824	\$ 2,010

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

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2005

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State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2005

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*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, 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, Dome Building, 3rd Floor, Providence, RI 02903.

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2005

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 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 Office of The Controller, University of Rhode Island, 75 Lower College Road, Kingston, RI 02881; Office of The Controller, Rhode Island

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2005

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.

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 two subsidiary corporations. The R. I. Airport Corporation manages the State's six airports. The Quonset Development Corporation oversees the Quonset Point/Davisville Industrial Park. 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

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2005

be obtained by writing to the Narragansett Bay Commission, One Service Road, Providence, RI 02905.

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 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.

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

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2005

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.

Rhode Island Underground Storage Tank Responsibility (RIUSTR) – 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.

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2005

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. The State does not allocate indirect costs to the functions. 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 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

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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. 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.

Since the activity of the ISTEPA fund and the GARVEE fund are so closely related and the same personnel are responsible for the accounting and financial reporting for both funds, management has determined that if either fund meets the criteria of a major fund the other fund will also be reported as a major fund.

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.

GARVEE Fund. This fund accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds, related expenditures and the two cents a gallon gasoline tax that is dedicated for the debt service of the RIMFT bonds.

The State reports the following major proprietary funds:

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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.

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.

Proprietary Fund Types:

Internal Service Funds. These funds account for, among other things, employee and retiree medical benefits, State fleet management, unemployment compensation, workers' compensation, industrial prison operations, computer and related data processing services, surplus property, telecommunications and other utilities, 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.

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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 a 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 due to other funds along with the applicable due from other funds.

F. Funds on Deposit with Fiscal Agent

Funds on deposit with fiscal agent in the governmental activities and business-type activities are the unexpended portion of debt instruments sold primarily for capital acquisitions 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.

H. Receivables

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

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

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

K. Inventories

Inventory type items acquired by governmental funds are accounted for as expenditures at the time of purchase. Inventories of the proprietary funds are stated at cost (first-in, first-out). 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

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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:

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 the Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds, bond discounts/premiums and issuance costs are recognized in the current period. Bond discounts, premiums and issuance costs in the government-wide financial statements 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. Bond issuance costs are included in other assets.

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

P. Other Liabilities

Other liabilities includes, among other things, escrow deposits, accrued salary and fringe benefits for the governmental fund types; accrued interest payable, accrued salaries, accrued vacation and sick leave for the business fund types and escrow deposits, land fill closure costs, accrued expenses, arbitrage and interest payable for the component units.

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. Change in Presentation

For the fiscal year ended June 30, 2005, the R.I. Temporary Disability Insurance Fund did not meet the criteria of a major fund as described in Note 1(D). Accordingly, it is included in the Other Governmental Funds column on the fund financial statements in the basic financial statements.

S. New Pronouncements

The State implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3.

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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 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 and judicial branches.

Note 3. Cash, Cash Equivalents and Investments

Cash

Primary Government

At June 30, 2005, the carrying amount of the State's cash deposits was \$119,351,000 and the bank balance was \$142,294,000. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are: a. Uncollateralized b. Collateralized with securities held by the pledging financial institution, or c. Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name. Of the bank balance, \$921,000 was covered by federal depository insurance and \$76,939,000 was collateralized with securities held by the pledging financial institution, as it's agent but not in the State's name. The remaining amount, \$64,434,000 was

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uninsured and uncollateralized. The carrying amount and bank balance includes \$2,171,000 of certificates of deposit.

In December 2004, the General Fund borrowed \$50,000,000 from the R.I. Temporary Disability Fund to cover a cash shortfall as permitted under RIGL 35-3-23. This loan was repaid in full as of June 30, 2005 with interest at the rate of 2.49%, which reflected the average General Fund investment rate for the applicable period.

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the primary government were required to be collateralized at June 30, 2005.

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

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is mitigated by the State's minimum rating criteria policy, collateralization and maximum participation by any one issuer is limited to 35% of the total portfolio. As of June 30, 2005, the State's investments in GE Capital Corporation commercial paper was rated A1+ by Standard and Poors and P1 by Moody's. The State's investments in Morgan Stanley commercial paper was rated A1 by Standard and Poors and P1 by Moody's. The State's investments in US Government Agency Securities were rated AAA by Moody's. The State's investment in mutual funds were rated Aaa by Moody's.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the State will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either: a. The counterparty or b. The counterparty's trust department or agent but not in the government's name. Of the

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State's \$26,338,000 investment in repurchase agreements, \$1,714,000 of underlying securities are held by the investment's counterparty, not in the name of the State.

The portfolio concentrations (expressed in thousands) are as follows.

Type	Issuer	Amount	Percentage
Commercial Paper	GE Capital Corporation	\$ 44,693	9.6%
Repurchase Agreements	Citizens Bank	24,624	5.3%
Commercial Paper	Morgan Stanley	51,922	11.2%
US Government Agency Securities	Federal Home Loan Bank	45,700	9.9%

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk is mitigated by the portfolio's short duration (<7 days).

The State's investments (expressed in thousands) at June 30, 2005 all having maturities of less than one year are as follows.

Investment Type	Fair Value
U.S. Government Agency Securities	\$ 66,308
Money Market	271,616
Commercial Paper	99,613
Repurchase Agreements	26,338
	463,875
Less amounts classified as cash equivalents	389,190
Investments	\$ 74,685

Fiduciary Funds

Pension Trusts

The Employees' Retirement System (ERS) consists of four plans: the Employee Retirement System (ERSP), Municipal Employees Retirement System (MERS), State Police Retirement Board Trust (SPRBT), and Judicial Retirement Board Trust (JRBT).

Cash

At June 30, 2005, the carrying amounts of these plans' cash deposits (expressed in thousands) are listed below:

	ERSP	MERS	SPRBT	JRBT	Total
Book balance	\$ 3,996	\$ 190	\$ 261	\$ 175	\$ 4,622
Bank balance	3,821	538	263	176	4,798

The bank balances represent the plans' deposits in short-term trust accounts that are covered by federal depository insurance. At the end of each business day, the excess bank balances are invested in overnight repurchase agreements. The book and bank balances

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include fully collateralized deposits of \$99,151 and overnight repurchase agreements of \$1,179,382 which were fully collateralized.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the ERS's deposits were required to be collateralized at June 30, 2005.

Investments

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

On July 1, 1992, the State Investment Commission pooled the assets of the ERSP with the assets of the MERS for investment purposes only, and assigned units to the plans based on their respective share of market value. On September 29, 1994 and November 1, 1995, the assets of the SPRBT and the JRBT, respectively, were added to the pool for investment purposes only. The custodian bank holds most assets of the ERS in two pooled trusts, Short-term Investment Trust and Pooled Trust. Each plan holds units in the trusts. The number of units held by each plan is a function of each plans' respective contributions to, or withdrawals from, the trust. Certain investments are not pooled and are held by only one plan (Plan specific investments). As of June 30, 2005, the ERS held a loan receivable with a fair value of \$15,000,000. This loan is secured by commercial real estate located in Rhode Island (see note 22 - Subsequent Events).

The following table presents the fair value (expressed in thousands) of investments by type at June 30, 2005:

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Investment Type	Fair Value
U.S. Government Securities	\$ 539,403
U.S. Government Agency Securities	415,813
Collateralized Mortgage Obligations	75,625
Corporate Bonds	508,771
International Corporate Bonds	47,195
Domestic Equity Securities	1,211,576
International Equity Securities	1,303,429
Foreign Currencies	12,758
Private Equity	399,942
Real Estate	16,351
Money Market Mutual Fund	237,860
Commingled Funds - Domestic Equity	1,788,279
Commingled Funds - International Equity	143,131
Investments at Fair Value	6,700,133
Securities Lending Collateral Pool	1,010,616
Total	<u>\$ 7,710,749</u>

Interest Rate Risk

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

Duration is a measure of a debt security's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The ERS manages its exposure to interest rate risk by comparing each debt security manager portfolio's effective duration against a predetermined benchmark index based on that manager's mandate. Currently each portfolio's duration must be within +/- 20-35% of the effective duration of the appropriate index. The fixed income indices currently used by the ERS are:

- Salomon Brothers Broad Investment Grade Bond Index
- Lehman US TIPS Index
- Lehman Brothers MBS Fixed Rate Index
- CS First Boston High Yield Index
- Lehman Corporate Index

At June 30, 2005, no fixed income manager was outside of the policy guidelines.

The following table shows the ERS's fixed income investments by type, fair value (expresses in thousands) and the effective durations at June 30, 2005:

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Investment Type	Fair Value	Effective Duration
U.S. Government Securities	\$ 539,403	5.18
U.S. Government Agency Securities	415,813	2.56
Collateralized Mortgage Obligations	75,625	2.92
Corporate Bonds	508,771	4.24
International Corporate Bonds	47,195	7.96
	\$ 1,586,807	4.21

The ERS also invested in a short-term money market mutual fund that held investments with an average maturity of 29 days. The maximum maturity of any instrument in the money market mutual fund is 13 months.

The ERS 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 ERS 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 prepayments 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.

Credit Risk

The ERS requires its fixed income managers to maintain a well-diversified portfolios by sector, credit rating and issuer.

The ERS directs its investment managers to maintain diversified portfolios by sector and by issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds. Each manager's portfolio composition is aligned with a benchmark and is constructed based on specific guidelines that are reflective of the manager's mandate. An example of a high yield fixed income manager is as follows:

- No single industry is expected to represent more than 20% of the portfolio's market value.
- No single issue is expected to represent more than 5% of the portfolio's market value.
- The portfolio, once fully invested, is expected to include a minimum of 70 individual holdings.

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- The portfolio quality is expected to be invested in high yield below investment grade fixed income securities.
- The weighted average credit quality is expected to maintain a minimum rating of "B" using either Moody's or Standard and Poor's credit ratings.

The ERS's exposure to credit risk (expressed in thousand) as of June 30, 2005 is as follows:

Quality Rating *	Collateralized Mortgage Obligations	U.S. Government Agency Securities	Corporate Bonds	International Corporate Bonds
Aaa	\$ 40,081	\$ 415,813	\$ 20,021	\$ 8,232
Aa	7,058		44,715	8,770
A	5,583		119,803	14,514
Baa	1,880		109,031	5,942
Ba			44,476	2,248
B			123,469	6,071
Caa			33,387	455
Ca			672	
Not rated	21,023		13,197	963
	<u>\$ 75,625</u>	<u>\$ 415,813</u>	<u>\$ 508,771</u>	<u>\$ 47,195</u>

* Moody's bond rating

The ERS's investment in a short-term money market mutual fund was unrated but held investments with an average quality rating of A-1+ / P-1.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an ERS's investments in a single issuer. There is no single issuer exposure within the ERS's portfolio that comprises 5% of the overall portfolio and, therefore, there is no concentration of credit risk.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ERS will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2005 all securities were registered in the name of the ERS and were held in the possession of the ERS's custodial bank, State Street Bank and Trust.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. Portfolios are diversified to limit foreign currency and security risk and the ERS's investment asset allocation policy targets non-US equity investments at 20%. The ERS may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments.

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The ERS's exposure to foreign currency (expressed in thousands) risk at June 30, 2005, was as follows:

Currency	Currency	Equities	Fixed Income	Total
Australian Dollar	\$ 419	\$ 82,682	\$	\$ 83,101
Brazilian Real			4,625	4,625
Canadian Dollar	259	49,125	4,556	53,940
Danish Crone	54	4,157		4,211
Euro Currency	1,565	491,786	33,722	527,073
Hong Kong Dollar	156	26,307		26,463
Hungurarian Forint		358		358
Indonesian Rupiah	167	2,177		2,344
Japanese Yen	1,607	256,658		258,265
Malaysian Ringitt			781	781
Mexican Peso	15	222	695	932
New Zealand Dollar	15	10,294		10,309
Norwegian Krone	22	14,616		14,638
Pound Sterling	2,616	250,934	1,998	255,548
Singapore Dollar	273	17,239		17,512
South African Rand	580	7,022		7,602
South Korean Won	1,252	14,293		15,545
Swedish Krona	3,508	18,416	818	22,742
Swiss Franc	250	54,898		55,148
New Taiwan Dollar		2,245		2,245
	<u>\$ 12,758</u>	<u>\$ 1,303,429</u>	<u>\$ 47,195</u>	<u>\$ 1,363,382</u>

The ERS also had exposure to foreign currency risk though its investment in an international commingled equity fund.

Derivatives and Other Similar Investments

Some of the ERS's investment managers are allowed to invest in certain derivative type transactions, including forward foreign currency transactions, futures contracts and mortgage-backed securities. According to investment policy guidelines, derivative type instruments may be used for hedging purposes and not for leveraging plan assets.

Forward Foreign Currency Contracts – The ERS 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 ERS's Statements of Fiduciary Net Assets. The face or contract amount in U.S. dollars reflects the total exposure the ERS has in that particular currency contract. By policy, no more than 25% 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 ERS may use futures to manage its exposure to the stock, money market, and bond markets and the fluctuations in interest rates and currency values.

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Buying futures tends to increase the ERS's exposure to the underlying instrument. Selling futures tends to decrease the ERS's exposure to the underlying instrument, or hedge other ERS 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.

Through commingled funds, the ERS also indirectly holds derivative type instruments, primarily equity index futures. Other types of derivative type instruments held by the commingled funds include purchased or written options, forward security contracts, forward foreign currency exchange contracts, interest rate swaps and total return swaps. The ERS 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 ERS when the price of a security underlying the short sale increases and the ERS is subject to a higher cost to purchase the security in order to cover the position.

Securities Lending

Policies of the State Investment Commission permit the ERS to enter into securities lending transactions. The ERS has contracted with State Street Bank & Trust Company (SSB) as third party securities lending agent to lend the ERS's debt and equity securities for cash, securities and sovereign debt of foreign countries as collateral at not less than 100% of the market value of the domestic securities on loan and at not less than 100% of the market value of the international securities on loan. In practice, U.S. equities and bonds are collateralized at 102% and international equities are collateralized at 105%. There are no restrictions on the amount of loans that can be made. The contract with the lending agent requires them to indemnify the ERS if the borrowers fail to return the securities. Either the ERS 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 25 days and a weighted average maturity of 174 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The ERS 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 borrowers or lending agent.

At June 30, 2005, management believes the ERS has no credit risk exposure to borrowers because the amounts the ERS owes the borrowers do not exceed the amounts the borrowers owe the ERS. The securities on loan at year-end were \$988,765,048 (fair value), and the collateral received for those securities on loan was \$1,017,104,074 (fair value).

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Private Purpose Trusts

The private purpose trusts had investments of \$2,010,000 in a mutual fund. The average maturity of the fund was not available.

Note 4. Receivables

Receivables at June 30, 2005 (expressed in thousands) consist of the following:

	Taxes	Accounts	Accrued Interest	Notes and Loans	Allowance for Uncollectibles	Total Receivables
Governmental Activities:						
General	\$ 250,592	\$ 81,684	\$	\$ 485	\$ (103,093)	\$ 229,668
Intermodal Surface Transportation	12,744			1,000	(402)	13,342
Other governmental	37,647	5,517			(1,983)	41,181
Internal Service		11,885		390		12,275
Total - governmental activities	<u>\$ 300,983</u>	<u>\$ 99,086</u>	<u>\$</u>	<u>\$ 1,875</u>	<u>\$ (105,478)</u>	<u>\$ 296,466</u>
Amounts not expected to be collected in the subsequent year and recorded as deferred revenue						
General	\$ 5,027	\$ 6,256				
Intermodal Surface Transportation		22,068				
Business-type activities:						
State Lottery	\$	\$ 8,280	\$	\$	\$ (460)	\$ 7,820
Convention Center		672	206		(50)	828
Employment Security	50,119	12,665			(10,382)	52,402
Total - business-type activities	<u>\$ 50,119</u>	<u>\$ 21,617</u>	<u>\$ 206</u>	<u>\$</u>	<u>\$ (10,892)</u>	<u>\$ 61,050</u>
Component Units	<u>\$</u>	<u>\$ 93,598</u>	<u>\$ 32,922</u>	<u>\$ 2,232,850</u>	<u>\$ (55,413)</u>	<u>\$ 2,303,957</u>

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.

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Note 5. Intra-Entity Receivables and Payables

Intra-entity receivables and payables, as of June 30, 2005, are the result of operations and expected to be reimbursed within the fiscal year. They are summarized below (expressed in thousands):

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Governmental Funds		
Major Funds		
General Fund	\$	\$ 438
Intermodal Surface Transportation Fund		3,202
GARVEE		924
Other		
Bond Capital	7,829	
RI Temporary Disability Insurance		850
COPS		596
Total Other	<u>7,829</u>	<u>1,446</u>
Total Governmental	<u>7,829</u>	<u>6,010</u>
Proprietary Funds		
Enterprise		
RI Lottery		1,550
Employment Security Trust Fund		1,509
Total Enterprise		<u>3,059</u>
Internal Service		
Assessed Fringe Benefits		681
Central Utilities	150	
Information Processing		1,640
Central Postage		121
Centrex	1,243	
Pastore Communications	48	
Central Pharmacy	820	
Central Laundry	41	
Automotive Maintenance		48
Central Warehouse	124	
Correctional Industries	476	
Health Insurance	864	
Records Center		36
Total Internal Service	<u>3,766</u>	<u>2,526</u>
Totals	<u>\$ 11,595</u>	<u>\$ 11,595</u>

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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	\$ 322,369	\$ 4,145	\$	\$ 326,514
Intangibles	85,564	5,425		90,989
Construction in progress	82,810	51,156	(88)	133,878
Total capital assets not being depreciated	<u>490,743</u>	<u>60,726</u>	<u>(88)</u>	<u>551,381</u>
Capital assets being depreciated:				
Land improvements	3,601			3,601
Buildings	429,982	696		430,678
Building Improvements	198,632	837		199,469
Furniture and equipment	158,399	16,296	(4,075)	170,620
Intangibles	898	298		1,196
Infrastructure	361,850	168,200		530,050
Total capital assets being depreciated	<u>1,153,362</u>	<u>186,327</u>	<u>(4,075)</u>	<u>1,335,614</u>
Less accumulated depreciation for:				
Land improvements	2,158	181		2,339
Buildings	138,043	8,296		146,339
Building Improvements	108,936	8,647		117,583
Furniture and equipment	120,355	14,635	(3,901)	131,089
Intangibles	205	209		414
Infrastructure	17,458	14,865		32,323
Total accumulated depreciation	<u>387,155</u>	<u>46,833</u>	<u>(3,901)</u>	<u>430,087</u>
Total capital assets being depreciated, net	<u>766,207</u>	<u>139,494</u>	<u>(174)</u>	<u>905,527</u>
Governmental activities capital assets, net	<u>\$ 1,256,950</u>	<u>\$ 200,220</u>	<u>\$ (262)</u>	<u>\$ 1,456,908</u>

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	\$ 5,193
Human services	9,743
Education	2,902
Public safety	8,734
Natural resources	2,327
Transportation	17,934
Total depreciation expense - governmental activities	<u>\$ 46,833</u>

Business-Type Activities

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	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 38,032	\$	\$ (6,558)	\$ 31,474
Construction in progress	1,189	2,641	(3,524)	306
Total capital assets not being depreciated	<u>39,221</u>	<u>2,641</u>	<u>(10,082)</u>	<u>31,780</u>
Capital assets being depreciated:				
Buildings	229,813	54	(81,386)	148,481
Machinery and equipment	24,722	3,793	(20,319)	8,196
Total capital assets being depreciated	<u>254,535</u>	<u>3,847</u>	<u>(101,705)</u>	<u>156,677</u>
Less accumulated depreciation	<u>94,113</u>	<u>8,766</u>	<u>(39,296)</u>	<u>63,583</u>
Total capital assets being depreciated, net	<u>160,422</u>	<u>(4,919)</u>	<u>(62,409)</u>	<u>93,094</u>
Business-type activities capital assets, net	<u>\$ 199,643</u>	<u>\$ (2,278)</u>	<u>\$ (72,491)</u>	<u>\$ 124,874</u>

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 86,479	\$ 3,733	\$ (10,314)	\$ 79,898
Construction in progress	255,517	111,488	(27,278)	339,727
Total capital assets not being depreciated	<u>341,996</u>	<u>115,221</u>	<u>(37,592)</u>	<u>419,625</u>
Capital assets being depreciated:				
Buildings	970,521	31,531	(16,777)	985,275
Land improvements	105,325	29,325	(1,125)	133,525
Machinery and equipment	237,099	24,017	(14,537)	246,579
Infrastructure	295,366	14,529		309,895
Total capital assets being depreciated	<u>1,608,311</u>	<u>99,402</u>	<u>(32,439)</u>	<u>1,675,274</u>
Less accumulated depreciation for:				
Buildings	348,317	35,092	(19,911)	363,498
Land improvements	61,103	5,855		66,958
Machinery and equipment	132,059	19,892	(9,226)	142,725
Infrastructure	85,806	6,071		91,877
Total accumulated depreciation	<u>627,285</u>	<u>66,910</u>	<u>(29,137)</u>	<u>665,058</u>
Total capital assets being depreciated, net	<u>981,026</u>	<u>32,492</u>	<u>(3,302)</u>	<u>1,010,216</u>
Total capital assets, net	<u>\$ 1,323,022</u>	<u>\$ 147,713</u>	<u>\$ (40,894)</u>	<u>\$ 1,429,841</u>

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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.

A. Bonds Payable

At June 30, 2005, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government				Component Units	
	Governmental Activities		Business Type Activities		Principal	Interest
	Principal	Interest	Principal	Interest		
2006	\$ 100,489	\$ 97,251	\$ 6,925	\$ 10,389	\$ 243,911	\$ 125,861
2007	76,478	93,737	7,250	10,063	153,293	119,475
2008	72,836	88,978	7,585	9,721	145,088	114,430
2009	78,474	82,536	7,865	9,363	89,892	109,113
2010	72,309	78,524	8,240	8,992	79,108	105,505
2011-2015	417,095	331,721	47,635	36,882	437,762	473,277
2016-2020	236,715	246,221	58,195	21,840	489,702	372,423
2021-2025	184,310	194,268	50,630	7,192	407,311	257,416
2026-2030		167,686	8,530	508	357,232	166,691
2031-2035	168,260	136,768			412,955	83,739
2036-2040		116,156			366,615	20,570
2041-2045	371,700	46,463			6,230	1,613
2046-2050					2,865	74
	<u>\$ 1,778,666</u>	<u>\$ 1,680,309</u>	<u>\$ 202,855</u>	<u>\$ 114,950</u>	<u>\$ 3,191,964</u>	<u>\$ 1,950,187</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 \$22,665,000 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 June 2006. 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

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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 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. During the year ended June 30, 2005, TSFC utilized \$6,850,000 of excess collections to early redeem an equal amount of outstanding bonds.

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 Financial 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

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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.

During November 2001, the RICCA issued Refunding Revenue Bonds, 2001 Series A (the bonds), in the aggregate principal amount of \$101,315,000. The Bonds may bear interest at Daily Rates, Weekly Rates, or Term Rates, as defined in the Bond Resolution adopted by the RICCA on October 18, 2001, for periods selected from time to time by the RICCA and determined by UBS Painewebber, Inc. (UBS), as Remarketing Agent under the Remarketing Agreement (the Agreement) dated November 6, 2001. In addition, the RICCA may convert the Bonds to fixed rate bonds. The Bonds initially bear interest at the weekly rate as determined by UBS and are payable in monthly installments. Total interest paid to the Bondholders for the year ended June 30, 2005 was \$1,768,700. The Bonds mature in varying installments beginning on May 15, 2004 through May 15, 2027. During May 2005, a portion of the bonds maturing between 2006 and 2027, in the amount of \$32,210,000, were called and retired during June 2005.

Concurrent with the issuance of the 2001 Series A Refunding Revenue Bonds, the RICCA entered into an interest rate swap agreement (the Swap Agreement) with UBSAG, Stamford Branch (UBSAG). Under the terms of the Swap Agreement, the RICCA agrees to pay to UBSAG a fixed interest rate of 3.924% on the outstanding principal amount of the Bonds each May 15th and November 15th through May 15, 2027. In exchange, UBSAG agrees to pay to the RICCA interest at the Weekly Rate on a monthly basis through May 15, 2027. The Swap Agreement contains a barrier option early termination date of November 15, 2006 and every fixed rate payment due date thereafter. In addition, UBSAG has the right, but not the obligation, on providing 30 calendar days notice prior to the early termination date, to terminate the Swap Agreement if the averaged Weekly Rate has exceeded 5.25% per annum within the preceding 180 days. Such termination shall not require the consent of the RICCA and no fees, payments or other amounts shall be payable by either party in respect of this termination. Total interest paid by the RICCA to UBSAG for the years ended June 30, 2005 under the Swap Agreement was \$3,528,800. Total interest received by the RICCA from UBSAG for the years ended June 30, 2005 under the Swap Agreement was \$1,696,400. By entering into the Swap Agreement, the RICCA converted variable rate bonds to fixed rate bonds to minimize interest rate fluctuation risk.

Concurrently, the RICCA entered into a standby bond purchase agreement with Dexia Credit Local (Dexia). Under the terms of the standby bond purchase agreement, Dexia agrees from time to time during the commitment period, as defined by the standby bond purchase agreement, to purchase bonds from the RICCA that bear interest at variable rates. The purchase price shall not exceed the aggregate amount of principal and interest outstanding on said bonds at the time of purchase. Under the terms of the standby bond purchase agreement, Dexia agrees to purchase the bonds when notified by U.S. Bank (the Bonds' paying agent). The initial purchase price is \$102,480,817, which consists of the original \$101,315,000 of principal plus accrued interest in the amount of \$1,165,817 through May 15, 2002.

The termination date of the standby bond purchase agreement is the later of November 1, 2006 or when all principal and interest on any bonds purchased by Dexia have been paid in

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full. Under the terms of the standby bond purchase agreement, the RICCA is obligated to pay a fee equal to .165% per annum of the outstanding bond principal and interest. Fees paid by the RICCA for the years ended June 30, 2005 totaled \$166,200.

The Rhode Island Economic Development Corporation (RIEDC) issued \$216,805,000 of Grant Anticipation Revenue Bonds which are payable solely from future federal aid revenues to be received by the State in reimbursement of federally eligible costs of specific transportation construction projects. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The RIEDC has no taxing power. The obligation of the State to make payments to the trustee of future federal aid revenues is subject to annual appropriation by the General Assembly.

The Rhode Island Economic Development corporation issued \$53,030,000 of Rhode Island Motor Fuel Tax Revenue Bonds which are payable solely from certain pledged revenues derived from two cents (\$.02) per gallon of the thirty cents (\$.30) per gallon Motor Fuel Tax. The bonds provide the state matching funds for the Grant Anticipation Revenue Bonds. The bonds do not constitute a debt, liability, or obligation of the State or political subdivision thereof. The RIEDC has no taxing power. The obligation of the State to make payments to the trustee of future pledged motor fuel taxes are subject to annual appropriation by the General Assembly.

At June 30, 2005 general obligation bonds authorized by the voters and unissued amounted to \$398,149,000. 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.

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.

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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 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.

The \$80,000,000 of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority is limited by mortgage balances that it has insured, \$26,041,000 at June 30, 2005 (See Note 21). The insured mortgages are guaranteed by the State.

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B. Notes Payable

Notes payable (expressed in thousands) at June 30, 2005 are as follows:

Component Units	
Rhode Island College note payable to the federal government with interest at 5.5% payable in semi-annual installments of principal and interest through 2024.	\$ 2,050
R.I. Housing and Mortgage Finance Corporation bank notes, 2.30% to 5.46% interest, payable through 2006.	127,000
R.I. Clean Water Finance Agency Bond Anticipation Note maturing on March 1, 2007 at an interest rate of 2.60%	7,719
R.I. Resource Recovery Corporation notes due in installments through September 2006, 5 % interest.	2,000
R.I. Industrial-Recreational Building Authority bank note, prime minus .5 % or LIBOR plus 1.25%, due 2010	3,000
	<u>141,769</u>
Less: current payable	(128,213)
	<u><u>\$ 13,556</u></u>

C. Loans Payable

Component Units

Loans payable include liabilities of the Narragansett Bay Commission (NBC) to the R.I. Clean Water Finance Agency (RICWFA) of \$238,314,838.

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, 2005 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, 2005.

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Fiscal Year Ending June 30	COPS	Other	Total
2006	\$ 19,539	\$ 1,922	\$ 21,461
2007	23,808		23,808
2008	23,807		23,807
2009	23,348		23,348
2010	23,259		23,259
2011 - 2015	94,242		94,242
2016 - 2020	74,304		74,304
2021 - 2025	50,182		50,182
Total future minimum lease payments	332,489	1,922	334,411
Amount representing interest	(101,729)	(218)	(101,947)
Present value of future minimum lease payments	\$ 230,760	\$ 1,704	\$ 232,464

Component Units

In addition to capital leases with outside vendors, Rhode Island College (RIC) and R.I. Public Telecommunications Authority (RIPTCA) obligations under capital leases include construction of facilities by the R.I. Refunding Bond Authority, a blended component unit. RIC and the University of Rhode Island (URI) have capital lease agreements for land and/or buildings with related parties (their respective foundations). URI has a capital lease obligation for the construction of a steam plant with the RI Economic Development Corporation (RIEDC) (a blended component unit). The Community College of Rhode Island (CCRI) has a capital lease for land and building.

Capital lease obligations of the RIEDC are for equipment purchases.

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, 2005.

Fiscal Year Ending June 30	URI	RIC	CCRI	RIEDC	RIPTCA	NBC
2006	\$ 1,914	\$ 64	\$ 89	\$ 1,087	\$ 505	\$ 238
2007	1,785	64	90	930	863	164
2008	1,763	64	89	637	976	112
2009	1,427	42	156	610	756	7
2010	1,424		156	715		
2011-2015	6,639		781	1,038		
2016-2020	6,304		782	0		
2021-2025			624			
Total future minimum lease payments	21,256	234	2,767	5,017	3,100	521
Amount representing interest	(5,746)	(39)	(946)	(584)	(309)	(40)
Present value of future minimum lease payments	\$ 15,510	\$ 195	\$ 1,821	\$ 4,433	\$ 2,791	\$ 481

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

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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.

The compensated absences liability attributable to the governmental activities will be liquidated in the applicable fund as the sick and vacation time is discharged. Upon termination the applicable amount owed will be paid out of the Assessed Fringe Benefit Fund, an internal service fund.

F. Other Long-Term Liabilities

Items in this category include, but not limited to, income on invested general obligation bond proceeds, determined to be arbitrage earnings in accordance with federal regulations. These amounts are generally payable to the federal government five years after the bond issuance date. Retainage payable is also included since the related construction projects are not expected to be completed in the subsequent fiscal period. In addition, this section includes special obligation notes with a local banking institution.

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G. Changes in Long-Term Debt

During the fiscal year ended June 30, 2005, the following changes (expressed in thousands) occurred in long-term debt:

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	\$ 762,027	\$ 204,105	\$ (165,826)	\$ 800,306	\$ 48,448	\$ 751,858
Capital appreciation bonds	610			610	306	304
Accreted interest on capital appreciation bonds	7,433	2,136		9,569	5,107	4,462
Premium and deferred amount on refunding	25,908	9,718	(2,479)	33,147		33,147
	<u>795,978</u>	<u>215,959</u>	<u>(168,305)</u>	<u>843,632</u>	<u>53,861</u>	<u>789,771</u>
RIEDC Grant Anticipation Bonds	216,805		(30,755)	186,050	32,290	153,760
Premium	19,779		(1,884)	17,895		17,895
RIEDC Rhode Island Motor Fuel Tax Revenue Bonds	47,405		(5,150)	42,255	5,150	37,105
Premium	85		(5)	80		80
Revenue bonds - RIRBA	84,730		(10,115)	74,615	14,295	60,320
Net premium/discount and deferred amount on refunding	4,710		(2,021)	2,689		2,689
Tobacco Settlement Asset-Backed Bonds	681,680		(6,850)	674,830		674,830
Net premium/discount	(32,405)		2,866	(29,539)		(29,539)
Bonds payable	<u>1,818,767</u>	<u>215,959</u>	<u>(222,219)</u>	<u>1,812,507</u>	<u>105,596</u>	<u>1,706,911</u>
Certificates of Participation (COP)	99,535	139,410	(8,185)	230,760	10,005	220,755
Premium		5,796	(146)	5,650		5,650
Other capital leases	3,350		(1,646)	1,704	1,704	
Obligations under capital leases	102,885	145,206	(9,977)	238,114	11,709	226,405
Compensated absences	60,716	55,367	(51,435)	64,648	46,793	17,855
Other long-term liabilities	52,039	8,647	(17,004)	43,681	2,311	41,370
	<u>\$ 2,034,407</u>	<u>\$ 425,179</u>	<u>\$ (300,635)</u>	<u>\$ 2,158,950</u>	<u>\$ 166,409</u>	<u>\$ 1,992,541</u>
Business type activities						
Revenue bonds	\$ 302,320		\$ (99,465)	\$ 202,855	\$ 6,925	\$ 195,930
Add: bond premium	4,258		(1,455)	2,803		2,803
Less: issuance discounts	5,202		(2,909)	2,293		2,293
Deferred amounts on refunding	16,822		(9,744)	7,078		7,078
Bonds payable	<u>284,554</u>		<u>(88,267)</u>	<u>196,287</u>	<u>6,925</u>	<u>189,362</u>
Other long-term liabilities	153		(153)			
	<u>\$ 284,707</u>	<u>\$</u>	<u>\$ (88,420)</u>	<u>\$ 196,287</u>	<u>\$ 6,925</u>	<u>\$ 189,362</u>

Certain beginning balances for deferred costs were restated to eliminate the netting of bond issue costs with the premiums. The beginning balance of other long-term liabilities was restated because of unrecorded long-term debt.

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, 2005, the following bonds outstanding (expressed in thousands) are considered defeased:

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	Amount
Primary government:	
General Obligation Bonds (includes \$9,532 of NBC)	\$ 396,805
Certificates of Participation	1,240
R.I. Convention Center Authority	60,225
Component Units:	
R.I. Clean Water Finance Agency	5,665
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	324,615
R.I. Economic Development Corporation	67,245
R.I. Turnpike and Bridge Authority	34,300

Primary Government

In March 2005, the State issued \$60,695,000 Consolidated Capital Development Loan of 2005, Refunding Series A & B, with interest rates ranging from 3.00% to 5.00%, maturing from 2006 through 2019. The proceeds were used to advance refund portions of the 1995B, 1997A, 1998A, 1999A, 2000A and 2001 Refunding Series B Bonds totaling \$59,350,00. 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 14 years by \$3,678,687 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2,737,226.

In April 2005, the State issued \$56,315,000 Consolidated Capital Development Loan of 2005, Refunding Series D, with interest rates ranging from 2.50% to 5.00%, maturing from 2006 through 2019. The proceeds were used to advance refund portions of the 1997A, 1998A, 1999A, 2000A and 2001 Refunding Series B Bonds totaling \$55,510,00. 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 14 years by \$3,820,979 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2,300,801.

Component Units

During the fiscal year ended June 30, 2005, RIEDC, on behalf of the Airport Corporation, issued \$44,465,000 of revenue bonds with an average interest rate of 4.916% to advance refund \$42,165,000 of revenue bonds with an average interest rate of 6.065%. These bonds were advance refunded to reduce total debt service payments over the next 16 years by approximately \$3,040,000 and to obtain an economic gain of approximately \$223,000. The reacquisition price exceeded the carrying amount of the old debt by \$5,366,543. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued.

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The proceeds of the refunding bonds were used to purchase U.S. Government securities which were deposited into an irrevocable trust with an escrow agent to provide for all future payments on the refunded bonds. Thus, \$42,165,000 of refunded revenue bonds are considered defeased and the liability for those bonds has been removed from the statement of net assets as of June 30, 2005.

On June 29, 2005, NBC entered into a prepayment and escrow agreement with the State to effectuate the prepayment in full and the economic defeasance of their State Obligations. NBC deposited \$10,977,827 with an escrow trustee, who shall use the proceeds of the invested funds to pay the interest, premium, if any, and principal of the Bonds and the payment of the Tobacco Bond Payment Amounts.

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 conduit debt outstanding on June 30, 2005 was \$111,000,000, \$1,703,029,871 and \$630,222,000 respectively. Certain issues of conduit debt are moral obligations of the State and the cumulative amounts outstanding are disclosed in Note 13.

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Note 8. Net Assets

Government-Wide Unrestricted Net Assets

	Governmental Funds	
Deficit	\$ (1,470,118)	
General Revenue	38,699	Unrestricted balance
Appropriations carried forward:		
General Revenues	13,489	General revenues carried forward for original purpose
Restricted Revenues	34,303	Restricted revenues carried forward for original purpose
Other	7,424	Principally capital accounts carried forward for original purpose
Special Revenue	32,588	ISTEA, Tobacco Settlement Trust, R.I. TDI Fund RI Economic Policy Council
Capital Projects Fund	388,829	Committed for capital projects
Permanent Fund	917	Permanent School
Internal Service Funds	17,432	Unrestricted balance of all Internal Service Funds
Unrestricted Net Assets	<u>\$ (936,437)</u>	

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	\$ 84,298	\$ 60,591	\$ (54,002)	\$ 90,887
Appropriations carried forward				
General revenue	10,146	13,489	(10,146)	13,489
Departmental restricted revenue	28,977	34,303	(28,977)	34,303
Operating transfers in	8,422	7,424	(8,422)	7,424
Total	<u>\$ 131,843</u>	<u>\$ 115,807</u>	<u>\$ (101,547)</u>	<u>\$ 146,103</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.

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Note 9. Taxes

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 and the Governmental Funds Balance Sheet is presented below (expressed in thousands):

	Governmental Funds	Statement of Activities
General Fund		
Personal Income Tax	\$ 979,082	\$ 979,495
General Business Taxes:		
Business Corporation Tax	115,916	115,932
Non-resident Contractor Tax	111	111
Gross Earnings Tax-Public Utilities	86,358	86,296
Income Tax-Financial Institutions	(1,480)	(1,478)
Tax on Insurance Companies	53,333	53,324
Tax on Deposits-Banking Institutions	1,524	1,524
Health Care Provider Assessment	10,921	10,921
Nursing Facilities Provider Assessments	35,906	35,892
Sub-total - General Business Taxes	302,589	302,522
Sales and Use Taxes:		
Sales and Use Tax	836,355	836,183
Providence Place Sales Tax	11,372	11,372
Motor Vehicle Tax	44,252	44,252
Rental Vehicle Surcharge	2,885	2,882
Fuel Use Tax on Motor Carriers	1,961	1,958
Cigarette Tax	134,432	134,433
Smokeless Tobacco Tax	1,910	1,917
Alcoholic Beverage Import Fees	10,501	10,501
Tax on Mfg. of Beers, Liquors, etc.	36	36
Sub-total - Sales and Use Taxes	1,043,704	1,043,534
Other Taxes:		
Inheritance Tax	32,981	33,007
Simulcast Wagering	2,682	2,682
Dog Racing - Pari-mutuel Betting	1,290	1,290
Dog Racing - Tax on Breakage	19	19
Realty Transfer Tax	14,405	14,405
Mobile Home Conveyance Tax	18	18
Sub-total - Other Taxes	51,395	51,421
Total - General Fund	2,376,770	2,376,972
Intermodal Surface Transportation Fund		
Gasoline	142,696	142,696
Other Governmental Funds	168,016	168,016
Total Taxes	\$ 2,687,482	\$ 2,687,684

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Note 10. Operating Transfers

Operating transfers for the fiscal year ended June 30, 2005 are presented below (expressed in thousands):

Fund Financial Statements

	Transfers	Description
Governmental activities		
Major Funds		
General Fund		
Major Funds		
Intermodal Surface Transportation	\$ 52,348	Debt service and operating assistance
Nonmajor Funds		
Bond Capital	32,568	Debt service and capital projects
RI Temporary Disability Insurance	1,155	Operating assistance
Surplus Property	4	
Business-Type Activities		
Lottery	307,550	Net income
Employment Security	5,632	Operating assistance
ISTEA Fund		
Bond Capital	32,701	Infrastructure
GARVEE		
Intermodal Surface Transportation	51,322	Debt Service
Nonmajor Fund		
Bond Capital		
General Fund	54,002	Debt service and capital projects
Economic Policy Council		
General Fund	336	Operating assistance
Total Governmental Activities	537,618	
Business-Type Activities		
Employment Security		
Assessed Fringe Benefits	1,106	Reimbursement for State employee's unemployment compensation
Convention Center		
General Fund	18,083	Debt service
Total operating transfers	\$ 556,806	

Note 11. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately \$13,066,000 for the fiscal year ended June 30, 2005.

Most of the operating leases contain an option allowing the State, at the end of the initial lease term, to renew its lease at the then fair rental value. In most cases, it is expected that these leases will be renewed or replaced by other leases.

The following is a summary of material future minimum rental payments (expressed in thousands) required under operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2005:

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Fiscal Year Ending June 30	
2006	11,521
2007	8,504
2008	6,827
2009	6,475
2010	6,204
2011 - 2015	19,490
2016 - 2020	7,613
Total	<u>\$ 66,634</u>

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

Note 12. Commitments

Primary Government

The primary government is committed at June 30, 2005 under various contractual obligations for transportation construction and other capital projects, which will be principally financed with bond proceeds and federal grants. The primary government is also committed at June 30, 2005 under contractual obligations with various service providers, which will be funded through appropriations of general revenue, and federal and restricted revenues in succeeding fiscal years.

The R.I. Economic Development Corporation (RIEDC), on behalf of the State, 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 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 and parking garages.

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

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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 \$4,500,000 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 \$127,310,000 at June 30, 2005.

A portion of the Rhode Island Resource Recovery Corporation (RIRRC) landfill is a designated Superfund site. During 1996, the RIRRC entered into a Consent Decree with the United States Environmental Protection Agency (EPA) concerning remedial actions taken by RIRRC for groundwater contamination. The consent Decree requires the establishment of a trust in the amount of \$27,000,000 for remedial purposes. The Central Landfill Remediation Trust Fund Agreement was approved August 22, 1996 by the EPA. In accordance with the terms of the agreement, RIRRC has deposited approximately \$33,300,000 into the trust fund and has disbursed approximately \$5,200,000 for remediation expenses through June 30, 2005. Additionally, trust fund earnings, net of changes in market value have totaled approximately \$8,151,000.

The cost of future remedial actions may exceed the amount of funds reserved. However, the RIRRC projects that the amount reserved plus cash flow over the next five years will be adequate to fund the Superfund remedy. RIRRC would seek appropriations from the General Assembly to fund any shortfall. The State, virtually every municipality in the State, and numerous businesses within and without the State are all potentially responsible parties ("PRPs") for the costs of remedial actions at the RIRRC Superfund site. Under federal law, PRPs are jointly and severally liable for all costs of remediation. EPA has agreed not to seek contributions from any other PRP as long as RIRRC is performing the remedy.

The Environmental Protection Agency (EPA) established closure and postclosure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. In 2004, RIRRC reviewed and revised its estimates relating to methane gas monitoring as required by the EPA and leachate pretreatment costs and flows. In addition, the RIRRC began construction of the Phase I and Phase II/III caps. In 2005, RIRRC began landfilling in Phase V and further revised its estimates relating to capping, maintenance and leachate flow costs. The net effect of the changes in assumptions on the provision for landfill closure and postclosure care costs was a decrease in operating income of approximately \$4,600,000 in 2005. The total estimate of future landfill closure and postclosure care costs was increased to approximately \$89,353,000 at June 30, 2005.

The liability for closure and postclosure care costs at June 30, 2005 of \$45,958,380 is recorded in the accompanying statements of net assets, as noted below, with \$43,395,335 remaining to be recognized at June 30, 2005. The detail of the recorded liability (expressed in thousands) is listed below.

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	2005
Phase V	\$ 5,381
Phase IV	14,919
Phases II and III	5,828
Phase I	19,830
	<u>\$ 45,958</u>

Based on the estimates of RIRRC engineers, approximately 95% and 11% of capacity for Phase IV and Phase V, respectively, has been used to date, and it is expected that full capacity will be reached during fiscal 2006 for Phase IV and fiscal 2012 for Phase V.

Amounts provided for closure and postclosure care 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 or regulations. It is at least reasonably possible that these estimates and assumptions could change in the near term and that the change could be material.

Included in restricted assets on the accompanying statements of net assets is \$24,079,387 at June 30, 2005, consisting of amounts placed in trust to meet the financial requirements of closure and postclosure care costs related to Phases II, III, and IV. RIRRC plans to make additional trust fund contributions each year to enable it to satisfy these costs.

The R.I. Housing and Mortgage Finance Corporation had loan commitments of \$36,739,000 under various loan programs at June 30, 2005.

The R.I. Turnpike and Bridge Authority has entered into various contracts for maintenance of its bridges. At June 30, 2005 remaining commitments on these contracts approximated \$1,154,000, primarily due in one year or less.

The R.I. Public Transit Authority is committed under construction contracts in the amount of \$12,919,072 at June 30, 2005.

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. As of June 30, 2005, the amount outstanding is \$736,637, payable in two installments of \$368,319 and \$368,318 on September 1, 2006 and 2007, respectively.

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 \$1,500,000, respectively.

The R.I. Children's Crusade has committed \$2,451,440 toward scholarships for tuition during the 2005/2006 school year. This represents approximately 1,100 students for an

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average award of approximately \$2,230 per student. As of June 30, 2005, the estimated value of the potential future scholarship costs through the year 2018 is estimated to be between \$3,800,000 and \$15,700,000.

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.

In April 2005 twenty of the tobacco manufacturers participating in the MSA either withheld all or portions of their payments due, or remitted their payments to an escrow account, disputing the calculation of amounts due under the agreement. These manufacturers assert that the calculations of the April 2005 payments failed to recognize a

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non-participating manufactures adjustment. Some of the SPM sought to arbitrate the non-participating manufactures' adjustment rather than follow the procedure outlined in the MSA which required a significant factors determination proceeding before an NPM adjustment could be applied.

The non-participating manufacturer (NPM) adjustment would permit the Participating Manufacturers (PM) to reduce their MSA payments if their market share loss exceeds 2% of the original participating manufacturers' 1997 market share, and if the MSA was a significant factor for the PMs' market share loss, and if the PMs prevailed in proving lack of diligent enforcement of the MSA and the escrow statutes.

For 2003, the Independent Auditor determined that the PMs' market share loss exceeded 2% of the original participating manufacturers' 1997 market share. Rhode Island along with the other Settling States and the PMs have begun a Significant Factors Determination (SFD) proceeding to determine whether or not the PMs have lost market share due to the MSA. Although no date is set for a final determination for the SFD proceeding, Rhode Island anticipates a SFD determination in 2006.

In addition, two NPMs have filed for bankruptcy protection and a PM threatened to seek bankruptcy protection. In December 2005, the Illinois Supreme court reversed a \$10.1 billion verdict against Phillip Morris USA, which had caused concern in the market due to the threat of bankruptcy by Phillip Morris. A bankruptcy could slow the flow of MSA payments which secure the TSFC's outstanding bonds. A significant participant in the MSA, Phillip Morris is responsible for over 50% of the payments under the 1998 MSA. While disposing of this litigation cures some of the bankruptcy event risks viewed by the market, there are still cases pending which challenge the validity of the MSA itself.

Litigation has been initiated against the State and the State's Fire Marshal arising out of a tragic fire at a nightclub in West Warwick, Rhode Island. The fire resulted in 100 deaths and injuries to approximately 300 people. Numerous suits have been served upon the State and its Fire Marshal. There is no way to estimate the potential claims against the State and/or its employees. The State intends to contest any liability on its part or that of its employees. In any event, the Attorney General believes the State and its employees have immunity from suit based upon R.I. General Law § 23-28.2-17 of the State Fire Code. In addition, the Attorney General is of the view the State and its employees have immunity under the Public Duty Doctrine. Moreover, should total immunity not be available (which is denied), damages in any tort action against the State ought to be subject to the \$100,000 per plaintiff limitation contained in the State's Tort Claims Act.

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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, 2005 the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had \$272,975,263 and \$66,404,274 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 \$1,800,000 of the debt on the related economic development revenue bonds in fiscal year 2006.

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 letters of credit will expire on the earliest to occur: a) June 30, 2009, for the January 1995 and April 1996 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.

Under an agreement with a provider, the Administrative Fund receives account maintenance, direct commission and other fees from the Program Fund. All the Administrative Fund's operating revenues, totaling \$5,828,948, are derived from the Program Fund. In addition,

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Rhode Island Higher Education Assistance Authority (RIHEAA) receives \$250,000 annually (in quarterly installments) directly from Alliance. During 2002, RIHEAA established two scholarship and grant programs, to be funded with Rhode Island Higher Education Savings Trust (RIHEST) administrative fees, as follows:

Academic Promise Scholarship Program: up to \$1,000,000 is invested annually through RIHEAA in the CollegeBoundfund for the benefit of 100 academic and income-qualified students to provide up to \$10,000 to each student over a four-year scholarship period. During 2005, \$1,000,000 was transferred to RIHEAA and RIHEAA in turn invested that amount in the CollegeBoundfund on behalf of unnamed beneficiaries. 5 and 10 Matching Grant Program: up to \$500,000 may be made available annually by the Authority to invest through RIHEAA into the CollegeBoundfund as matching contribution accounts for individual's account established for the benefit of income-qualifying individuals. .

During 2005, the Board of Directors authorized the transfer of \$4,458,167 to supplement amounts available for need-based scholarships under the State's grant program.

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, 2005.

R.I. Children's Crusade for Higher Education

The R.I. Children's Crusade for Higher Education has a \$850,000 line of credit agreement. Interest is payable monthly at the prime rate less one quarter, which was 3.75% at June 30, 2005. There was an outstanding balance of \$125,000 as of June 30, 2005. Total interest expense for the fiscal year ended June 30, 2005 was \$2,490.

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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 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 based on audited December 31 net asset values adjusted for purchases, sales, and cash flows for the period January 1 through June 30. Commingled funds consist primarily of institutional equity index funds. The fair value of

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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	11.51%	28.87%	36.19%
Plan members - state employees	8.75%	8.75%	8.75%
State contribution for teachers	5.62% and 6.12%		
Annual pension cost	\$114,923	\$2,615	\$2,057
Contributions made - state employees	\$66,088	\$2,615	\$2,057
Contributions made - teachers	\$48,835		
Actuarial valuation date	June 30, 2002	June 30, 2002	June 30, 2002
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed
Equivalent Single Remaining Amortization Period	27 years	27 years	27 years
Asset valuation method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
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	\$1,500 per annum	3%
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

Three-Year Trend Information

	Year Ending	Annual Pension Cost (APC) (In Thousands)	Percentage of APC Contributed	Net Pension Obligation
Employees' Retirement System	6/30/03	\$ 83,384	100%	\$ 0
	6/30/04	100,739	100%	0
	6/30/05	114,923	100%	0
State Police Retirement Benefits Trust	6/30/03	2,257	100%	0
	6/30/04	2,224	100%	0
	6/30/05	2,615	100%	0
Judicial Retirement Benefits Trust	6/30/03	1,657	100%	0
	6/30/04	1,830	100%	0
	6/30/05	2,057	100%	0

Article 7 of the Fiscal Year 2006 Appropriation Act (Chapter 117 of the RI Public Laws of 2005) enacted and signed by the Governor on June 30, 2005 provided for major changes in the retirement age, accrual of benefits, and cost of living adjustments for all non-vested (less than 10 years of service) state employees and teachers effective July 1, 2005. The law provides for an actuarially reduced retirement available at age 55 and 20 year of service. Enactment of these changes resulted in significantly lower state and local contributions beginning in Fiscal Year 2006 than would have otherwise been required.

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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 \$12,710,225 during the year ended June 30, 2005.

The R.I. Public Transit Authority has two pension plans that cover employees meeting certain eligibility requirements. Employer contribution paid in fiscal year 2005 was \$4,667,483. At January 1, 2005, the most recent valuation date, the total actuarial accrued liability was \$55,908,000 and the actuarial value of assets was \$31,085,548. The net pension obligation as of June 30, 2005 is \$1,833,410.

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 \$5.6 million in FY 2005. 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 2005, the State contributed 1.87% 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, 2005 were \$9,061,813 net of retirees' contributions for the 5,486 retirees receiving benefits.

In addition to the pension benefits described above, expenditures of \$977,879 were recognized for postretirement benefits provided under early retirement incentive programs (an average of \$1,195 for each of the 818 retirees covered by the plans).

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

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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

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

	Beginning Net Assets	Changes	Beginning Net Assets as Restated
Entity-wide			
Governmental Activities	\$ (4,563)	\$ (11,393)	\$ (15,956)
	<u>\$ (4,563)</u>	<u>\$ (11,393)</u>	<u>\$ (15,956)</u>
Component Units			
RITBA	\$ 65,114	\$ 173	\$ 65,287
RIPTA	87,600	893	88,493
RICCHE	(2,382)	10,500	8,118
Other	1,506,326		1,506,326
	<u>\$ 1,656,658</u>	<u>\$ 11,566</u>	<u>\$ 1,668,224</u>
			Beginning
	Beginning	Changes	Fund Balance
	Fund Balance		as Restated
Governmental Funds	\$ 709,595	\$ (3)	\$ 709,592
	<u>\$ 709,595</u>	<u>\$ (3)</u>	<u>\$ 709,592</u>

The State recorded additional long-term liabilities. RICCHE reduced the long-term estimated scholarship costs, which has been determined not to be a legal obligation of RICCHE. RITBA and RIPTA made corrections in accounting transactions.

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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	\$ 1,844,266	\$ 900,739	\$ 40,280	\$ 279,843	\$ 2,660	\$ 64,351
Capital assets - nondepreciable			7,992	86,652		275,933
Capital assets - depreciable (net)			59,417	242,839	57	207,493
Due from primary government						
Long term debt	1,361,202	803,367	31,796	321,380		293,217
Other liabilities	221,453	31,725	3,484	13,166	691	15,634
Due to primary government				18,307		
Net assets:						
Invested in capital assets, net of related debt	20,132		35,613	136,410	57	190,210
Restricted						
Debt service	164,304	63,462	8,760			
Other				90,424	535	49
Other nonexpendable						
Unrestricted	77,175	2,185	28,036	29,647	1,434	48,667
Operating expenses	77,523	39,507	6,113	66,317	4,172	34,799
Depreciation, depletion, and amortization	4,476	252	1,572	15,414	18	6,397
Program revenue						
Charges for services	61,357	40,854	12,293	54,720	4,602	53,778
Operating grants and contributions				802		36
Capital grants and contributions				9,022		2,942
Net program (expense) revenue	(20,642)	1,095	4,608	(17,187)	412	15,560
Interest and investment earnings	28,954	1,830	2,514	5,125	25	914
Miscellaneous		(2,333)		17,676		(8)
Payments from primary government				9,180		
Change in net assets	8,312	592	7,122	14,794	437	16,466
Beginning net assets	253,299	65,055	65,287	241,687	1,589	222,460
Ending net assets	261,611	65,647	72,409	256,481	2,026	238,926

	RIHEBC	RIRRC	RIEAA	RIPTA	RIIFC
Other assets	\$ 11,994	\$ 101,728	\$ 27,892	\$ 11,683	\$ 1,196
Capital assets - nondepreciable		8,078	194	2,879	
Capital assets - depreciable (net)	88	68,287	1,184	86,936	
Due from primary government				2,323	
Long term debt		19,612	350		
Other liabilities	130	77,507	4,608	10,193	829
Due to primary government				8,283	
Net assets:					
Invested in capital assets, net of related debt	88	81,068	1,377	89,815	
Restricted					
Debt service		1,707			
Other			17,972		
Other nonexpendable					
Unrestricted	11,864	(1,801)	4,963	(4,470)	367
Operating expenses	1,189	47,655	23,617	73,144	(31)
Depreciation, depletion, and amortization	31	10,653	251	9,937	
Program revenue					
Charges for services	1,800	65,048	15,455	27,664	137
Operating grants and contributions				12,609	
Capital grants and contributions				6,242	
Net program (expense) revenue	580	6,740	(8,413)	(36,566)	168
Interest and investment earnings	169	3,472	610	66	11
Miscellaneous		(6,011)	(2,681)	3,133	(250)
Payments from primary government			9,957	30,219	
Change in net assets	749	4,201	(527)	(3,148)	(71)
Beginning net assets	11,203	76,773	24,839	88,493	438
Ending net assets	11,952	80,974	24,312	85,345	367

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	RICWFA	RIIRBA	RIWRBC	RIPTCA	RICCHE
Other assets	\$ 827,848	\$ 4,222	\$ 13,198	\$ 1,336	\$ 9,599
Capital assets - nondepreciable		181		821	
Capital assets - depreciable (net)	50	396	4	5,156	51
Due from primary government					
Long term debt	525,161	3,000	14,232	2,979	
Other liabilities	10,975	60	904	1,513	3,566
Due to primary government					
Net assets:					
Invested in capital assets, net of related debt	50	577		2,480	51
Restricted					
Debt service	279,998				
Other			(2,301)		616
Other nonexpendable					
Unrestricted	11,714	1,162	367	341	5,417
Operating expenses	23,331	403	622	3,553	9,428
Depreciation, depletion, and amortization	272	36	107	736	32
Program revenue					
Charges for services	27,098	256	1,463	2,240	5,766
Operating grants and contributions	23,985		(1,225)		
Capital grants and contributions					
Net program (expense) revenue	27,480	(183)	(491)	(2,049)	(3,694)
Interest and investment earnings		74	169	67	
Miscellaneous				217	95
Payments from primary government				3,189	1,565
Change in net assets	27,480	(109)	(322)	1,424	(2,034)
Beginning net assets	264,282	1,848	(1,612)	1,397	8,118
Ending net assets	291,762	1,739	(1,934)	2,821	6,084

	URI	RIC	CCRI	CFSD	Totals
Other assets	\$ 248,519	\$ 36,691	\$ 14,143	\$ 5,981	\$ 4,448,169
Capital assets - nondepreciable	15,700	8,833	12,362		419,625
Capital assets - depreciable (net)	248,390	48,927	37,140	3,801	1,010,216
Due from primary government					2,323
Long term debt	200,398	20,105	11,044	2,197	3,610,040
Other liabilities	55,694	17,058	6,769	5,723	481,682
Due to primary government			1,049		27,639
Net assets:					
Invested in capital assets, net of related debt	147,543	42,960	43,827	3,272	795,530
Restricted					
Debt service					518,231
Other	34,669	7,596	5,508	135	155,203
Other nonexpendable	58,142	8,536			66,678
Unrestricted	16,163	(1,804)	(4,552)	(1,545)	225,330
Operating expenses	334,165	102,735	86,746	48,548	983,536
Depreciation, depletion, and amortization	15,515	4,931	2,394	210	73,234
Program revenue					
Charges for services	248,514	59,112	44,034	10,197	736,388
Operating grants and contributions		1,704	1,185		39,096
Capital grants and contributions	9,415	3,194	7,424		38,239
Net program (expense) revenue	(91,751)	(43,656)	(36,497)	(38,561)	(243,047)
Interest and investment earnings	1,632	1,283	176	17	47,108
Miscellaneous	18,105	1,016	112	153	29,224
Payments from primary government	81,841	43,892	41,816	37,804	259,463
Change in net assets	9,827	2,535	5,607	(587)	92,748
Beginning net assets	246,690	54,753	39,176	2,449	1,668,224
Ending net assets	256,517	57,288	44,783	1,862	1,760,972

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Significant transactions between primary government and component units

	Revenue (Expenses)	Description
Governmental activities		
General Fund		
R.I. Higher Education Assistance Authority	\$ (9,957)	Operating assistance
R.I. Economic Development Corporation	(8,762)	Operating assistance
RI Student Loan Authority	5,000	Surplus
University of Rhode Island	(72,492)	Educational assistance
Rhode Island College	(43,892)	Educational assistance
Community College of Rhode Island	(36,349)	Educational assistance
Central Falls School District	(37,804)	Educational assistance
ISTEA Fund		
R.I. Public Transit Authority	(30,219)	Operating assistance
Capital Projects		
University of Rhode Island	(9,349)	Construction, improvement or purchase of assets
Community College of Rhode Island	(5,467)	Construction, improvement or purchase of assets
Total Governmental Activities	<u>\$ (249,291)</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 has a contract with an insurance company to provide health care benefits to employees. The State reimburses the company for the costs of all claims paid plus administrative fees. The estimated liability for incurred but not reported (IBNR) claims of \$15,161,000 at June 30, 2005 was calculated by a human resources consulting firm based on historical claims data. The change in claims liability (expressed in thousands) is as follows:

	Liability at July 1	Current Year Claims and IBNR Estimate	Claim Payments	Liability at June 30
Health Insurance Fund				
Liability for unpaid claims	\$	\$ 97,521	\$ 81,754	\$ 15,767

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

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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.

Note 20. Special Items

Primary Government

In April 2005, The Rhode Island Convention Center Authority (RICCA) sold the land and building known as the Westin Hotel to a private third party for the sale price of \$95,500,000.

As a result of the sale RICCA realized a gain in the amount of \$11,947,952, which consists of a loss on defeasance of bonds (\$16,205,277), income from discontinued operations \$4,531,953, and a gain on disposal of discontinued operations \$23,621,276.

Note 21. Related Party Transactions

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 whereby the State has agreed to lease various assets to RIAC. The agreement requires RIAC to reimburse the State for principal and interest payments for certain airport related General Obligation Bonds. The term of the agreement is 30 years beginning July 1, 1993, with annual rent of \$1.00.

The Rhode Island Student Loan Authority (RISLA) and the Rhode Island Higher Education Assistance Authority (RIHEAA), component units of the State, are related parties. RISLA is a public instrumentality created to provide a statewide student loan program through the acquisition and origination of student loans. RIHEAA is a public instrumentality created for the dual purpose of guaranteeing loans to students in eligible institutions and administering other programs of post-secondary student financial assistance assigned by law.

Transactions between RISLA and RIHEAA as of and during the year ended June 30, 2005 were as follows:

Guaranteed loans outstanding at June 30, 2005	\$469,117,000
Loans guaranteed during the year	199,680,000
Guarantee claims paid during the year	10,686,000

The Rhode Island Housing and Mortgage Finance Corporation (Corporation) and the State have entered into a contractual relationship whereby the Corporation assumed the responsibility for the State Rental Subsidy Program for the period July 1, 1994 through June 30, 1997. In addition, the Corporation made \$3,800,000 in advances on behalf of the State for this program in the fiscal year ended June 30, 1994. As provided in the

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contractual arrangement, the State agreed to repay the \$3,800,000, subject to appropriations, in installments of \$950,000 over a four year period beginning in the year ended June 30, 1996, but to date no payments have been received, nor have any payments for advances totaling \$31,940,146 made during the years ended June 30, 1998 through 2005 been received.

Note 22. Subsequent Events

Primary Government – Governmental Activities

In July 2005, the General Assembly abolished the State Lottery Commission that oversaw the operations of the State Lottery, a blended component unit, and established the State Lottery as a division of the Department of Administration.

Subsequent to June 30, 2005 the Director of State Lotteries entered into long-term contracts with the owners of the State's two licensed video lottery retailers. These master contracts allow for the addition of 2,550 video lottery terminals between the two facilities, provided that the facilities invest \$150.0 million in structural and operational upgrades and expansions within the next three years. These master contracts freeze the share of video lottery NTI that is allocated to each facility at a fixed percent.

In November 2005, the state issued \$93,385,000 of general obligation bonds with interest rates ranging from 3.00% to 5.00% with maturity dates of November 2006 through November 2025.

In July 2005, the Rhode Island House and Senate gave the RI Convention Center Authority (RICCA) approval to issue bonds to finance the acquisition of the Dunkin' Donuts Center. The legislation authorizes RICCA to issue up to \$92,500,000 in revenue bonds to finance the acquisition from the City of Providence of the real property and improvements constituting the Dunkin' Donuts Center, the renovation, equipping, improvement and redevelopment of the facility, and the costs of issuing and insuring the bonds.

In December 2005, RICCA issued \$33,000,000 in revenue bonds to finance the above acquisition.

In August 2005, RICCA issued 2005 Series A Revenue Refunding Bonds in an aggregate principal amount of \$34,610,000 for the purpose of refunding \$35,395,000 of RICCA's outstanding 1993 Series C Refunding Revenue Bonds and to pay the cost of issuance. The 2005 Series A Bonds will mature between 2006 and 2023 and bear interest at 3.5% to 5%. This advance refunding meets the qualifications of in-substance defeasance due to the fact, that among other things, RICCA purchased U.S. Treasury Securities and the refunding results in a net present value savings of \$1,597,800.

In October 2005, Standard and Poor's Rating Service raised the underlying rating for general obligation bonds of the State from AA- to AA.

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In November 2005, Employees' Retirement System obtained title to commercial real estate located in Providence, Rhode Island as a result of bankruptcy foreclosure proceedings in the U.S. Bankruptcy Court. The Employees' Retirement System held a first lien on the commercial real estate owned by an obligor of a mortgage loan receivable held as a plan specific investment. The mortgage loan receivable is guaranteed by the Rhode Island Economic Development Corporation (RIEDC) to the extent of \$3 million. The Employees' Retirement System has requested payment of a guarantee by RIEDC. In January 2006, the Employees' Retirement System leased the premises to a corporation pursuant to a 3-year operating lease.

The Rhode Island Economic Development Corporation (RIEDC) plans to issue, in March 2006, \$184,620,000 of Grant Anticipation Revenue Bonds which are payable solely from future federal aid revenues to be received by the State in reimbursement of federally eligible costs of specific transportation construction projects. These bonds have interest rates between 4.000% and 5.000% and mature June 2007 through June 2018.

The RIEDC plans to issue, in March 2006, \$42,815,000 of Rhode Island Motor Fuel Tax Revenue Bonds which are payable solely from certain pledged revenues derived from two cents (\$.02) per gallon of the thirty cents (\$.30) per gallon Motor Fuel Tax. These bonds have interest rates between 3.500% and 5.000% and mature June 2007 through June 2026.

Component Units

Subsequent to June 2005, The Rhode Island Housing and Mortgage Finance Corporation instructed its trustee to redeem the Homeownership Opportunity Bonds in the amount of \$46,735,000.

Subsequent to June 2005 the Narragansett Bay Commission (NBC) issued \$45,000,000 in Wastewater System Revenue Bonds 2005 Series A. The 30-year revenue bond is structured as interest only for the first 20 years with principal payments commencing in 2026. The bonds will be used to finance NBC's construction in progress.

Subsequent to June 2005 the Rhode Island Resource Recovery Corporation (RIRRC) entered into a sales agreement to sell its existing Plainfield Pike location. The sales agreement is contingent upon the purchaser obtaining all the necessary permits for his intended use of the property.

In July 2005, RIRRC acquired land adjacent to its existing Shun Pike location for a purchase price of \$4,000,000. RIRRC issued \$2,500,000 of promissory notes in conjunction with the land acquisition.

Subsequent to June 30, 2005, 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.

Subsequent to June 30, 2005, the R.I. Health and Educational Building Corporation issued

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2005

- \$13,840,000 in URI Dining Facility Bonds 2005 Series C. The 2005 Series C Bonds will mature between 2007 and 2036 and bear interest at 3% to 4.625%.
- \$19,625,000 in Auxiliary Enterprise Refunding Bonds 2005 Series D (URI). The 2005 Series D Bonds will mature between 2008 and 2030 and bear interest at 3.5% to 4.5%.
- \$3,530,000 in Auxiliary Enterprise Refunding Bonds 2005 Series E (RIC). The 2005 Series E Bonds will mature between 2007 and 2031 and bear interest at 3.5% to 4.5%.
- \$3,245,000 in Tyler Hall Renovations Bonds 2005 Series F (URI). The 2005 Series F Bonds will mature between 2007 and 2026 and bear interest at 3.25% to 4.5%.
- \$44,805,000 in Education and General Refunding Bonds 2005 Series G (URI). The 2005 Series G Bonds will mature between 2008 and 2031 and bear interest at 4% to 5%.

Subsequent to June 30, 2005, the R. I. Housing and Mortgage Finance Corporation issued

- \$43,135,000 in Homeownership Opportunity Bonds Series 50-A. The 2005 Series 50-A Bonds will mature between 2006 and 2035 and bear interest at 2.6% to 4.65%.
- \$38,365,000 in Homeownership Opportunity Bonds Series 50-B. The 2005 Series 50-B Bonds will mature in 2036 and bear interest rate of 4.6%.
- \$32,570,000 in Homeownership Opportunity Note Series 50-C. The 2005 Series 50-C Notes will mature in 2008 and bear interest rate of 4.0%.
- \$47,165,000 in Homeownership Opportunity Bonds Series 51-A. The 2005 Series 51-A Bonds will mature between 2007 and 2033 and bear interest at 3.2% to 4.85%.
- \$7,605,000 in Homeownership Opportunity Bonds Series 51-B. The 2005 Series 51-B Bonds mature between 2036 and 2037 and bear interest at 4.875% to 5.0%.
- \$3,765,000 in Homeownership Opportunity Note Series 51-C. The 2005 Series 51-C Notes will mature in 2009 and bear interest rate of 4.5%.
- \$27,120,000 in Homeownership Opportunity Note Series 51-D. The 2005 Series 51-D Notes will mature in 2009 and bear interest rate of 4.5%.
- \$21,180,000 in Housing Bonds Series A-1A. The 2005 Series A-1A Bonds will mature between 2007 and 2036 and bear interest at 3.1% to 4.875%.
- \$5,235,000 in Housing Bonds Series A-1B. The 2005 Series A-1B Bonds will mature between 2013 and 2036 and bear interest at 4.9% to 5%.
- \$7,845,000 in Housing Bonds Series A-2T. The 2005 Series A-2T Bonds will mature between 2016 and 2036 and bear interest at 5.14% to 5.76%.

Subsequent to June 2005 the Rhode Island Clean Water Financing Agency (RICWFA) granted Narragansett Bay Commission (NBC), another component unit, a \$30,000,000 Leveraged Loan. NBC will repay the loan over 20 years at interest rates of 1.110% to 1.565%.

Subsequent to June 2005 a borrower defaulted on loan issued by the R. I. Industrial Facilities Corporation and secured by mortgage insurance issued by the R.I. Industrial-Recreational Building Authority (RIIRBA), another component unit. RIIRBA paid \$3,000,000 plus interest to settle the default.

**State of Rhode Island
and Providence Plantations**

**REQUIRED SUPPLEMENTARY
INFORMATION**

June 30, 2005

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
General Revenues:				
Personal Income Tax	\$ 926,275	\$ 980,600	\$ 979,082	\$ (1,518)
General Business Taxes:				
Business Corporations	91,331	112,000	116,026	4,026
Franchise				
Public Utilities Gross Earnings	86,500	89,000	86,358	(2,642)
Financial Institutions	(3,000)	(1,100)	(1,480)	(380)
Insurance Companies	41,000	51,700	53,333	1,633
Bank Deposits	1,010	1,600	1,524	(76)
Health Care Provider Assessment	43,800	48,000	46,827	(1,173)
Sales and Use Taxes:				
Sales and Use	858,600	849,100	847,727	(1,373)
Motor Vehicle	47,100	46,500	47,137	637
Motor Fuel	1,092	1,000	1,961	961
Cigarettes	143,800	136,700	136,342	(358)
Alcohol	10,500	11,000	10,537	(463)
Controlled Substances				
Other Taxes:				
Inheritance and Gift	25,000	31,700	32,981	1,281
Racing and Athletics	4,610	4,200	3,991	(209)
Realty Transfer Tax	11,000	14,500	14,423	(77)
Total Taxes	<u>2,288,618</u>	<u>2,376,500</u>	<u>2,376,769</u>	<u>269</u>
Departmental Revenue	<u>303,475</u>	<u>294,686</u>	<u>267,953</u>	<u>(26,733)</u>
Total Taxes and Departmental Revenue	<u>2,592,093</u>	<u>2,671,186</u>	<u>2,644,722</u>	<u>(26,464)</u>
Other Sources				
Gas Tax Transfer	9,560	9,400	9,023	(377)
Other Miscellaneous	19,173	26,950	28,197	1,247
Lottery	322,397	310,000	307,550	(2,450)
Unclaimed Property	11,150	15,797	15,618	(179)
Total Other Sources	<u>362,280</u>	<u>362,147</u>	<u>360,388</u>	<u>(1,759)</u>
Total General Revenues	<u>2,954,373</u>	<u>3,033,333</u>	<u>3,005,110</u>	<u>(28,223)</u>
Federal Revenues	1,646,382	1,719,761	1,655,563	(64,198)
Restricted Revenues	109,645	116,198	105,367	(10,831)
Other Revenues	114,754	104,786	95,180	(9,606)
Total Revenues	<u>4,825,154</u>	<u>4,974,078</u>	<u>4,861,220</u>	<u>(112,858)</u>
Expenditures:				
Department of Administration				
Central Management				
General Revenue Total	3,820	5,462	5,606	(144)
Federal Funds Total	281	324	256	68
Restricted Receipts		28	7	21
** Total-Central Management	4,101	5,814	5,869	(55)
Accounts & Control				
General Revenue	4,005	4,029	3,889	140
Total-Accounts & Control	4,005	4,029	3,889	140

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Budgeting				
General Revenue Total	2,367	2,426	2,208	218
Total-Budgeting	2,367	2,426	2,208	218
Municipal Affairs				
General Revenue Total	1,188	1,025	1,008	17
Federal Funds Total	9,966	7,941	6,090	1,851
Total-Municipal Affairs	11,154	8,966	7,097	1,869
Purchasing				
General Revenue Total	2,016	2,037	1,907	130
Total-Purchasing	2,016	2,037	1,907	130
Auditing				
General Revenue Total	1,690	1,674	1,499	175
Total-Auditing	1,690	1,674	1,499	175
Human Resources				
Other Fund Total		8	9	(1)
General Revenue Total	6,900	6,372	6,210	162
Federal Funds Total		85	85	
Total-Human Resources	6,900	6,465	6,304	161
Personnel Appeal Board				
General Revenue Total	118	94	86	8
Total-Personnel Appeal Board	118	94	86	8
Taxation				
Motor Fuel Tax Evasion Program	56	56	30	26
Temporary Disability Insurance	757	736	704	32
General Revenue Total	18,184	17,780	17,038	742
Federal Funds Total	1,027	999	959	40
Restricted Receipts Total	1,109	1,071	726	345
Total-Taxation	21,134	20,642	19,456	1,186
Registry of Motor Vehicles				
General Revenue Total	15,354	16,367	16,506	(139)
Federal Funds Total	29	690	257	433
Restricted Receipts Total	14	14	15	(1)
Total-Registry of Motor Vehicles	15,397	17,070	16,778	292
Child Support				
General Revenue Total	3,309	3,300	3,300	
Federal Funds Total	6,656	6,589	6,410	179
Total-Child Support	9,965	9,889	9,710	179

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
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General Fund
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Central Services				
General Revenue Totals	11,622	12,453	13,037	(584)
Energy Office Grants	663	900	980	(80)
Renewable Energy Program	2,150	3,000	2,063	937
Federal Funds Totals	18,069	17,508	16,301	1,207
Restricted Receipts Total	777	899	569	330
Total-Central Services	33,281	34,759	32,950	1,809
Office of Library & Information Service				
Federal Highway-PL Systems Planning	997	1,019	868	151
Air Quality Modeling	17	17	16	1
General Revenue Total	4,746	4,874	4,288	586
Federal Funds Total	1,288	2,320	1,393	927
Restricted Receipts Total	5	8	1	7
Total-Office of Library & Information Service	7,054	8,238	6,565	1,673
General				
RICAP-State House Terrace/South Stairs	583	333	311	22
RICAP-Pastore Center Sewer Improvements	1,750	1,900	993	907
RICAP-Chapin Health Laboratory	263	83	51	32
RICAP-Cranston Street Armory	946	946	468	478
RICAP-Cannon Building	101	101	92	9
RICAP-Old State House	400	25		25
RICAP-State Office Building	215	215	276	(61)
RICAP-Veterans Office Building	294	294	240	54
RICAP- State Information Operations Center	43	15	22	(7)
RICAP-Old Colony House	134	74	20	54
RICAP-Washington County Government Center	251	251	36	215
RICAP-State House Security	33	6	6	
RICAP-State House Renovations - Phase II	539	339	286	53
RICAP-William Powers Building	213	163	120	43
RICAP-State House Renovations-Phase III	290	445	292	153
RICAP-Powers Building Tech Infrastructure	222	222	184	38
RICAP-Board of Elections Building	28	28	50	(22)
RICAP-Environmental Compliance	713	463	282	181
RICAP-Fox Point Hurricane Barrier	50	50	50	
RICAP-Bio Tech Training Lab-Planning Funds	200	200		200
RICAP-Fire Code Compliance State Building	250	50		50
Information Processing Rotary Account-Overhead	680	680	680	
Property Tax Relief Credit	6,000	6,000	6,000	
Rhode Island Sports Foundation	550	550	550	
Shepard Building Operating/Parking	1,970	2,076	2,162	(86)
Miscellaneous Grants and Payments	1,028	1,083	1,083	
Torts-Court Awards	400	400	614	(214)
Asset Inventory	150	150	51	99
Race and Police Community Relations Commission		78	83	(5)
State Employees/Teachers Retiree Health	5,644	6,442	5,748	694
Masonic Temple	500	500	500	
Contingency Fund	648	648	468	180
Economic Development Corporation Grant	6,833	6,833	6,817	16
Office of City and Town Development-EDC	375	375	375	

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Centers of Excellence	3,000	3,000	3,000	
Economic Policy Council	300	300	336	(36)
Housing Resources Commission	3,383	3,522	3,360	162
Neighborhood Opportunities Program	5,000	5,000	4,903	97
Motor Vehicle Excise Tax Payment	104,987	104,987	104,845	142
Property Valuation	861	861	648	213
General Revenue Sharing Program	52,439	52,439	52,439	
Payment in Lieu of Tax Exempt Properties	22,716	22,716	22,716	
Distressed Communities Relief Program	8,533	9,533	9,533	
Resource Sharing and State Library Aid	8,092	8,085	8,069	16
Library Construction Aid	2,621	2,541	2,492	49
EPScore-EDC	1,500			
Federal Funds		402	(17)	419
Restricted Receipts Total	1,126	1,126	1,081	45
Total-General	246,856	246,530	242,314	4,216
Debt Service Payments				
RICAP-DEM-Narragansett Bay Commission	373	373	373	
RICAP-DEM-Wastewater Treatment	4,731	4,685	4,685	
RICAP-DEM-Debt Service-Recreation	6,167	6,033	6,033	
RIPTA Debt Service	623	583	583	
RICAP-MHRH Com Services	5,413	5,306	5,306	
RICAP-MHRH Comm. Mental Health	2,087	2,375	2,375	
Transportation Debt Service	34,570	33,045	33,041	4
RIRBA-DLT Temporary Disability Insurance	46	46	62	(16)
COPS-DLT Building-TDI	361	363	355	8
Cops-DLT Building-Reed Act	30	37	27	10
COPS-Center General-Furniture-TDI	19	18	18	
COPS-Center General-Furniture-Reed Act	6	7	5	2
COPS-Center General-Furniture-Reed Act	1	2	1	1
COPS-Pastore Center Telecomm-TDI	17	17	16	1
Debt-URI Education and General	1,089	1,089	3,597	(2,508)
Debt-URI Housing Loan Funds	1,752	1,752	2,505	(753)
Debt-URI Dining Services	267	267	241	26
Debt-URI Health Services	126	126	114	12
Debt-W. Alton Jones Service	113	113	101	12
Debt-URI Memorial Union	98	98	89	9
Debt-URI Sponsored Research (Indirect Cost)	101	101	100	1
Debt-RIC Education and General	297	297	292	5
Debt-RIC Housing	568	568	522	46
Debt-RIC Student Center and Dining	178	178	158	20
Debt-RIC Student Union	217	217	275	(58)
Debt-CCRI Bookstore	177	177	176	1
Debt Service Special Account			104	(104)
Debt Service Payments	89,725	85,118	85,120	(2)
Federal Funds	1,286	1,355	1,209	146
Restricted Receipts Fund	7,787	6,551	5,887	664
Total-Debt Service Payments	158,227	150,898	153,370	(2,472)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Sheriffs				
General Revenue Total	13,428	13,598	13,786	(188)
Total Sheriffs	13,428	13,598	13,786	(188)
Pay Plan Reserve General Revenue		7,138		7,138
General Revenue Fund Total-Dept Of Admin	419,495	426,446	416,002	10,444
Federal Grant Fund Total-Dept of Admin	38,602	38,214	32,942	5,272
Restricted Fund Total-Dept of Admin	10,818	9,697	8,286	1,411
Other Fund Total-Dept of Admin	68,776	65,913	66,558	(645)
Total-Department of Administration	537,690	540,270	523,788	16,482
Department of Business Regulation				
Central Management				
General Revenue Total	1,686	1,710	1,743	(33)
Total-Central Management	1,686	1,710	1,743	(33)
Banking Regulation				
General Revenue Total	1,687	1,676	1,659	17
Total-Banking Regulation	1,687	1,676	1,659	17
Security Regulation				
General Revenue Total	806	790	775	15
Total-Securities Regulation	806	790	775	15
Commercial Licensing and Regulation				
General Revenue Total	1,207	1,226	1,219	7
Restricted Revenue Total	100	100	16	84
Total-Commercial Licensing and Regulation	1,307	1,326	1,235	91
Racing and Athletics				
General Revenue Total	546	474	477	(3)
Total-Racing and Athletics	546	474	477	(3)
Insurance Regulation				
General Revenue Total	3,985	3,501	3,272	229
Restricted Receipts Total	530	684	460	224
Total-Insurance Regulation	4,515	4,186	3,732	454
Board of Accountancy				
General Revenue Total	135	138	133	5
Total-Board of Accountancy	135	138	133	5
General Revenue Fund Total-DBR	10,053	9,515	9,278	237
Restricted Fund Total-DBR	630	784	476	308
Total-Department of Business Regulation	10,683	10,300	9,755	545

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Department of Labor and Training				
Central Management				
General Revenue Total	272	374	275	99
Director of Workers' Compensation	446	686	523	163
Total-Central Management	719	1,060	799	261
Workforce Development Services				
Reed Act-Woonsocket Network Office Renovations	150	314	36	278
Reed Act-Rapid Job Development	1,650	1,651	1,336	315
Reed Act-Workforce Development	5,998	4,780	2,456	2,324
Federal Funds Total	14,674	17,670	15,171	2,499
Restricted Receipts	12,961	11,164	10,352	812
Total-Workforce Development Services	35,433	35,580	29,351	6,229
Workforce Regulation and Safety				
General Revenue Total	3,399	3,340	3,334	6
Total-Workforce Regulation and Safety	3,399	3,340	3,334	6
Income Support				
General Revenue Total	2,908	3,049	3,153	(104)
Federal Funds Total	14,061	14,476	16,656	(2,180)
Restricted Receipt Total	1,378	1,349	1,364	(15)
Total-Income Support	18,348	18,874	21,173	(2,299)
Injured Workers Services				
Restricted Receipts Total	11,232	11,680	10,083	1,597
Total-Injured Workers Services	11,232	11,680	10,083	1,597
Labor Relations Board				
General Revenue Total	342	319	334	(15)
Total-Labor Relations Board	342	319	334	(15)
General Revenue Fund Total-DLT	6,921	7,082	7,096	(14)
Federal Grants Fund Total-DLT	28,735	32,146	31,826	320
Restricted Fund Total-DLT	26,017	24,879	22,323	2,556
Other Fund Total-DLT	7,799	6,746	3,828	2,918
Total-Department of Labor and Training	69,472	70,853	65,074	5,779
General Assembly				
General Revenue Fund Total	31,444	29,385	26,933	2,452
Restricted Receipts Fund Total	1,099	1,099	1,099	
Legislative Office Building	1,500			
General Revenue Fund Total-Gen Assembly	31,444	29,385	26,933	2,452
Restricted Fund Total-Gen Assembly	1,099	1,099	1,099	
Other Fund Total-Gen Assembly	1,500			
Total-General Assembly	34,044	30,483	28,032	2,451

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Office of the Lieutenant Governor				
Lt. Governor's Office-General				
General Revenue Total	865	867	848	19
General Revenue Fund Total-Office of Lieutenant Governor	865	867	848	19
Total-Office of the Lieutenant Governor	865	867	848	19
Department of State				
Administration				
General Revenue Total	1,505	1,534	1,612	(78)
Total-Administration	1,505	1,534	1,612	(78)
Corporations				
General Revenue Total	1,500	1,504	1,563	(59)
RI e-Gov Fund-UCC Automated System	72	84	55	29
Total-Corporation	1,572	1,588	1,618	(30)
State Archives				
General Revenue Total	97	94	94	
Restricted Receipts total	523	481	391	90
Total-State Archives	621	575	485	90
Elections				
General Revenue Total	743	786	807	(21)
Federal Funds Total	2,635	2,934	2,913	21
Total-Elections	3,378	3,720	3,721	(1)
State Library				
General Revenue Total	727	710	712	(2)
Total-State Library	727	710	712	(2)
Office of Public Information				
General Revenue Total	427	412	444	(32)
Total-Office of Public Information	427	412	444	(32)
General Revenue Fund Total-Sec of State	5,072	5,124	5,289	(165)
Federal Grant Fund Total-Sec of State	2,635	2,934	2,913	21
Restricted Fund Total-Sec of State	523	481	391	90
Total-Department of State	8,230	8,539	8,593	(54)
Treasury Department				
Treasury				
General Revenue Total	2,513	2,511	2,398	113
Federal Funds Total	261	259	237	22
Restricted Receipts Total	10	10	10	10
Total-Treasury	2,783	2,780	2,635	145

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
State Retirement System				
Administrative Expenses-State Retirement System	6,759	6,809	4,763	2,046
Retirement-Treasury Investment Operations	686	685	994	(309)
Total-State Retirement System	7,445	7,494	5,757	1,737
Unclaimed Property				
Restricted Receipts Total	19,561	25,304	25,202	102
Total-Unclaimed Property	19,561	25,304	25,202	102
RI Refunding Bond Authority				
General Revenue Total	72	52	32	20
Total-RI Refunding Bond Authority	72	52	32	20
Crime Victim Compensation Program				
General Revenue Total	3,228	752	737	15
Federal Funds Total	4,111	1,931	1,477	454
Restricted Receipts Total	2,801	2,070	293	1,777
Total-Crime Victim Compensation Program	10,140	4,753	2,506	2,247
General Revenue Fund Total-Treasury	5,813	3,316	3,166	150
Federal Grant Fund Total-Treasury	4,372	2,190	1,714	476
Restricted Fund Total-Treasury	22,372	27,384	25,494	1,890
Other Fund Total-Treasury	7,445	7,494	5,757	1,737
Total-Treasury Department	40,001	40,384	36,131	4,253
Boards for Design Professionals-PL				
Boards For Professional Design				
General Revenue Total	414	422	379	43
General Revenue Fund Total-Board of Professional Design	414	422	379	43
Total-Boards For Professional Designs-PL	414	422	379	43
Board of Elections				
General Revenue Total	1,608	1,567	1,502	65
Federal Funds Total	1,002	1,342	1,067	275
General Revenue Fund Total-Board of Elections	1,608	1,567	1,502	65
Federal Grant Fund Total-Board of Elections	1,002	1,342	1,067	275
Total-Board Of Elections	2,610	2,909	2,569	340
Rhode Island Ethics Commission				
General Revenue Total	1,170	1,138	969	169
General Revenue Fund Total-RI Ethics Commission	1,170	1,138	969	169
Total-Rhode Island Ethics Commission	1,170	1,138	969	169

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Office of Governor				
General Revenue Total	4,390	4,440	4,363	77
General Revenue Fund Total-Office of the Governor	4,390	4,440	4,363	77
Total-Office of the Governor	4,390	4,440	4,363	77
Public Utilities Commission				
General Revenue Total	820	678	628	50
Federal Funds Total	73	72	56	16
Restricted Receipts Total	5,338	5,376	4,133	1,243
General Revenue Fund Total-PUC	820	678	628	50
Federal Grant Fund Total-PUC	73	72	56	16
Restricted Fund Total-PUC	5,338	5,376	4,133	1,243
Total-Public Utilities Commission	6,232	6,126	4,818	1,308
Rhode Island Commission on Women				
General Revenue Total	84	85	84	1
General Revenue Fund Total-RI Commission on Women	84	85	84	1
Total-Rhode Island Commission on Women	84	85	84	1
Department of Children, Youth, and Families				
Central Management				
General Revenue Total	7,814	7,671	8,238	(567)
Federal Funds Total	3,780	3,738	3,359	379
Total-Central Management	11,594	11,409	11,597	(188)
Children's Behavioral Health Services				
RICAP-Spurwink/RI	23	1	1	
General Revenue Total	21,867	28,690	27,374	1,316
Federal Funds Total	24,103	35,612	33,343	2,269
Total-Children's Behavioral Health Services	45,993	64,303	60,717	3,586
Juvenile Correctional Services				
RICAP-RI Training School-Girls Facilities		900		900
RICAP-NAFI Center	52			
General Revenue Total	28,554	28,870	28,420	450
Federal Funds Total	2,760	2,843	3,017	(174)
Restricted Receipts Total	7	611	44	567
Total-Juvenile Correctional Services	31,372	33,224	31,481	1,743
Child Welfare				
General Revenue Total	85,254	89,904	91,133	(1,229)
Federal Funds Total	64,612	66,761	66,620	141
Restricted Receipts Total	1,512	1,609	1,365	244
Total-Child Welfare	151,378	158,273	159,119	(846)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
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(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Higher Education Incentive Grant				
General Revenue Total	200	200	200	
Total-Higher Education Incentive Grants	200	200	200	
General Revenue Fund Total-DCYF	143,688	155,336	155,365	(29)
Federal Grant Fund Total-DCYF	95,254	108,954	106,339	2,615
Restricted Fund Total-DCYF	1,519	2,220	1,410	810
Other Fund Total-DCYF	75	901	1	900
Total-Department of Children, Youth, and Families	240,536	267,410	263,114	4,296
Department of Elderly Affairs				
Intermodel Surface Transportation Fund	4,780	4,700	4,607	93
General Revenues Total	15,243	12,462	14,916	(2,454)
Safety and Care of the Elderly	1	1	1	
RIPAE	14,771	11,791	10,744	1,047
Federal Funds Total	12,396	13,916	11,769	2,147
General Revenue Fund Total-Dept of Elderly Affairs	30,014	24,254	25,660	(1,406)
Federal Grant Fund Total-Dept of Elderly Affairs	12,396	13,916	11,769	2,147
Other Fund Totals-Dept of Elderly Affairs	4,780	4,700	4,607	93
Total-Department of Elderly Affairs	47,190	42,870	42,037	833
Department of Health				
Central Management				
General Revenues Total	4,676	4,475	4,693	(218)
Federal Funds Total	5,210	4,453	4,074	379
Restricted Receipts Total	2,925	3,821	3,612	209
Total-Central Management	12,811	12,750	12,379	371
State Medical Examiner				
General Revenue Total	1,827	1,859	1,828	31
Federal Funds Total	157	138	140	(2)
Total-State Medical Examiners	1,983	1,997	1,969	28
Family Health				
General Revenues Total	2,831	2,843	2,898	(55)
Federal Funds Total	32,002	30,799	29,491	1,308
Restricted Receipts Total	5,723	5,689	4,311	1,378
Total-Family Health	40,556	39,331	36,700	2,631
Health Services Regulation				
General Revenues Total	4,618	4,462	4,235	227
Federal Funds Total	5,003	5,972	5,010	962
Restricted Receipts Total	382	358	294	64
Total-Health Services Regulation	10,004	10,792	9,539	1,253

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Schedule of Revenues, Expenditures and Changes in Fund Balance
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	Original Budget	Final Budget	Actual	Variance
Environmental Health				
General Revenue Total	4,430	4,370	4,395	(25)
Federal Funds Total	4,070	5,338	3,789	1,549
Restricted Receipts Total	1,439	1,670	1,475	195
Total-Environmental Health	9,939	11,377	9,659	1,718
Health Laboratories				
General Revenue Total	6,008	5,913	5,844	69
Federal Funds Total	2,294	2,485	2,586	(101)
Total-Health Laboratories	8,302	8,399	8,430	(31)
Disease Prevention and Control				
General Revenue Total	4,786	5,154	5,219	(65)
Smoking Cessation	835	835	748	87
Federal Funds Total	16,138	19,520	19,414	106
Restricted Receipts Total	1,049	1,142	838	304
Trauma Registry				
Child Safety Program	79	84	21	63
Walkable Communities Initiative	20	28	17	11
Total-Disease Prevention and Control	22,907	26,764	26,257	507
General Revenue Fund Total-Health	30,012	29,912	29,859	53
Federal Grant Fund Total-Health	64,874	68,704	64,504	4,200
Restricted Fund Total-Health	11,518	12,680	10,530	2,150
Other Fund Total-Health	99	113	38	75
Total-Department of Health	106,503	111,408	104,932	6,476
Department of Human Services				
Central Management				
General Revenue Total	6,693	6,434	5,952	482
Federal Funds Total	4,321	5,204	3,791	1,413
Restricted Receipts Total	2,450	2,444	2,399	45
Total-Central Management	13,464	14,082	12,142	1,940
Individual and Family Support				
RICAP-Blind Vending Facilities	187			
General Revenue Total	21,297	21,057	21,304	(247)
Federal Funds Total	53,649	53,778	49,019	4,759
Restricted Receipts Total	79	85	85	
Total-Individual and Family Support	75,212	74,920	70,407	4,513
Veterans' Affairs				
General Revenue Total	16,784	16,826	16,871	(45)
Federal Funds Total	6,088	6,208	4,889	1,319
Restricted Receipts Total	1,125	1,377	589	788
Total-Veterans' Affairs	23,997	24,411	22,349	2,062

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
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	Original Budget	Final Budget	Actual	Variance
Health Care Quality, Financing and Purchases				
General Revenue Total	28,156	27,600	19,031	8,569
Federal Funds Total	41,756	43,344	36,029	7,315
Restricted Receipts Total	521	512	461	51
Total-Health Care Quality, Financing & Purchase	70,432	71,455	55,521	15,934
Medical Benefits				
General Revenue				
Managed Care	174,410	170,245	167,827	2,418
Hospital	104,295	109,744	111,857	(2,113)
Other	103,983	118,373	120,065	(1,692)
Special Education	15,561	14,805		14,805
Nursing Facilities	136,614	131,685	130,336	1,349
General Revenue Total	534,863	544,851	530,085	14,766
Federal Funds				
Managed Care	215,107	215,802	210,440	5,362
Hospitals	127,537	129,656	132,388	(2,732)
Nursing Facilities	170,643	164,515	162,421	2,094
Other	130,135	147,891	153,350	(5,459)
Special Education	19,439	18,495	19,239	(744)
Federal Funds Total	662,861	676,360	677,839	(1,479)
Restricted Receipts Total	15	15	5	10
Total-Medical Benefits	1,197,739	1,221,226	1,207,929	13,297
Supplemental Security Income Program				
General Revenue Total	27,300	27,414	27,314	100
Total-Supplemental Security Income Program	27,300	27,414	27,314	100
Family Independence Program				
TANF/Families Independence Program				
Child Care	11,712	14,069	14,821	(752)
Child Care	57,350	56,047	56,126	(79)
Federal Funds Total	83,137	82,857	81,964	893
Total-Family Independence Program	152,198	152,973	152,912	61
State Funded Programs				
General Public Assistance	3,332	2,847	2,930	(83)
Citizen Participation Program	50	50	50	
Federal Funds Total	73,485	75,913	77,653	(1,740)
Total-State Funded Programs	76,867	78,809	80,633	(1,824)
General Revenue Fund Total-Human Services				
General Revenue Fund Total-Human Services	707,536	717,195	694,485	22,710
Federal Grant Fund Total-Human Services	925,296	943,662	931,183	12,479
Restricted Fund Total-Human Services	4,190	4,433	3,539	894
Other Fund Total-Human Services	187			
Total-Department of Human Services	1,637,210	1,665,290	1,629,207	36,083

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
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	Original Budget	Final Budget	Actual	Variance
Department of Mental Health, Retardation, and Hospital Central Management				
General Revenue Total	2,244	2,128	2,090	38
Total-Central Management	2,244	2,128	2,090	38
Hospital & Community System Support				
RICAP-Utilities Upgrade	708	516	132	384
RICAP-Medical Center Rehabilitation	470	470	246	224
RICAP-Utilities Systems Water Tanks and Pipes	241	97	16	81
RICAP-Central Power Plant Rehabilitation	224	268	132	136
RICAP-Community Fire Code Compliance	365	90	45	45
General Revenue Total	22,209	24,816	26,229	(1,413)
Total-Hospital & Community System Support	24,218	26,258	26,800	(542)
Service for the Developmentally Disabled				
RICAP-MR/DD Residential Development	1,500	1,110	1,185	(75)
General Revenue Total	102,081	103,488	102,527	961
RICAP-DD State Owned Group Home	996	996	966	30
Federal Funds Total	126,971	125,889	126,002	(113)
Total-Service for the Developmentally Disabled	231,548	231,483	230,681	802
Integrated Mental Health Services				
General Revenue Total	39,474	40,990	40,341	649
Federal Funds Total	36,364	37,402	35,890	1,512
Total-Integrated Mental Health Services	75,838	78,392	76,230	2,162
Hospital & Community Rehabilitation Svcs				
RICAP-Zambarano Buildings and Utilities	239	239	22	217
General Revenue Total	45,746	46,072	44,533	1,539
Federal Funds Total	55,360	54,480	56,856	(2,376)
Total-Hospital & Community Rehabilitation Svcs	101,346	100,791	101,411	(620)
Substance Abuse				
RICAP-Asset Protection	104	104	54	50
General Revenues Total	14,567	14,852	14,618	234
Federal Funds Total	14,233	15,089	14,032	1,057
Restricted Receipts Total	75	100	50	50
Total-Substance Abuse	28,979	30,145	28,753	1,392
General Revenue Fund Total-MHRH	226,321	232,346	230,338	2,008
Federal Grant Fund Total-MHRH	232,928	232,861	232,779	82
Restricted Fund Total-MHRH	75	100	50	50
Other Fund Total-MHRH	4,848	3,891	2,798	1,093
Total-Department of Mental Health, Retardation, and Hospital	464,173	469,198	465,965	3,233

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
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	Original Budget	Final Budget	Actual	Variance
Office of Child Advocate				
General Revenue Total	501	398	340	58
Federal Funds Total	54	34	81	(47)
Restricted Receipts Total		1		1
General Revenue Fund Total-Office of Child Advocate	501	398	340	58
Federal Grant Fund Total-Office of Child Advocate	54	34	81	(47)
Restricted Fund Total-Office of Child Advocate		1		1
Total-Office of the Child Advocate	555	433	421	12
Rhode Island Commission of the Deaf and Hard of Hearing				
Commission On Deaf and Hard Of Hearing				
General Revenue Total	272	302	262	40
General Revenue Fund Total-RI Comm of the Deaf	272	302	262	40
Total-Rhode Island Commission of the Deaf and Hard of Hearing	272	302	262	40
State Council on Developmental Disabilities				
Federal Funds Total	571	510	599	(89)
Federal Grant Fund Total-State Comm on Dev Disab.	571	510	599	(89)
Total-State Council on Developmental Disabilities	571	510	599	(89)
Governor's Commission on Disabilities				
General Revenue Total	534	513	535	(22)
Federal Funds Total	180	153	39	114
Restricted Receipts Total	35	62	23	39
RICAP-Handicapped Accessibility Facility Renovation	283	105	109	(4)
General Revenue Fund Total-Governor's Comm on Disab.	534	513	535	(22)
Federal Grant Fund Total-Governor's Comm on Disab.	180	153	39	114
Restricted Fund Total-Governor's Comm on Disab.	35	62	23	39
Other Fund Total-Governor's Comm on Disab.	283	105	109	(4)
Total-Governor's Commission on Disabilities	1,032	833	706	127
Rhode Island Commission for Human Rights				
General Revenue Total	984	994	997	(3)
Federal Funds Total	239	216	110	106
General Revenue Fund Total-RI Comm for Human Rights	984	994	997	(3)
Federal Grant Fund Total-RI Comm for Human Rights	239	216	110	106
Total-Rhode Island Commission for Human Rights	1,224	1,210	1,107	103
Office of Mental Health Advocate				
General Revenue Total	332	339	340	(1)
General Revenue Fund Total-Office of Mental Health Advocate	332	339	340	(1)
Total-Office of Mental Health Advocate	332	339	340	(1)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
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For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Department of Elementary and Secondary Education				
State Aid				
General Revenue Total	624,404	625,356	625,340	16
Federal Funds Total	579	2,462	1,867	595
Restricted Funds Total	1,968	2,060	1,167	893
Total-State Aid	626,951	629,877	628,374	1,503
School Housing Aid				
General Revenue Total	43,856	42,180	42,180	
Total-School Housing Aid	43,856	42,180	42,180	
Teachers' Retirement				
General Revenue Total	52,583	48,503	48,503	
Total-Teachers' Retirement	52,583	48,503	48,503	
RI School for the Deaf				
RICAP-School for the Deaf-Physical Education Fac	561	561	507	54
General Revenue Total	5,700	5,749	5,747	2
Federal Funds Total	790	409	265	144
Total-RI School for the Deaf	7,051	6,720	6,520	200
Central Falls School District				
General Revenue Total	35,992	37,804	37,804	
Total-Central Falls School District	35,992	37,804	37,804	
Davies Career and Technical School				
RICAP-Davies Roof Repair	437	437	432	5
General Revenue Total	12,527	12,174	11,951	223
Federal Funds Total	1,150	1,454	1,194	260
Restricted Receipts Total	25	15	1	14
Total-Davies Career and Technical School	14,140	14,080	13,579	501
Metropolitan Career and Technical School				
General Revenue Total	7,262	7,262	7,262	
Total-Metropolitan Career and Technical School	7,262	7,262	7,262	
Administration of the Comprehensive Education Strategy				
RICAP-Chariho Wells		81	15	66
RICAP-State Owned Schools-Fire Alarm Systems	577	143	122	21
General Revenue Total	15,439	15,178	15,167	11
Federal Funds Total	144,765	164,783	179,759	(14,976)
Restricted Receipts Total	997	1,212	1,705	(493)
Total-Administration of the Comprehensive Education Strategy	161,777	181,396	196,767	(15,371)
General Revenue Fund Total-Dept of Elem & Sec Education	797,763	794,206	793,955	251
Federal Grant Fund Total-Dept of Elem & Sec Education	147,283	169,108	183,085	(13,977)
Restricted Fund Total-Dept of Elem & Sec Education	2,990	3,287	2,873	414
Other Fund Total-Dept of Elem & Sec Education	1,575	1,222	1,076	146
Total-Department of Elementary and Secondary Education	949,612	967,823	980,990	(13,167)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
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(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Board of Governors for Higher Education				
Board Of Governors/Office				
General Revenue Fund Total	5,855	5,893	5,883	10
Federal Fund Total	3,352	3,352	2,527	825
General Revenue Fund Total-URI	81,600	81,841	81,841	
General Revenue Fund Total-RIC	43,633	43,892	43,892	
General Revenue Fund Total-CCRI	43,167	41,816	41,816	
General Revenue Fund Total-BOG Higher Education	174,256	173,442	173,432	10
Federal Grant Fund Total-BOG Higher Education	3,352	3,352	2,527	825
Total-Board of Governors for Higher Education	177,607	176,794	175,960	834
Rhode Island State Council on the Arts				
Operating Support	456	1,248	462	786
Grants	1,987	1,200	1,329	(129)
Federal Funds Total	721	677	678	(1)
Restricted Receipts Total	200	200	38	162
General Revenue Fund Total-RI State Council on the Arts	2,442	2,448	1,791	657
Federal Grant Fund Total-RI State Council on the Arts	721	677	678	(1)
Restricted Fund Total-RI State Council on the Arts	200	200	38	162
Total-Rhode Island State Council on the Arts	3,363	3,326	2,507	819
Rhode Island Atomic Energy Commission				
URI Sponsored Research	157	147	142	5
RICAP-Paint Interior Reactor Building Walls	55	55	54	1
General Revenue Total	727	720	716	4
Federal Funds Total	325	325	65	260
General Revenue Fund Total-RI Atomic Energy Council	727	720	716	4
Federal Grant Fund Total-RI Atomic Energy Council	325	325	65	260
Other Fund Total-RI Atomic Energy Council	212	202	195	7
Total-Rhode Island Atomic Energy Commission	1,264	1,246	976	270
R I Higher Education Assistance Authority				
General Revenue Total	9,956	9,960	9,957	3
General Revenue Fund Total-RI Higher Education Assistance Authority	9,956	9,960	9,957	3
Total-R I Higher Education Assistance Authority	9,956	9,960	9,957	3
Historical Preservation and Heritage Commission				
General Revenue Total	1,221	1,225	1,221	4
Federal Funds Total	593	604	570	34
Restricted Receipts Total	207	219	174	45
General Revenue Fund Total-Historical Preservation	1,221	1,225	1,221	4
Federal Grant Fund Total-Historical Preservation	593	604	570	34
Restricted Fund Total-Historical Preservation	207	219	174	45
Total-Historical Preservation and Heritage Commission	2,021	2,047	1,965	82

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	Original Budget	Final Budget	Actual	Variance
R I Public Telecommunication Authority				
General Revenue Total	1,238	1,067	1,039	28
General Revenue Fund Total-R I Public Telecommunication Authority	1,238	1,067	1,039	28
Total-R I Public Telecommunication Authority	1,238	1,067	1,039	28
Department of Attorney General				
Criminal				
General Revenue Total	11,324	11,037	10,750	287
Federal Funds Total	1,334	1,315	1,242	73
Restricted Receipts Total	346	356	239	117
Total-Criminal	13,005	12,708	12,231	477
Civil				
General Revenue Total	3,488	3,455	3,616	(161)
Federal Funds Total	76			
Restricted Receipts Total	456	485	459	26
Total-Civil	4,020	3,940	4,075	(135)
Bureau of Criminal Identification				
General Revenue Total	815	814	827	(13)
Federal Funds Total	165	379	344	35
Total-Bureau of Criminal Identification	980	1,193	1,172	21
General				
General Revenue Total	1,717	1,941	1,949	(8)
RICAP-Building Renovations & Repairs	398	398	203	195
Total-General	1,717	1,941	1,949	(8)
General Revenue Fund Total-Dept of Attorney General	17,344	17,247	17,142	105
Federal Grant Fund Total-Dept of Attorney General	1,576	1,694	1,586	108
Restricted Fund Total-Dept of Attorney General	803	841	698	143
Other Fund Total-Dept of Attorney General	398	398	203	195
Total-Department of Attorney General	20,120	20,179	19,629	550
Department of Corrections				
Central Management				
General Revenue Total	10,009	10,576	10,057	519
Federal Funds Total		361	191	170
Total-Central Management	10,009	10,937	10,248	689
Parole Board				
General Revenue Total	1,063	1,057	1,002	55
Federal Fund Total		33	25	8
Total-Parole Board	1,063	1,090	1,027	63

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General Fund
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	Original Budget	Final Budget	Actual	Variance
Institutional Corrections				
RICAP-Fire Code Safety Improvements	533	100	1	99
RICAP-Security Camera Installation	573	303	261	42
RICAP-Bernadette Guay Bldg. Roof	415	15	8	7
RICAP-Heating & Temperature Controls	342	195	211	(16)
RICAP-Medium HVAC Renovations	31			
RICAP-Reintegration Center State Match	689	150		150
RICAP-Dix Expansion-State Match	46	6	6	
RICAP-General Renovations-Maximum	554	584	451	133
RICAP-Roof/Masonry Renovations-Women's	1,030	1,000	545	455
RICAP-Perimeter/Security Upgrades	288	100	38	62
RICAP-Women's Bath Renovation	749	400	237	163
RICAP-Dix Expansion Consolidation				
RICAP-Correctional Industries Roof	176	21	15	6
General Revenue Total	124,687	124,559	124,649	(90)
Federal Funds Total	7,958	8,465	1,602	6,863
Restricted Receipts Total	137	220	217	3
Total-Institutional Corrections	138,209	136,118	128,240	7,878
Community Corrections				
General Revenue Total	12,329	11,178	11,153	25
Federal Funds Total	1,754	1,981	1,072	909
Total-Community Corrections	14,083	13,160	12,225	935
General Revenue Fund Total-Corrections	148,089	147,370	146,861	509
Federal Grant Fund Total-Corrections	9,712	10,841	2,890	7,951
Restricted Fund Total-Corrections	137	220	217	3
Other Fund Total-Corrections	5,427	2,874	1,772	1,102
Total-Department of Corrections	163,364	161,305	151,740	9,565
Judicial Department				
Supreme Court				
RICAP-McGrath Judicial Complex Interior	100	425	318	107
RICAP-Blackston Valley Courthouse Study	300	150		150
RICAP-Murray Judicial Complex - Interior Refurbishment	73	23	19	4
RICAP-Fogarty Judicial Annex	48	23		23
RICAP-Garrahy Lighting & Ceiling	600			
RICAP-Licht Judicial Complex Roof Study	25			
RICAP-Licht Judicial Complex-Foundation	35	35		35
RICAP-Judicial Complexes HVAC	197	197	194	3
General Revenue Total	22,923	23,653	22,802	851
Defense of Indigents	2,507	2,573	2,655	(82)
Federal Funds Total	849	1,099	749	350
Restricted Receipts Total	901	954	898	56
Total-Supreme Court	28,558	29,131	27,636	1,495
Superior Court				
Federal Funds Total	633	728	188	540
General Revenue Total	17,613	17,570	17,151	419
Total-Superior Court	18,246	18,298	17,338	960

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	Original Budget	Final Budget	Actual	Variance
Family Court				
General Revenue Total	13,890	13,290	14,601	(1,311)
Federal Funds Total	2,666	3,329	1,666	1,663
Restricted Receipts Total	148	141		141
Total-Family Court	16,704	16,760	16,267	493
District Court				
General Revenue Total	8,670	8,376	8,287	89
Federal Funds Total	5	9	2	7
Total-District Court	8,675	8,385	8,289	96
Traffic Tribunal				
General Revenue Total	6,587	6,637	6,220	417
Total-Traffic Tribunal	6,587	6,637	6,220	417
Worker's Compensation Court				
Restricted Receipts Total	6,124	6,201	5,833	368
Total-Worker's Compensation Court	6,124	6,201	5,833	368
General Revenue Fund Total-Judicial Dept	72,190	72,099	71,715	384
Federal Grant Fund Total-Judicial Dept	4,153	5,165	2,605	2,560
Restricted Fund Total-Judicial Dept	7,173	7,295	6,730	565
Other Fund Total-Judicial Dept	1,378	853	532	321
Total-Judicial Department	84,894	85,412	81,582	3,830
Militia of the State				
National Guard				
RICAP-Logistic/Maintenance Facilities				
RICAP-Camp Fogarty Training Site	50			
RICAP-Bristol Armory Rehabilitation	95		5	(5)
RICAP-Benefit St. Arsenal Rehabilitation	233		7	(7)
RICAP-Schofield Armory Rehabilitation	220	20		20
RICAP-US Property and Finance Office-HVAC	107	107	110	(3)
RICAP-State Armories Fire Code Comp	13	13		13
RICAP-Warwick Armory Boiler	50	50		50
RICAP-Federal Armories Fire Code Comp	6	25		25
RICAP-North Smithfield Armory	86			
RICAP-Emergency Operations Center		10		10
RICAP-AMC Roof Rehabilitation	50		4	(4)
RICAP-Army Aviation Support Facility				
RICAP-Logistics/Maintenance Facilities	6	25		25
General Revenue Total	1,632	1,736	1,643	93
Federal Funds Total	8,594	6,997	5,574	1,423
Restricted Receipts Total		145	38	107
Total-National Guard	11,141	9,128	7,381	1,747

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Emergency Management				
General Revenue Total	544	582	693	(111)
Federal Funds Total	26,450	34,542	12,077	22,465
Restricted Receipts Total	188	274	118	156
Total-Emergency Management	27,183	35,398	12,888	22,510
General Revenue Fund Total-Militia of the State	2,176	2,317	2,336	(19)
Federal Grant Fund Total-Militia of the State	35,044	41,540	17,651	23,889
Restricted Fund Total-Militia of the State	188	419	156	263
Other Fund Total-Militia of the State	915	249	125	124
Total-Militia of the State	38,323	44,525	20,269	24,256
E-911 Uniform Emergency Telephone System				
General Revenue Total	3,821	3,838	3,882	(44)
Federal Funds Total		136	67	69
Restricted Receipts Total	1,650	1,534	971	563
General Revenue Fund Total-E-911 Uniform Emer Telephone System	3,821	3,838	3,882	(44)
Federal Funds Total-E-911 Uniform Emer Telephone Systems		136	67	69
Restricted Receipts Total-E-911 Uniform Emer Telephone System	1,650	1,534	971	563
Total-E-911 Uniform Emergency Telephone System	5,471	5,508	4,919	589
Fire Safety Code Board of Appeal and Review				
Fire Code Commission				
General Revenue Total	241	243	237	6
General Revenue Fund Total-Fire Safety Code	241	243	237	6
Total-Fire Safety Code Board of Appeal and Review	241	243	237	6
Division of Fire Safety				
Fire Safety & Training Academy				
General Revenue Total	1,978	2,042	2,100	(58)
Federal Funds Total	408	340	121	219
Other Funds	20	13		13
General Revenue Fund Total-Div. of Fire Safety	1,978	2,042	2,100	(58)
Federal Grant Fund Total-Div. of Fire Safety	408	340	121	219
Other Fund Total-Div. of Fire Safety	20	13		13
Total-Division of Fire Safety	2,406	2,395	2,221	174
Commission on Judicial Tenure & Discipline				
General Revenue Total	103	125	129	(4)
General Revenue Fund Total-Comm on Judicial Tenure	103	125	129	(4)
Total-Commission on Judicial Tenure & Discipline	103	125	129	(4)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Rhode Island Governor's Justice Commission				
General Revenue Total	248	254	254	
Federal Funds Total	5,688	5,787	5,018	769
Restricted Receipts Total	90	30	24	6
General Revenue Fund Total-RI Gov Just Comm	248	254	254	
Federal Grant Fund Total-RI Gov Just Comm	5,688	5,787	5,018	769
Restricted Fund Total-RI Gov Just Comm	90	30	24	6
 Total-Rhode Island Governor's Justice Commission	 6,026	 6,071	 5,296	 775
 Municipal Police Training School				
General Revenue Total	361	364	343	21
Federal Funds Total	143	129	46	83
General Revenue Fund Total-Municipal Police Training School	361	364	343	21
Federal Grant Fund Total-Municipal Police Training School	143	129	46	83
 Total-Municipal Police Training School	 504	 493	 389	 104
 Rhode Island State Police				
RICAP-Barracks & Training Headquarters'	165	190		190
RICAP-Headquarters Repair/Renovation	75	75	59	16
Traffic Enforcement-Municipal Training	119	88	161	(73)
Lottery Commission Assistance	119	129	128	1
Road Construction Reimbursement	1,587	2,278	2,277	1
General Revenue Total	43,114	42,549	42,443	106
Federal Funds Total	1,715	1,973	1,144	829
Restricted Receipts Total	298	445	248	197
General Revenue Fund Total-State Police	43,114	42,549	42,443	106
Federal Grant Fund Total-State Police	1,715	1,973	1,144	829
Restricted Fund Total-State Police	298	445	248	197
Other Fund Total-State Police	2,065	2,760	2,625	135
 Total-Rhode Island State Police	 47,192	 47,726	 46,461	 1,265
 Office of Public Defenders				
General Revenue Total	6,876	6,957	6,871	86
Federal Funds Total	419	452	284	168
General Revenue Fund Total-Office of Public Defenders	6,876	6,957	6,871	86
Federal Grant Fund Total-Office of Public Defenders	419	452	284	168
 Total-Office of Public Defenders	 7,295	 7,409	 7,156	 253
 Department of Environmental Management				
Policy and Administration				
DOT Recreational Projects	49	48	28	20
Blackstone Bikepath Design	1,249	1,249	1,150	99
RICAP-Dam Repair	1,394	1,660	2,165	(505)
General Revenue Total	8,315	8,452	8,064	388
Federal Funds Total	1,991	2,450	710	1,740
Restricted Receipts Total	2,868	3,206	3,500	(294)
 Total-Policy and Administration	 15,865	 17,065	 15,618	 1,447

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Natural Resources				
RICAP-Jamestown Fishing Pier	75	75	7	68
RICAP-Fort Myers Rehabilitation	350	350	350	
RICAP-Recreational Facilities Improvement	1,904	904	633	271
RICAP-Wickford Marine facility	200	200	2	198
RICAP-Galilee Piers	1,047	1,512	1,322	190
RICAP-Boyd's Marsh Habitant Restoration			24	(24)
RICAP-Newport Piers	202	202	180	22
General Revenue Total	15,417	15,636	16,094	(458)
Federal Funds Total	13,487	15,679	8,641	7,038
Restricted Receipts Total	3,656	3,824	2,970	854
Total-Natural Resources	36,337	38,381	30,223	8,158
Environmental Protection				
General Revenue Total	9,013	9,119	9,120	(1)
Federal Funds Total	9,915	10,257	7,066	3,191
Restricted Receipts Total	4,505	4,294	2,702	1,592
Total-Environmental Protection	23,433	23,670	18,888	4,782
General Revenue Fund Total-DEM	32,745	33,207	33,278	(71)
Federal Grant Fund Total-DEM	25,393	28,386	16,418	11,968
Restricted Fund Total-DEM	11,029	11,324	9,171	2,153
Other Fund Total-DEM	6,468	6,199	5,862	337
Total-Department of Environmental Management	75,635	79,117	64,729	14,388
Coastal Resources Management Council				
RICAP-Allins Cove		50		50
General Revenue Total	1,460	1,480	1,417	63
Federal Funds Total	2,145	2,843	2,279	564
Restricted Total	250	250	135	115
General Revenue Fund Total-Coastal Resources	1,460	1,480	1,417	63
Federal Grant Fund Total-Coastal Resources	2,145	2,843	2,279	564
Restricted Fund Total-Coastal Resources	250	250	135	115
Other Fund Total-Coastal Resources		50		50
Total-Coastal Resources Management Council	3,855	4,623	3,831	792

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Water Resources Board				
RICAP-Big River Management Area	104	104	93	11
RICAP-Supplemental Water Supplies Development	400			
General Revenue Total	1,229	1,161	1,088	73
Federal Total	500	500	607	(107)
Restricted Receipts Total	495	939	848	91
General Revenue Fund Total-Water Resources Board	1,229	1,161	1,088	73
Federal Grant Fund Total-Water Resources Board	500	500	607	(107)
Restricted Fund Total-Water Resources Board	495	939	848	91
Other Fund Total-Water Resources Board	504	104	93	11
Total-Water Resources Board	2,728	2,705	2,635	70
Departmental Expenditures	4,818,704	4,906,718	4,778,710	128,008
Transfer of Excess Budget Reserve to Bond Capital Fund			54,002	(54,002)
Total Expenditures	4,818,704	4,906,718	4,832,712	74,006
Change in Fund Balance	\$ 6,450	\$ 67,360	28,508	\$ 38,852
Fund balance - beginning			156,294	
Fund balance - ending			\$ 184,802	
General Revenue Funds Total	\$ 2,947,923	\$ 2,965,973	\$ 2,926,928	\$ 39,045
Federal Grants Funds Total	1,646,382	1,719,761	1,655,563	64,198
Restricted Funds Total	109,645	116,198	100,040	16,158
Other Funds Total	114,754	104,786	96,179	8,607
General Fund Grand Total	\$ 4,818,704	\$ 4,906,718	\$ 4,778,710	\$ 128,008

** Certain totals may not add due to rounding.

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Intermodal Surface Transportation Fund
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	\$ 143,400	\$ 141,000	\$ 142,696	\$ 1,696
Departmental restricted revenue	4,450	6,380	8,222	1,842
Federal grants	207,421	207,386	226,839	19,453
Other revenues	5,268	5,268	2,268	(3,000)
Total revenues	<u>360,539</u>	<u>360,034</u>	<u>380,025</u>	<u>19,991</u>
Other financing sources:				
Operating transfers in			32,701	32,701
Total revenues and other financing sources	<u>360,539</u>	<u>360,034</u>	<u>412,726</u>	<u>52,692</u>
Expenditures:				
Central Management				
Gasoline Tax	3,545	3,508	3,142	366
Federal Funds	8,962	8,958	2,270	6,688
Total - Central Management	<u>12,507</u>	<u>12,466</u>	<u>5,412</u>	<u>7,054</u>
Management and Budget				
Gasoline Tax	1,946	1,970	2,314	(344)
Total - Management and Budget	<u>1,946</u>	<u>1,970</u>	<u>2,314</u>	<u>(344)</u>
Infrastructure - Engineering				
Gasoline Tax	49,631	46,282	48,253	(1,971)
RICAP - RIPTA Land and Buildings	107	107	28	79
Train Station	100	100		100
State Infrastructure Bank	1,000	1,000		1,000
Land Sale Revenue	4,000	4,000	902	3,098
Federal Funds	198,459	198,428	183,644	14,784
Restricted Receipts	4,450	6,380	636	5,744
Subtotal - Infrastructure - Engineering	<u>257,747</u>	<u>256,297</u>	<u>233,463</u>	<u>22,834</u>
State Match - FHWA			44,429	(44,429)
Total - Infrastructure - Engineering	<u>257,747</u>	<u>256,297</u>	<u>277,892</u>	<u>(21,595)</u>
Infrastructure - Maintenance				
Gasoline Tax	39,533	41,472	42,092	(620)
Outdoor Advertising				
Total - Infrastructure - Maintenance	<u>39,533</u>	<u>41,472</u>	<u>42,092</u>	<u>(620)</u>
Total Expenditures	<u>311,733</u>	<u>312,205</u>	<u>327,710</u>	<u>(15,505)</u>
Other financing uses:				
Transfers to other funds				
Federal			41,809	(41,809)
Gas tax			46,896	(46,896)
Other			168	(168)
Total expenditures and other financing uses	<u>311,733</u>	<u>312,205</u>	<u>416,583</u>	<u>(104,378)</u>
Net change in fund balance	<u>\$ 48,806</u>	<u>\$ 47,829</u>	<u>(3,857)</u>	<u>\$ (51,686)</u>
Fund balance - beginning			37,797	
Fund balance - ending			<u>\$ 33,940</u>	

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
June 30, 2005
(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)
06/30/2004	5,543,427	9,328,983	3,785,556	59.4%	1,472,620	257.1%
06/30/2003 **	5,695,358	8,858,979	3,163,621	64.3%	1,440,744	219.6%
06/30/2002	5,907,680	8,141,130	2,233,450	72.6%	1,378,905	162.0%

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)
06/30/2004	24,767	32,689	7,922	75.8%	11,422	69.4%
06/30/2003	20,966	28,443	7,477	73.7%	11,286	66.3%
06/30/2002	17,770	23,527	5,757	75.5%	10,933	52.7%

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)
06/30/2004	16,019	21,846	5,827	73.3%	5,638	103.3%
06/30/2003	13,270	18,435	5,165	72.0%	5,303	97.4%
06/30/2002	11,129	16,243	5,114	68.5%	4,738	107.9%

** Restated June 30, 2003 actuarial accrued liability due to the adoption of Article 7, Substitute A as Amended

State of Rhode Island and Providence Plantations
Notes to Required Supplementary Information
June 30, 2005

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.

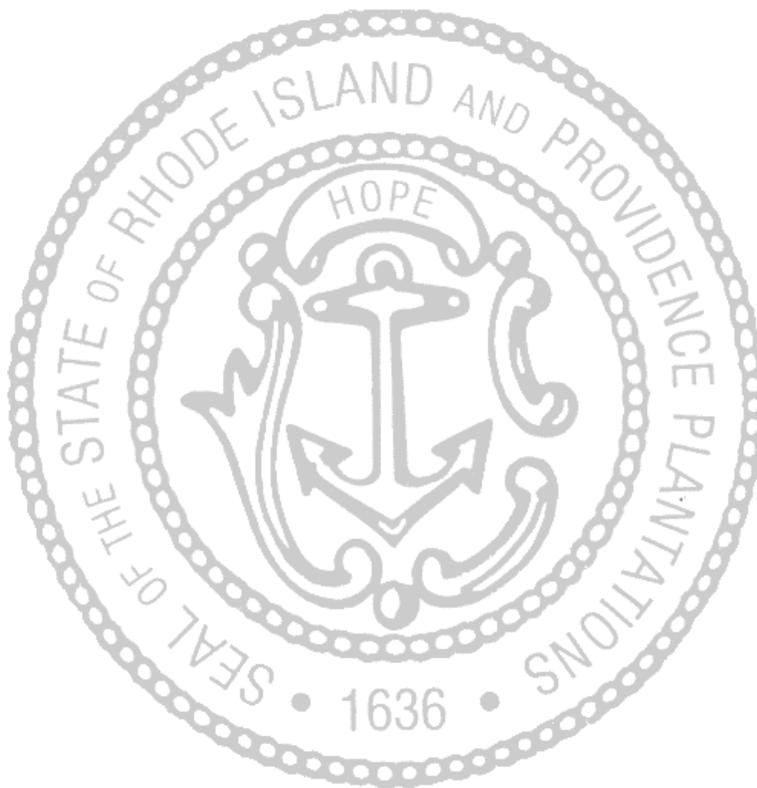
The legal level of budgetary control, i.e. the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the 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 and judicial branches.

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

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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, 2005

Federal Grantor Program Title	CFDA Number	Total Expenditures
U.S. Department of Agriculture		
Plant and Animal Disease, Pest Control, and Animal Care	10.025	\$ 135,142
Inspection Grading and Standardization	10.162	188,851
Very Low to Moderate Income Housing Loans (See Note 2)	10.410	199,500
Rural Housing Preservation Grants	10.433	68,081
Food Donation (See Note 2)	10.550	4,148,201
Food Stamp Cluster:		
Food Stamps	10.551	77,550,950
State Administrative Matching Grants for Food Stamp Program	10.561	7,393,395
Child Nutrition Cluster:		
School Breakfast Program	10.553	5,167,530
National School Lunch Program	10.555	20,895,386
Special Milk Program for Children	10.556	104,459
Summer Food Service Program for Children	10.559	1,002,118
Special Supplemental Nutrition Program for Women, Infants, and Children (See Note 4)	10.557	19,374,368
Child and Adult Care Food Program	10.558	6,505,591
State Administrative Expenses for Child Nutrition	10.560	670,278
Emergency Food Assistance Cluster:		
Emergency Food Assistance Program (Administrative Costs)	10.568	200,881
WIC Farmers' Market Nutrition Program	10.572	89,610
Team Nutrition Grants	10.574	34,235
Cooperative Forestry Assistance	10.664	658,970
Watershed Surveys and Planning	10.906	606,874
		\$ 144,994,420
U.S. Department of Commerce		
Personal Census Search	11.006	\$ 28,309
Public Works and Economic Development Cluster:		
Economic Adjustment Assistance (See Note 2)	11.307	12,829,813
Economic Development - Support for Planning Organizations	11.302	119,481
Interjurisdictional Fisheries Act of 1986	11.407	54,332
Coastal Zone Management Administration Awards	11.419	2,279,028
Coastal Zone Management Estuarine Research Reserves	11.420	441,015
Marine Fisheries Initiative (B)	11.433	186,789
Unallied Management Projects	11.454	1,414,968
Unallied Science Program	11.472	87,505
Atlantic Coastal Fisheries Cooperative Management Act (B)	11.474	108,213
		\$ 17,549,453
U.S. Department of Defense		
Procurement Technical Assistance for Business Firms	12.002	\$ 101,448
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	224,519
National Guard Military Operations and Maintenance (O&M) Projects	12.401	6,730,049
		\$ 7,056,016
U.S. Department of Housing and Urban Development		
Interest Reduction Payments - Rental and Cooperative Housing for Lower Income Families	14.103	\$ 1,259,520
Mortgage Insurance - Homes (See Note 2)	14.117	12,009,739

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, 2005

Federal Grantor Program Title	CFDA Number	Total Expenditures
Section 8 Project-Based Cluster:		
Section 8 New Construction and Substantial Rehabilitation	14.182	94,640,221
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	387,138
Home Equity Conversion Mortgages (See Note 2)	14.183	9,318,174
Community Development Block Grants/State's Program	14.228	5,694,055
Emergency Shelter Grants Program	14.231	327,460
Supportive Housing Program	14.235	3,602,986
Shelter Plus Care	14.238	578,236
HOME Investment Partnerships Program	14.239	3,935,392
Housing Opportunities for Persons with AIDS	14.241	833,811
Community Development Block Grants/Brownfields Economic Development Initiative (B)	14.246	6,016
Fair Housing Assistance Program - State and Local	14.401	94,984
Community Development Work-Study Program	14.512	33,086
Section 8 Housing Choice Vouchers	14.871	8,186,246
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	1,865,181
Lead Outreach Grants	14.904	28,318
		\$ 142,800,563
Total U.S. Department of Housing and Urban Development		
U.S. Department of Interior		
Fish and Wildlife Cluster:		
Sport Fish Restoration	15.605	\$ 3,380,483
Wildlife Restoration	15.611	901,220
Clean Vessel Act	15.616	62,213
Administrative Grants for Federal Aid in Sport Fish and Wildlife Restoration	15.618	32,811
Historic Preservation Fund Grants-In-Aid	15.904	569,714
Outdoor Recreation - Acquisition, Development and Planning	15.916	305,778
		\$ 5,252,219
Total U.S. Department of Interior		
U.S. Department of Justice		
Law Enforcement Assistance - Narcotics and Dangerous Drugs - Laboratory Analysis	16.001	\$ 12,728
State Domestic Preparedness Equipment Support Program	16.007	48,519
Protection of Voting Rights	16.104	3,980,257
Americans With Disabilities Act Technical Assistance Program	16.108	1,757
Offender Reentry Program	16.202	624,520
Sex Offender Management Discretionary Grant	16.203	63,792
Law Enforcement Assistance-Discretionary Grant	16.501	101,977
Juvenile Accountability Incentive Block Grants	16.523	888,151
Grants to Reduce Violent Crime Against Women on Campus	16.525	152,858
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	741,065
Part D - Research, Evaluation, Technical Assistance and Training	16.542	79,145
Gang-Free Schools and Communities - Community-Based Gang Intervention	16.544	52,855
Victims of Child Abuse	16.547	42,211
Title V - Delinquency Prevention Program	16.548	3,369
State Justice Statistics Program for Statistical Analysis Centers	16.550	98,099
National Criminal History Improvement Program (NCHIP)	16.554	354,186
Crime Laboratory Improvement-Combined Offender DNA		
Index System Backlog Reduction	16.564	135,290
National Institute of Justice Domestic Anti-Terrorism Technology Development Program	16.565	145,629
Crime Victim Assistance	16.575	1,830,390
Crime Victim Compensation	16.576	1,512,027
Byrne Formula Grant Program	16.579	2,685,108

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, 2005

Federal Grantor Program Title	CFDA Number	Total Expenditures
Edward Byrne Memorial State and Local Law Enforcement Assistance		
Discretionary Grants Program	16.580	261,246
Drug Court Discretionary Grant Program	16.585	423,302
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	129,351
Violence Against Women Formula Grants	16.588	1,510,813
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	145,191
Local Law Enforcement Block Grants Program	16.592	11,956
Residential Substance Abuse Treatment for State Prisoners	16.593	140,160
State Identification Systems Grant Program	16.598	67,781
State Criminal Alien Assistance Program	16.606	760,482
Enforcing Underage Drinking Laws Program	16.727	500,328
National Incident Based Reporting System	16.733	3,262
Protecting Inmates and Safeguarding Communities Discretionary Grant Program	16.735	16,708
		\$ 17,524,513
Total U.S. Department of Justice		
U.S. Department of Labor		
Labor Force Statistics	17.002	\$ 701,010
Compensation and Working Conditions	17.005	13,390
Employment Services Cluster:		
Employment Service	17.207	3,419,745
Disabled Veterans' Outreach Program (DVOP)	17.801	219,330
Local Veterans' Employment Representative Program	17.804	271,266
Unemployment Insurance (See Note 5)	17.225	216,677,448
Senior Community Service Employment Program	17.235	393,450
Trade Adjustment Assistance - Workers	17.245	5,134,820
Employment Services and Job Training Pilots - Demonstration and Research	17.249	161,114
Welfare-to-Work Grants to States and Localities	17.253	(695,514)
Workforce Investment Act	17.255	(22,208)
WIA Cluster:		
WIA Adult Program	17.258	2,454,107
WIA Youth Activities	17.259	2,918,031
WIA Dislocated Workers	17.260	2,869,230
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261	88,236
Employment and Training Administration Evaluations	17.262	97,803
Consultation Agreements	17.504	426,155
		\$ 235,127,413
Total U.S. Department of Labor		
U.S. Department of State		
Copperative Agreements	19.420	\$ 90,684
Other Department of State Awards	N/A	1,356,285
		\$ 1,446,969
Total U.S. Department of State		
U.S. Department of Transportation		
Airport Improvement Program	20.106	\$ 11,031,081
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	221,327,278
Motor Carrier Safety	20.217	752,731
Local Rail Freight Assistance	20.308	6,220

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, 2005

Federal Grantor Program Title	CFDA Number	Total Expenditures
Federal Transit Cluster:		
Federal Transit - Formula Grants	20.507	15,242,744
Federal Transit Managerial Training Grants	20.503	3,963,447
Federal Transit - Metropolitan Planning Grants	20.505	199,973
Formula Grants for Other Than Urbanized Areas (A)	20.509	338,716
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	1,258,630
Transit Planning and Research	20.514	1,150
State Planning and Research	20.515	27,456
Highway Safety Cluster:		
State and Community Highway Safety	20.600	2,350,277
Pipeline Safety	20.700	56,367
University Transportation Centers Program	20.701	1,327,622
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	37,327
Freight Rail Improvement Project	None	1,702,027
		\$ 259,623,046
Equal Opportunity Employment Commission		
Employment Discrimination - State and Local Fair		
Employment Practices Agency Contracts	30.002	\$ 15,059
		\$ 15,059
Federal Mediation and Conciliation Service		
Labor Mediation and Conciliation	34.001	\$ 85,462
		\$ 85,462
General Services Administration		
Donation of Federal Surplus Personal Property (See Note 2)	39.003	\$ 211,313
		\$ 211,313
National Foundation on the Arts and the Humanities		
Promotion of the Arts - Grants to Organizations and Individuals	45.024	\$ 39,960
Promotion of the Arts - Partnership Agreements	45.025	612,531
Promotion of the Arts - Leadership Initiatives	45.026	25,277
Promotion of the Humanities - Fellowships and Stipends	45.160	8,830
Museum for America Grants	45.301	822,731
Other National Foundation on the Arts and the Humanities Awards	N/A	4,800
		\$ 1,514,129
National Science Foundation		
Social, Behavioral, and Economic Sciences	47.075	\$ 4,112
Education and Human Resources	47.076	25,100
		\$ 29,212

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, 2005

Federal Grantor Program Title	CFDA Number	Total Expenditures
U.S. Department of Veteran's Affairs		
Grants to States for Construction of State Home Facilities	64.005	\$ 820
Veterans Domiciliary Care	64.008	4,886,847
Veterans Housing - Guaranteed and Insured Loans (See Note 2)	64.114	4,352,505
All-Volunteer Force Educational Assistance	64.124	33,614
State Cemetery Grants	64.203	893
		9,274,679
Total U.S. Department of Veteran's Affairs		\$ 9,274,679
Environmental Protection Agency		
Air Pollution Control Program Support	66.001	\$ 810,838
State Indoor Radon Grants	66.032	159,065
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	520,866
Water Pollution Control State and Interstate Program Support	66.419	208,198
State Public Water System Supervision	66.432	407,082
Targeted Watershed Grants	66.439	252,233
Water Quality Management Planning	66.454	95,340
National Estuary Program	66.456	104,481
Capitalization Grants for Clean Water State Revolving Funds	66.458	11,386,319
Wastewater Operator Training Grant Program (Technical Assistance)	66.467	9,447
Capitalization Grants for Drinking Water State Revolving Funds	66.468	13,315,464
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	48,936
Beach Monitoring and Notification Program Implementation Grants	66.472	178,594
Water Protection Grants to the States	66.474	38,118
Environmental Protection Consolidated Grants - Program Support	66.600	102,154
Performance Partnership Grants	66.605	3,976,489
Surveys, Studies, Investigations and Special Purpose Grants	66.606	2,977,341
Environmental Information Exchange Network Grant Program AND Related Assistance	66.608	84,875
Environmental Policy and Innovation Grants	66.611	70,742
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	19,747
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	246,407
Pollution Prevention Grants Program	66.708	35,530
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	739,553
Leaking Underground Storage Tank Trust Fund Program	66.805	630,839
Solid Waste Management Assistance Grants	66.808	19,029
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809	164,003
Brownfield Cleanup Revolving Loan Fund	66.811	772,265
State and Tribal Response Program Grants	66.817	684,597
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	964,504
		39,023,056
Total Environmental Protection Agency		\$ 39,023,056
U.S. Department of Energy		
National Energy Information Center	81.039	\$ 15,928
State Energy Program	81.041	624,008
Weatherization Assistance for Low-Income Persons	81.042	1,195,252
Regional Biomass Energy Programs	81.079	8,457
University Reactor Infrastructure and Education Support	81.114	64,899
		1,908,544
Total U.S. Department of Energy		\$ 1,908,544

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, 2005

Federal Grantor Program Title	CFDA Number	Total Expenditures
U.S. Department of Education		
Adult Education - State Grant Program	84.002	\$ 2,703,498
Civil Rights Training and Advisory Services	84.004	269,745
Student Financial Assistance Cluster: (See Note 6)		
Federal Supplemental Educational Opportunity Grants	84.007	2,321,002
Federal Family Education Loans (See Note 2)	84.032	32,972,471
Federal Work-Study Program	84.033	1,822,645
Federal Perkins Loan Program-Federal Capital Contributions (See Note 2)	84.038	13,670,846
Federal Pell Grant Program	84.063	18,268,570
Federal Direct Student Loans (See Note 2)	84.268	44,596,382
Title I Grants to Local Educational Agencies	84.010	48,007,735
Migrant Education - State Grant Program	84.011	151,176
Title I Program for Neglected and Delinquent Children	84.013	560,695
Special Education Cluster:		
Special Education - Grants to States	84.027	42,008,325
Special Education - Preschool Grants	84.173	1,856,688
Higher Education - Institutional Aid	84.031	14,234
Federal Family Education Loans (Guaranty Agency) (See Note 2)	84.032	3,110,367
TRIO Cluster:		
TRIO-Student Support Services	84.042	632,049
TRIO-Talent Search	84.044	440,014
TRIO-Upward Bound	84.047	598,522
TRIO-Educational Opportunity Centers	84.066	696,665
Vocational Education - Basic Grants to States	84.048	6,022,933
Leveraging Educational Assistance Partnership	84.069	432,189
Fund for the Improvement of Postsecondary Education	84.116	48,870
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	9,225,133
National Institute on Disability and Rehabilitation Research	84.133	26,607
Magnet Schools Assistance	84.165	4,910
Independent Living - State Grants	84.169	275,504
Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	84.177	196,763
Special Education - Grants for Infants and Families With Disabilities	84.181	2,995,935
Byrd Honors Scholarships	84.185	126,000
Safe and Drug-Free Schools and Communities - State Grants	84.186	2,491,379
Supported Employment Services for Individuals with Severe Disabilities	84.187	419,825
Education for Homeless Children and Youth	84.196	217,526
Even Start - State Educational Agencies	84.213	1,146,164
Fund for the Improvement of Education	84.215	202,289
Assistive Technology	84.224	469,141
Tech-Prep Education	84.243	768,255
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265	34,086
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	4,110
School to Work Opportunities	84.278	784,772
Eisenhower Professional Development State Grants	84.281	149
Charter Schools	84.282	404,203
Twenty-First Century Community Learning Centers	84.287	4,086,339
State Grants for Innovative Programs	84.298	1,890,921
Education Technology State Grants	84.318	5,821,455
Eisenhower Regional Math and Science Consortia	84.319	19,721
Special Education - State Personnel Development	84.323	888,717
Research in Special Education	84.324	37,516

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, 2005

Federal Grantor Program Title	CFDA Number	Total Expenditures
Special Education - Technical Assistance and Dissemination to Improve		
Services and Results for Children with Disabilities	84.326	79,481
Grants to States for Incarcerated Youth Offenders	84.331	35,655
Comprehensive School Reform Demonstration (A)	84.332	1,234,191
Demonstration Projects to Ensure Students with Disabilities Receive a Higher Education	84.333	244,996
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	2,100,104
Teacher Quality Enhancement Grants	84.336	163,748
Community Technology Centers	84.341	465
Vocational Education-Occupational and Employment Information State Grants	84.346	108,197
Title I Accountability Grants	84.348	657,557
Arts in Education	84.351	493,846
Grants for School Repairs and Renovations	84.352	157,569
Reading First State Grants	84.357	3,779,011
English Language Acquisition Grants	84.365	1,824,086
Mathematics and Science Partnerships	84.366	338,355
Improving Teacher Quality State Grants	84.367	16,177,795
Grants for Enhanced Assessment Instruments	84.368	1,054,696
Grants for State Assessments and Related Activities	84.369	4,200,295
National Writing Project	84.928	55,217
Other Department of Education Awards	N/A	780
Total U.S. Department of Education		\$ 286,449,085
Elections Assistance Commission		
Help America Vote College Pollworker Program	90.400	\$ 1,757
Total Elections Assistance Commission		\$ 1,757
U.S. Department of Health and Human Services		
Public Health and Social Services Emergency Fund	93.003	\$ 183,386
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006	174,435
Special Programs for the Aging - Title VII, Chapter 3 - Programs for the Prevention of Elder Abuse, Neglect, and Exploitation	93.041	25,551
Special Programs for the Aging-Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042	70,633
Special Programs for the Aging-Title III, Part D - Disease Prevention and Health Promotion Services	93.043	99,876
Aging Cluster:		
Special Programs for the Aging-Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	2,246,391
Special Programs for the Aging-Title III, Part C - Nutrition Services Nutrition Services Incentive Program	93.045	2,346,983
Special Programs for the Aging-Title III, Part C - Nutrition Services Nutrition Services Incentive Program	93.053	660,575
Special Programs for the Aging-Title IV and Title II - Discretionary Projects	93.048	225,016
Alzheimer's Disease Demonstration Grants to States	93.051	288,268
National Family Caregiver Support	93.052	769,870
Food and Drug Administration - Research	93.103	4,049
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	1,854,707
Health Education Assistance Loans (HEAL)	93.108	
Maternal and Child Health Federal Consolidated Programs	93.110	280,975
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	483,088
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118	224

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, 2005

Federal Grantor Program Title	CFDA Number	Total Expenditures
Small Business Innovation Research	93.126	169,441
Emergency Medical Services for Children	93.127	95,565
Primary Care Services Resource Coordination and Development	93.130	167,048
Injury Prevention and Control Research and State and Community Based Programs	93.136	273,623
Projects for Assistance in Transition from Homelessness (PATH)	93.150	307,161
Grants to States for Loan Repayment Program	93.165	49,059
Disabilities Prevention	93.184	346,694
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	941,063
Family Planning - Services	93.217	966,128
Consolidated Knowledge Development and Application (KD&A) Program	93.230	2,443,416
Traumatic Brain Injury State Demonstration Grant Program	93.234	130,307
Abstinence Education Program	93.235	82,435
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	(5,677)
Mental Health Research Grants	93.242	(32)
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	626,484
Universal Newborn Hearing Screening	93.251	139,912
State Planning Grants Health Care Access for the Uninsured	93.256	559,996
Immunization Grants	93.268	2,176,021
Drug Abuse National Research Service Awards for Research Training	93.278	26,093
Drug Abuse and Addiction Research Programs	93.279	61,140
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	13,681,156
Student Financial Assistance Cluster: (See Note 6) Health Professions Student Loans, Including Primary Care Loans/ Loans for Disadvantaged Students (See Note 2)	93.342	1,403,603
Nursing Student Loans (See Note 2)	93.364	1,115,043
Cancer Detection and Diagnosis Research	93.394	17,416
Promoting Safe and Stable Families	93.556	2,251,908
Temporary Assistance for Needy Families	93.558	81,361,884
Family Support Payments to States - Assistance Payments	93.560	6
Child Support Enforcement	93.563	6,672,550
Refugee and Entrant Assistance - State Administered Programs	93.566	397,633
Low-Income Home Energy Assistance	93.568	14,460,843
Community Services Block Grant	93.569	3,451,294
Community Services Block Grant - Discretionary Awards	93.570	91,663
CCDF Cluster: Child Care and Development Block Grant	93.575	14,375,899
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	11,516,242
State Court Improvement Program	93.586	145,832
Grants to States for Access and Visitation Programs	93.597	150,276
Chafee Education and Training Vouchers Program	93.599	197,972
Head Start	93.600	117,434
Child Support Enforcement Demonstrations and Special Projects	93.601	12,398
Adoption Incentive Payments	93.603	20,000
Developmental Disabilities Basic Support and Advocacy Grants	93.630	598,694
Voting Access for Individuals with Disabilities Grants to States	93.617	12,602
Developmental Disabilities Projects of National Significance	93.631	164,239
University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632	425,716
Children's Justice Grants to States	93.643	98,650
Child Welfare Services - State Grants	93.645	1,004,593

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, 2005

Federal Grantor Program Title	CFDA Number	Total Expenditures
Social Services Research and Demonstration	93.647	225,766
Foster Care - Title IV-E	93.658	10,304,561
Adoption Assistance	93.659	8,399,273
Social Services Block Grant	93.667	7,276,574
Child Abuse and Neglect State Grants	93.669	284,336
Family Violence Prevention and Services - Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671	779,166
Chaffee Foster Care Independence Program	93.674	749,677
State Children's Insurance Program	93.767	31,871,605
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	662,374
State Survey and Certification of Health Care Providers and Suppliers	93.777	2,728,343
Medical Assistance Program (See Note 4)	93.778	975,332,810
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	893,816
State Pharmaceutical Assistance Programs	93.786	454,310
Child Health and Human Development Extramural Research	93.865	64,425
Grants to States for Operation of Offices of Rural Health	93.913	97,100
HIV Care Formula Grants	93.917	7,131,860
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	963
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	795,580
HIV Prevention Activities - Health Department Based	93.940	1,634,892
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	247,945
Assistance Programs for Chronic Disease Prevention and Control	93.945	(93)
Trauma Care Systems Planning and Development	93.952	45,079
Trauma Care Systems Planning and Development	93.953	1,899,219
Occupational Health and Safety Surveillance	93.957	110,797
Block Grants for Community Mental Health Services	93.958	1,440,892
Block Grants for Prevention and Treatment of Substance Abuse	93.959	7,565,236
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	477,936
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	831,253
Preventive Health and Health Services Block Grant	93.991	744,976
Maternal and Child Health Services Block Grant to the States	93.994	2,432,589
		\$ 1,238,498,710
Total U.S. Department of Health and Human Services		
Corporation for National and Community Service		
Learn and Serve America - School and Community Based Programs	94.004	\$ 168,941
Americorps	94.006	411,627
Foster Grandparent/Senior Companion Cluster:		
Senior Companion Program	94.016	356,172
		\$ 936,740
Total Corporation for National and Community Service		
Social Security Administration		
Disability Insurance/SSI Cluster:		
Social Security - Disability Insurance	96.001	\$ 6,928,359
Social Security - Research and Demonstration	96.007	646
		\$ 6,929,005
Total Social Security Administration		

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, 2005

Federal Grantor Program Title	CFDA Number	Total Expenditures
U.S. Department of Homeland Security		
State Homeland Security Cluster:		
State Domestic Preparedness Equipment Support Program	97.004	\$ 5,277,985
State and Local Homeland Security Training Program	97.005	379,701
Boating Safety Financial Assistance	97.012	565,509
Community Assistance Program - State Support Services Element (CAP - SSSE)	97.023	85,258
Flood Mitigation Assistance	97.029	4,310
Public Assistance Grants	97.036	4,825,205
First Responder Counter-Terrorism Training Assistance	97.038	37,800
National Dam Safety Program	97.041	400
Emergency Management Performance Grants	97.042	1,686,923
Pre-Disaster Mitigation	97.047	112,601
Federal Assistance to Individuals and Households - Other Needs	97.050	36,674
Emergency Operations Centers	97.052	4,976
Citizen Corps	97.053	(17,310)
Community Emergency Response Teams	97.054	155,805
Port Security Grant Program	97.056	580,470
Aviation Research Grants	97.069	1,703,694
National Explosives Detection Canine Team Program	97.072	120,500
Total U.S. Department of Homeland Security		\$ 15,560,501
Agency for International Development		
USAID Foreign Assistance for Programs Overseas	98.001	\$ 14,035
Other Agency for International Development Awards	N/A	136,593
Total Agency for International Development		\$ 150,628
Research and Development Cluster:		
U.S. Department of Agriculture		
Agricultural Research - Basic and Applied Research	10.001	\$ 178,575
Grants for Agricultural Research, Special Research Grants	10.200	678,915
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203	2,312,573
Grants for Agricultural Research - Competitive Research Grants	10.206	460,101
Higher Education Challenge Grant	10.217	76,038
Buildings and Facilities Program	10.218	151,230
Higher Education Multicultural Scholars Program	10.220	63,715
Agricultural and Rural Economic Research	10.250	23,261
Initiative for Future Agriculture and Food Systems	10.302	52,807
Integrated Programs	10.303	1,061,762
Homeland Security - Agricultural	10.304	10,059
Crop Insurance	10.450	140,517
Cooperative Extension Service	10.500	133,061
Cooperative Forestry Assistance	10.664	(298)
Soil Survey	10.903	7,463
Wildlife Habitat Incentive Program	10.914	10,080
Other Research and Development	N/A	3,216
U.S. Department of Commerce		
ITA Special Projects	11.113	15,916
Sea Grant Support	11.417	2,655,962
Coastal Zone Management Administration Awards	11.419	160,610
Coastal Zone Management Estuarine Research Reserves	11.420	22,628

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2005

Federal Grantor Program Title	CFDA Number	Total Expenditures
Fisheries Development and Utilization Research and Development Grants		
Cooperative Agreements Program	11.427	106,304
Undersea Research	11.430	61,560
Climate and Atmospheric Research	11.431	205,422
Office of Oceanic and Atmospheric Research (OAR) Joint and Cooperative Institutes	11.432	16,750
Pacific Fisheries Data Program	11.437	8,572
Cooperative Science and Education Program	11.455	400,451
Special Oceanic and Atmospheric Projects	11.460	238,781
Habitat Conservation	11.463	12,930
Office of Administration Special Program	11.470	(294)
Coastal Services Center	11.473	4,632
Center for Sponsored Coastal Ocean Research - Coastal Ocean Program	11.478	151,000
Other Research and Development	N/A	35,452
U.S. Department of Defense		
Basic and Applied Scientific Research	12.300	5,969,788
Basic Scientific Research	12.431	207,109
Other Research and Development	N/A	170,675
U.S. Department of Interior		
Fish, Wildlife, and Parks Programs on Indian Lands	15.039	184,404
Water Recalamtion and Reuse Program	15.504	26,680
Fish and Wildlife Management Assistance	15.608	15,868
Coastal Wetlands Planning, Protection and Restoration Act	15.614	16,620
Assistance to State Water Resources Research Institutes	15.805	92,822
U.S. Geological Survey - Research and Data Collection	15.808	448,157
National Cooperative Geologic Mapping Program	15.810	21,416
Other Research and Development	N/A	31,907
National Aeronautics and Space Administration		
Aerospace Education Services Program	43.001	17,045
Technology Transfer	43.002	1,718,016
Other Research and Development	N/A	11,610
National Science Foundation		
Engineering Grants	47.041	552,269
Mathematical and Physical Sciences	47.049	228,422
Geosciences	47.050	5,463,553
Computer and Information Science and Engineering	47.070	367,576
Biological Sciences	47.074	2,043,937
Social, Behavioral, and Economic Sciences	47.075	782,377
Education and Human Resources	47.076	1,758,112
Polar Programs	47.078	106,959
Other Research and Development	N/A	7,457
Environmental Protection Agency		
Water Pollution Control - State and Interstate Program Support	66.419	78,901
Surveys, Studies, Investigations Demonstrations, and Training	66.436	85,341
Long Island Sound Program	66.437	5,065
National Estuary Program	66.456	26,687
Water Quality Cooperative Agreements	66.463	143,246
Environmental Protection - Consolidated Research	66.500	240,616
Surveys, Studies, Investigations and Special Purpose Grants	66.606	422,841
Training and Fellowships for the Environmental Protection Agency	66.607	58,580
Pollution Prevention Grants Program	66.708	37,201
Other Research and Development	N/A	154,463

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2005

Federal Grantor Program Title	CFDA Number	Total Expenditures
U.S. Department of Energy		
Office of Science Financial Assistance Program	81.049	44,972
Office of Scientific and Technical Information	81.064	41,918
Fossil Energy Research and Development	81.089	9,699
U.S. Department of Health and Human Services		
Biological Response to Environmental Health Hazards	93.113	580,325
Grants to Increase Organ Donations	93.134	155,926
Research Related to Deafness and Communications Disorders	93.173	8,591
Mental Health Research Grants	93.242	22,438
Advanced Education Nursing Grant Program	93.247	280,620
Alcohol National Research Service Awards for Research Training	93.272	122,347
Alcohol Research Programs	93.273	1,530,664
Drug Abuse and Addiction Research Programs	93.279	38,996
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	36,552
Advanced Education Nursing Traineeships	93.358	34,986
Nursing Research	93.361	416,123
National Center for Research Resources	93.389	2,353,211
Cancer Cause and Prevention Research	93.393	487,852
Cancer Detection and Diagnosis Research	93.394	287,937
Cancer Treatment Research	93.395	(9,082)
Cancer Biology Research	93.396	203,192
Cancer Control	93.399	76,890
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	676,238
Heart and Vascular Diseases Research	93.837	90,385
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	11,015
Microbiology and Infectious Disease Research	93.856	452,163
Biomedical Research and Research Training	93.859	222,479
Aging Research	93.866	453,167
Advanced Hypothermia System	93.873	40,138
Medical Library Assistance	93.879	24,843
Health Care and Other Facilities	93.887	83,428
Geriatric Education Centers	93.969	487,440
International Research and Research Training	93.989	40,882
Other Research and Development	N/A	176,213
U.S. Department of Homeland Security		
Federal Assistance to Individuals and Households	97.049	45,114
Total Research and Development Cluster		\$ 40,483,133
Other Expenditures of Federal Awards		1,113,023
Total Expenditures of Federal Awards (See Note 2)		\$ 2,473,558,648

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, 2005

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).

The total amount provided to subrecipients from each Federal program is not available from the State’s accounting system.

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); Home Equity Conversion Mortgages (CFDA 14.183); and Veterans Housing - Guaranteed and Insured Loans (CFDA 64.114).
- 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.
- 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 (\$19.2 million). Total expenditures of Federal awards also includes applicable loan interest benefits and allowances of \$13.8 million.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation (continued)

- Federal Perkins Loan Program – Federal Capital Contributions (CFDA 84.038) - reported at the balance of loans outstanding plus administrative expenditures (\$40,235) at June 30, 2005.
- Federal Direct Loan Program (CFDA 84.268) - reported at the value of loans made during the fiscal year.
- 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, 2005.

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, 2005</u>	<u>Insurance, Loans and Loan Guarantees Outstanding - June 30, 2005</u>
10.410	Very Low to Moderate Income Housing Loans	\$ 199,500	\$ 7,072,127
11.307	Economic Adjustment Assistance	12,829,813	7,021,005
14.117	Mortgage Insurance – Homes	12,009,739	138,676,951
14.183	Home Equity Conversion Mortgages	9,318,174	not available
64.114	Veterans Housing – Guaranteed and Insured Loans	4,352,505	24,294,043
84.032	Federal Family Education Loans	32,972,471	
84.032	Federal Family Education Loans (Guaranty Agency)	(a)	1,313,896,735
84.038	Federal Perkins Loan Program – Federal Capital Contributions	13,670,846	13,630,611
84.268	Federal Direct Loan Program	44,596,382	not available
93.342	Health Professions Student Loans, Including Primary Care Loans/ Loans for Disadvantaged Students	1,403,603	1,403,603
93.364	Nursing Student Loans	1,115,043	1,115,043
	<u>Other Non-Cash Assistance</u>		
10.550	Food Donation	4,148,201	
39.003	Donation of Federal Surplus Personal Property	<u>211,313</u>	
	Total Non-Cash Assistance	<u>\$ 136,827,590</u>	

(a) Administrative cost allowances (cash assistance) totaling \$3,110,367 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, 2005

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 federal awards have been passed-through from other entities to component units of the State totaling approximately \$7.2 million. Of this amount, \$6 million relates to the Research and Development Cluster of which all is unidentified as to the pass-through entity.

NOTE 4. REBATES OF PROGRAM EXPENDITURES

The State recorded the following program expenditure rebates during fiscal 2005:

<u>Program</u>	<u>CFDA Number</u>	<u>Rebate Amount</u>
Medical Assistance Program	93.778	\$ 45,181,273
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	\$ 4,934,549

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 (\$24.5 million) earned during fiscal year 2005. WIC program expenditures include amounts funded by rebates earned as well as direct federal assistance.

NOTE 5. UNEMPLOYMENT INSURANCE EXPENDITURES

Expenditures of federal awards for Unemployment Insurance (CFDA Number 17.225) represent \$203.2 million funded from the State's account in the federal Unemployment Trust Fund and \$13.4 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 \$116.2 million.

Auditor's Reports



Auditor's Reports

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STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE OF THE AUDITOR GENERAL

ERNEST A. ALMONTE, CPA, CFE
Auditor General

ernest.almonte@oag.ri.gov

- ◆ Integrity
- ◆ Reliability
- ◆ Independence
- ◆ Accountability

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

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

We have audited 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, 2005, which collectively comprise the State's basic financial statements, and have issued our report thereon dated February 17, 2006. The scope of our audit was limited because (1) we were unable to obtain sufficient evidence regarding the completeness of the furniture and equipment, depreciable intangible, and building improvement categories of capital assets included in governmental activities at June 30, 2005, and (2) we were unable to obtain sufficient evidence regarding the completeness of accounts payable and amounts due from other governments and agencies and related expenditures and federal revenue reported for the Intermodal Surface Transportation Fund, a major fund. Our report was qualified because of the omission of encumbrances outstanding at June 30, 2005 as a component of reserved fund balance of the major governmental funds and other governmental funds included in the aggregate remaining fund information.

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.

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 opinions on the financial statements and not to provide an opinion 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. However, 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 initiate, record, process, 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 2005-1, 2005-2, 2005-3, 2005-4, 2005-5, 2005-6, 2005-7, 2005-8, 2005-9, 2005-10, 2005-11, 2005-12, 2005-13, 2005-14, 2005-15, 2005-16, 2005-17, 2005-18, 2005-19, 2005-20, 2005-21, 2005-22, 2005-23, 2005-24, 2005-25, 2005-26, 2005-27, and 2005-28.

A material weakness is a reportable 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 caused by error or fraud 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 2005-1, 2005-2, 2005-4, 2005-5, 2005-6, 2005-8, 2005-9, 2005-10, 2005-11, 2005-18, 2005-19, 2005-20, 2005-23, 2005-24, 2005-25, 2005-26, and 2005-27 to be material weaknesses.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion.

The reports of other auditors who audited the component units' compliance with laws, regulations, contracts and grant agreements 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we will report to management of the State in a separate communication dated March 17, 2006. Other auditors noted certain matters that they have communicated to management of the component units.

Finance Committee
Joint Committee on Legislative Services

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

February 17, 2006



STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE OF THE AUDITOR GENERAL

ERNEST A. ALMONTE, CPA, CFE
Auditor General

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

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, 2005. With respect to certain major programs, we did not audit the compliance of the State with the requirements described in the preceding sentence. These major federal programs had combined expenditures of federal awards representing 18% of the reporting entity's total major federal program expenditures of federal awards in fiscal year 2005. Those audits were performed by other auditors whose reports on compliance with requirements applicable to the major federal programs were furnished to us, and this report, insofar as it relates to those programs 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 Food Stamp Cluster (CFDA's 10.551 and 10.561), Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA 10.557), Unemployment Insurance (CFDA 17.225), Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA 84.126), Foster Care – Title IV-E (CFDA 93.658) and Adoption Assistance (CFDA 93.659) programs regarding the equipment and real property management 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 2005-35 in the accompanying schedule of findings and questioned costs, the State did not comply with the special tests and provisions requirement regarding the disposition of food instruments that is applicable to its Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA 10.557). Compliance with this requirement is necessary, in the opinion of the auditor of that program, for the State to comply with the requirements applicable to that program.

As described in Finding 2005-38 in the accompanying schedule of findings and questioned costs, the State (through its component unit – the Rhode Island Economic Development Corporation) did not comply with the requirement regarding cash management that is applicable to its Economic Adjustment Assistance (CFDA 11.307) 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 Findings 2005-39 and 2005-40 in the accompanying schedule of findings and questioned costs, the State (through its component unit – the Rhode Island Housing and Mortgage Finance Corporation) did not comply with the requirements regarding eligibility, and special tests and provisions, that are applicable to its Section 8 New Construction and Substantial Rehabilitation (CFDA 14.182) program. Compliance with these requirements 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 2005-66 in the accompanying schedule of findings and questioned costs, the State did not comply with the eligibility requirement that is applicable to the Foster Care – Title IV-E (CFDA 93.658) program. Compliance with this requirement is necessary, in our opinion, for the State to comply with the requirements applicable to that program.

As described in Finding 2005-67 in the accompanying schedule of findings and questioned costs, the State did not comply with eligibility requirement that is applicable to the Adoption Assistance Program (CFDA 93.659). 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 Food Stamp Cluster, Special Supplemental Nutrition Program for Women, Infants, and Children, Unemployment Insurance, Rehabilitation Services – Vocational Rehabilitation Grants to States, Foster Care – Title IV-E and the Adoption Assistance programs regarding the equipment and real property management requirement, and except for the noncompliance described in the five preceding paragraphs, the State complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. The results of our auditing procedures and the reports of the other auditors also disclosed 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 2005-44 and 2005-76.

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 the State and its component units which had combined expenditures of federal awards representing 18% of the reporting entity's total major federal program expenditures of federal awards in fiscal year 2005. The other auditors have furnished us their reports on their consideration and testing of the 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 internal control over compliance and its operation that they consider to be reportable conditions. Reportable conditions involve matters coming to the auditors' attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment or the judgment of other auditors, 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 2005-29, 2005-30, 2005-31, 2005-32, 2005-33, 2005-34, 2005-36, 2005-37, 2005-38, 2005-41, 2005-42, 2005-43, 2005-45, 2005-46, 2005-47, 2005-48, 2005-49, 2005-50, 2005-51, 2005-52, 2005-53, 2005-54, 2005-55, 2005-56, 2005-57, 2005-58, 2005-59, 2005-60, 2005-61, 2005-62, 2005-63, 2005-64, 2005-65, 2005-66, 2005-67, 2005-68, 2005-69, 2005-70, 2005-71, 2005-72, 2005-73, 2005-74, 2005-75, 2005-77, 2005-78, and 2005-79.

Finance Committee
Joint Committee on Legislative Services

A material weakness is a reportable 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 caused by error or fraud 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 2005-42, 2005-45, 2005-66, 2005-67, 2005-68, and 2005-72 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

March 8, 2006

**Schedule of Findings
and Questioned Costs**



Schedule of Findings and
Questioned Costs

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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 the following opinions:

<u>Opinion Unit</u>	<u>Opinion</u>
Governmental Activities	Qualified
Business-type Activities	Unqualified
Aggregate Discretely Presented Component Units	Unqualified
Major funds –	
General, Intermodal Surface Transportation, GARVEE	Qualified
Lottery, Convention Center Authority, Employment Security	Unqualified
Aggregate Remaining Fund Information	Qualified

- 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>
Food Stamps Cluster:	
Foods Stamps	10.551
State Administrative Matching Grants for Food Stamp Program	10.561
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557
Public Works and Economic Development Cluster:	
Economic Adjustment Assistance	11.307
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
Unemployment Insurance	17.225
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126
Foster Care – Title IV-E	93.658
Adoption Assistance	93.659

- 6) The audit disclosed findings that must be reported under OMB Circular A-133 provisions.

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

- 7) Major programs are listed in the table below.
- 8) The dollar threshold used to distinguish between Type A and Type B programs was \$7,420,676.
- 9) The State did not qualify as a low-risk auditee as defined by OMB Circular A-133.

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 – Formula Grants	20.507

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor’s Results

Major Programs

<u>Program Title</u>	<u>CFDA Number</u>
Capitalization Grants for Clean Water State Revolving Funds	66.458
Capitalization Grants for Drinking Water State Revolving Funds	66.468
Student Financial Assistance Cluster:	
Federal Supplemental Educational Opportunity Grants	84.007
Federal Family Education Loans	84.032
Federal Work-Study Program	84.033
Federal Perkins Loan Program – Federal Capital Contributions	84.038
Federal Pell Grant Program	84.063
Federal Direct Student Loans	84.268
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
Low-Income Home Energy Assistance	93.568
CCDF Cluster:	
Child Care and Development Block Grant	93.575
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596
Foster Care – Title IV-E	93.658
Adoption Assistance	93.659
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 Statements Findings

Finding 2005-1

CONTROLS OVER ACCOUNTING AND FINANCIAL REPORTING - STATEWIDE
ACCOUNTING SYSTEM

The State's RISAIL accounting system does not have the capability to generate complete financial statements without extensive manual accumulation of data from various sources external to the accounting system. These system limitations combined with the lack of appropriately designed and effective accounting controls to ensure the proper recording and authorization of transactions, impaired the State's ability to prepare accurate and timely financial statements.

The inadequacies of the accounting system prevent the State from being able to (1) expedite year-end closing procedures to generate useful and timely financial data to decision makers, and (2) use the accounting system to guide its financial decision-making during the year. Further, the accounting system weakens rather than supports an overall control structure for financial reporting.

Accounting System Design

RISAIL does not contain a significant amount of the interrelated data needed to prepare financial statements for the State in accordance with generally accepted accounting principles. The accounting system is not integrated - transaction level data does not automatically post to the general ledger and various accounting system modules, necessary to achieve this integration, have not been implemented to account for certain transaction types. Significant manual intervention is still required by accounting personnel to record material balances for receivables, capital assets, and long-term liabilities within the State's accounting system. This data is contained in other independent accounting systems. Because there is no interconnectivity to the system, this data must be manually recorded in summary form by journal entry at fiscal year-end.

The State's overall financial reporting capabilities would be significantly enhanced if all accounting transactions were directly recorded in the accounting system and automatically posted and reflected in the State's general ledger. Such integration would also greatly enhance the State's ability to reconcile critical accounts in a timely manner, enhancing overall control over its financial reporting process.

RISAIL has two principal components, the BuySpeed accounts payable module which is used to process receipt and disbursement transactions, and the Oracle general ledger. Because access to the RISAIL general ledger is very limited, 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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statements Findings

the manual processes employed. In addition, individual agencies have no access and little knowledge or understanding of the State's general ledger within RISAIL.

Various subsidiary accounting systems (e.g., payroll, investment accounting, budget, and departmental cost allocation systems) still utilize the legacy account structure that was in place prior to the implementation of RISAIL in July 2001. This necessitates continual maintenance of account conversion tables and increases the risk that data may be misposted in the accounting system.

Accounting Controls and Procedures

Any accounting system is dependent upon compliance with established policies and procedures for authorizing and recording transactions properly and consistently. We continued to observe significant noncompliance with RISAIL accounting policies and procedures. For example, controls over the classification of expenditures at the fund level for capital outlay, debt service, intergovernmental expenditures and operating transfers were not reliable during fiscal 2005. This noncompliance continued to impact the accuracy of financial statements generated by the State's RISAIL system.

The State needs to improve oversight and reconciliation of material account balances to ensure amounts are accurately reflected in the financial statements. Many accounts within RISAIL continued to go unreconciled during the fiscal year. In many instances, agencies do not understand how transactions post to the general ledger and in some cases, are unaware that general ledger accounts specific to their agencies exist. This lack of understanding often results in transactions being adjusted incorrectly or general ledger accounts remaining unreconciled for long periods of time. The Office of Accounts and Control has complete access to general ledger detail but often does not have the specific understanding of an account's activity to identify when the account's balance is misstated. Individual agencies often have the understanding of the account activity and the underlying data needed to reconcile specific accounts but lack the access to the general ledger transactions or balances needed to conduct the necessary reconciliations. Reconciliation of these accounts should be better coordinated between the Office of Accounts and Control and the individual agencies that initiate transactions recorded in these accounts.

The State needs to address the systemic limitations within the RISAIL system to enhance its overall financial reporting capabilities. A well-designed, integrated accounting system would greatly improve the State's ability to prepare accurate and timely financial statements in conformance with generally accepted accounting principles. This would also (1) significantly enhance the State's control structure over financial reporting and all categories of accounting transactions, (2) minimize the manual intervention and post analysis of transactions currently required, and (3) reduce the excessive time needed to prepare financial statements.

During fiscal year 2006, the State has devoted significant resources to begin addressing many of the long-standing control weaknesses impacting the State's financial reporting process. The State is also planning the implementation of an integrated accounting system to replace

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RISAIL. The State should ensure that any new accounting system will address the control weaknesses outlined in recent audit reports and provide a level of integration that will greatly enhance the State's ability to provide more reliable and timely financial data to decision makers.

RECOMMENDATIONS

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| 2005-1a | Implement an integrated accounting system that fully meets the State's financial reporting and management needs. |
| 2005-1b | Improve oversight of the general ledger by adopting procedures to ensure that all significant account balances are fairly stated in the State's financial statements. |
| 2005-1c | Convert subsidiary accounting systems using the legacy account structure to the current RISAIL account structure. |
| 2005-1d | Ensure agency compliance with procedures for recording transactions within the State's accounting system. |
| 2005-1e | Improve controls over the use of RISAIL natural accounts to classify transactions so that the system will yield reliable amounts for financial reporting purposes. |

Finding 2005-2

CONTROLS OVER ACCOUNTING TRANSACTIONS – RISAIL ACCOUNTING SYSTEM

We observed weaknesses in controls over the authorization, recording, and propriety of certain accounting transactions during fiscal 2005. The volume of transactions processed through the RISAIL accounting system is significant -- the State disbursed over \$4 billion directly through the RISAIL accounting system during fiscal year 2005. We noted the following control weaknesses during our audit:

- The Office of Accounts and Control did not consistently perform certain control procedures relating to the review and approval of various transactions within the RISAIL accounting system as follows:
 - verification of authorized signatures to authorized agent logs;
 - review and maintenance of supporting documentation for certain transactions;

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- verification of authorization and propriety of transactions recording disbursements and accounting adjustments;
 - verification that appropriate document types are utilized for all transactions, e.g., cash transfers between funds are recorded via BSJE/CSH documents;
 - verification of natural account codes to ensure that transactions are being charged to the correct expenditure category; and
 - review of transaction handling codes to ensure that payments to vendors are being appropriately disbursed.
-
- ❑ Payments to the State’s health insurance provider were being initiated and approved by the same individual within the Office of Accounts and Control (Preaudit Section), a control weakness caused by a lack of segregation of duties over these transactions. The State made a duplicate payment of \$118,143 to its health insurance provider that went undetected until noted during our audit. The State has contacted the provider and is pursuing reimbursement for this amount.
 - ❑ The State has negotiated price agreements with certain vendors to provide specific goods and services (e.g., office supplies). A centralized billing process is utilized so that the vendor can electronically submit one invoice (with detailed billing information) to the Office of Accounts and Control (preaudit section) for all goods and services purchased for the billing period. The preaudit section processes the payment to the vendor and subsequently charges each agency for their purchases. However, the State does not verify the prices charged to the vendor agreements, which could result in overcharges that would not be detected.
 - ❑ RISAIL requires a significant amount of financial reporting adjustments to be posted to the general ledger due to its lack of integration. These adjustments relate mainly to receivables, year-end accruals, reclassifications of expenditures between functional categories, reclassifications of transactions between funds, etc.. Many of these transactions adjust significant amounts between accounts and not all adjustments posted to the general ledger are subject to supervisory review and approval.
 - ❑ Accounting policies and procedures, in certain instances, have not been updated or formalized. For instance, approval requirements for various transaction and document types have not been updated for the current RISAIL documents and account structure.
 - ❑ Certain large dollar accounting transactions which are adjusting balances or moving revenue or expenditure activity (BSBF documents) receive only cursory review prior to posting in the accounting system – the effect of these transactions can be significant on the State’s financial statements. These transactions can originate at the

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department or agency level or within the accounting section at the Office of Accounts and Control. For example, we noted a transaction that was inappropriately recorded, resulting in an understatement of both assets and liabilities by \$24 million. Typically, no, or very limited supporting detail accompanies documents forwarded to the Office of Accounts and Control for approval.

- ❑ Certain transactions are recorded in RISAIL via batch import. These transactions are sent to the Office of Accounts and Control in text format, usually via diskette and uploaded into RISAIL. These files can be easily manipulated because they lack data integrity controls such as encryption. Modification of these files could result in improper payments and/or inaccurate posting to the accounting system.
- ❑ Standardized procedures have not been formally established within the Office of Accounts and Control (pre-audit section) to ensure that all transactions are consistently reviewed prior to being approved for payment.
- ❑ The Office of Accounts and Control is limited in its ability to adequately review purchase order documents in sufficient detail to effectively evaluate disbursement transactions. In addition, the State's current procurement/payables system (Buyspeed) does not;
 - automatically prevent agencies from exceeding purchase order authorizations;
 - adequately restrict the creation or liquidation of purchase orders to only authorized agents; and
 - prevent purchases from being made via direct payment documents when purchase orders are required by regulations.
- ❑ System access control limitations allow certain employees reviewing documents within the Controller's office to change the "invoice payee field" within RISAIL before approving invoice payments. RISAIL does not currently have adequate controls to ensure that invoice payees are not being inappropriately altered.
- ❑ RISAIL does not restrict a user's access to only intended authorized accounts - users can intentionally or erroneously charge accounts of other agencies.
- ❑ For part of the fiscal year, ACH payments did not originate within the accounting system – instead they were coded as wire transfer transactions and Treasury entered the data into an external bank supplied system to originate the ACH payment. Since reentry of the data made it susceptible to change and/or data entry error, no controls were in place to ensure the disbursement data was the same as that recorded within the accounting system. Additionally, ACH functionality has only been established

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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. A new process was initiated in January 2005 to improve the ACH payment process.

- The Office of Accounts and Control transmits an electronic file representing approved payments to Treasury (RISAIL “check run” file). This file is transmitted in text format and lacks controls to ensure that it is not subsequently altered. Treasury is then responsible for the actual check production. Treasury has the capability to change data included in the file (for example, payee and amount) prior to generating checks. Upon completion of check printing, Treasury transmits a file to the banks representing checks issued that day (“positive pay” file). This 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. Treasury can also modify this file prior to its transmission to the bank representing a further control weakness. The State needs to implement controls to safeguard the integrity of both the “check run” and “positive pay” files to prevent inappropriate manipulation. The new ACH payment file, which commenced in January 2005, also lacks data integrity controls.

- Certain staff at the Office of the General Treasurer have system access and the capability to initiate and approve journal entry transactions (BSJE) primarily to approve receipt transactions after verification of bank deposits. This access also allows them to initiate and approve accounting adjustments resulting from bank reconciliations. Initiation and approval of these accounting transactions compromises segregation of duty controls.

The State needs to improve its overall controls over accounting transactions by addressing the system limitations inherent within RISAIL. In addition, procedures need to be implemented to address the above weaknesses to ensure the propriety of transactions recorded in the State accounting system.

As previously mentioned, the State has dedicated significant resources to begin addressing many of the long-standing control weaknesses impacting the State’s financial reporting process, including those related specifically to accounting transactions. During fiscal 2006, the State began development of more formalized policies relating to the processing and approval of disbursement and accounting transactions within the State accounting system. Further, the State should ensure that its planned new accounting system will address many of the data integrity issues inherent in RISAIL and provide more input controls over accounting transactions to ensure their proper authorization and recording.

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RECOMMENDATIONS

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| 2005-2a | Improve controls over transactions recorded in the RISAIL accounting system. |
| 2005-2b | Address the RISAIL system limitations that weaken the State's overall controls over accounting transactions and disbursements. |
| 2005-2c | Implement data integrity controls over check payment files (including positive pay and ACH) to prevent inappropriate manipulation. |
| 2005-2d | Formalize policies and procedures relating to the review and approval of accounting transactions by the Office of Accounts and Control. |

Finding 2005-3

MONITORING DEPARTMENTAL RESTRICTED AND OPERATING TRANSFER ACCOUNTS WITHIN THE GENERAL FUND

The State utilizes various departmental restricted and operating transfer accounts within the General Fund for specific projects and purposes. Departmental restricted accounts are utilized to account for funding designated by RI General Law for specific purposes and programs. Operating transfer accounts are established in most instances to account for General Fund expenditures reimbursed through other funds. These reimbursements are normally governed by statute or cooperative agreements between State agencies and departments. Various capital projects, where funding is transferred from the Bond Capital Fund, constitute a large number of these types of accounts.

During fiscal 2005, there were approximately 300 restricted and operating transfer accounts within the State's General Fund. We noted the following:

- ❑ 42 departmental restricted accounts had deficit balances totaling \$7 million (indicating expenditures exceeded restricted revenues);
- ❑ 43 operating transfer accounts had deficit balances totaling \$8.4 million, potentially indicating that amounts were owed from other sources. We noted the following specific examples:

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- one account with a deficit balance of \$2.1 million at June 30, 2005 resulted from a department's failure to bill another department (and fund) for reimbursement of project costs over several years. An agreement between the two State agencies provided for reimbursement of project costs from federal funds, however, federal funds were not drawn and the project was funded with general revenues instead.
- one account had accumulated a deficit balance totaling \$2 million for administrative expenditure reimbursements owed to the General Fund. This balance should have been settled between the funds at year-end.

The State does not conduct any centralized analysis of these accounts, instead relying on individual departments to monitor them. The individual departments only have access to transaction level detail and, in most instances, do not have access to ending balances reported in the State's general ledger, making cumulative deficit balances less apparent to the departments. Although audit adjustments were proposed to record the specific instances noted above, the overall lack of monitoring of these accounts could result in further misstatements or misclassifications.

The State should implement procedures to periodically analyze these accounts to prevent the accumulation of deficit balances and ensure that amounts are reimbursed timely. The State should improve the monitoring of these accounts to ensure that departments comply with all relevant General Laws and/or interagency agreements.

RECOMMENDATION

- 2005-3 Improve monitoring of departmental restricted and operating transfer accounts to ensure that balances are fairly stated.

Finding 2005-4

ACCOUNTING CONTROL 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 accounting 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 2005, investment activity was recorded on a monthly basis within the State's accounting system based on data exported from SI50. Investment purchases, sales, and income are not initially recorded in RISAIL. Daily cash balances reported by RISAIL are inaccurate because they do not reflect daily investment activity.

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Investment purchases and sales represent a significant dollar volume of cash receipt and disbursement transactions. Monthly investment activity during fiscal year 2005 routinely exceeded \$1 billion for all funds. Failure to record this activity within the State's accounting system on a timely basis significantly weakens controls over cash receipts and disbursements.

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 – consequently duties are not well segregated. Combined with the fact that (1) investment transactions were not initiated and recorded timely within the State's accounting system during fiscal 2005, and (2) that timely bank reconciliations were not achieved until year-end for significant State cash accounts; controls over this material component of cash receipts and disbursements were severely weakened.

Responsibility for the initiation, recording, and disbursement of funds for investment transactions should be better segregated within the Office of the General Treasurer.

RECOMMENDATIONS

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| 2005-4a | Improve control over investment transactions by integrating the investment function within the State's accounting system. Record investment activity on a daily basis in the accounting system. |
| 2005-4b | Segregate duties within the Office of the General Treasurer regarding the initiation, recording and disbursing of funds for investment transactions. |

Finding 2005-5

ACCOUNTING AND PHYSICAL CONTROL OVER CAPITAL ASSETS

Accounting controls were not adequate during fiscal 2005 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

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data. Additionally, sales, disposals, and transfers of capital assets are not recorded within the accounting system and instead are tracked by an ineffective manual process that originates at the department or agency level. Consequently, sales and disposals are likely understated. These control weaknesses in accounting are 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.

These weaknesses and ineffective accounting procedures continue to result in qualification of our independent auditor's report on the State's financial statements because amounts recorded for furniture and equipment, building improvements, and depreciable intangibles (mostly software and system design costs) are incomplete. In addition, amounts reported as furniture and equipment may also include items that have been sold or discarded. Although significant attention has been focused on this issue, management has not been able to accumulate capital asset data that is considered complete.

In fiscal 2005, the State had not adopted a permanent accounting system to account for capital assets and related depreciation. Instead, multiple databases (originally created to accumulate capital asset data for the first time in fiscal 2002) were still being used. These databases do not adequately meet the State's capital asset accounting needs and should be replaced by a system that more fully meets these needs and allows 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 and maintained in these databases.

Controls over capital assets were deficient in the following respects:

- ❑ several departments and agencies did not consistently adhere to required procedures for the preparation and submission of documentation for the acquisition and disposal of capital assets – for example:
 - capital assets totaling in excess of \$2 million were not recorded in the capital asset accounting records - mostly computer systems and building improvements in the implementation or construction phases as of June 30, 2005;
 - contributed capital totaling \$2.1 million received by the State as part of the acquisition of land and intangibles (land easements) was also not recorded;
- ❑ reconciliations of capital asset databases with data reported in the State's accounting system were not performed;

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- ❑ controls relating to the identification and accumulation of costs for capital projects were not reliable;
- ❑ physical inventories were performed on several state departments and agencies during fiscal 2005, however, the results of these inventories have not been finalized and the State has not updated its furniture and equipment database for the results of inventories conducted;
- ❑ capital asset accounting and reporting policies were not consistently applied in determining amounts to be capitalized;
- ❑ the determination of when capital projects are placed into service is based more on the availability of project funding rather than when specific assets become operational;
- ❑ controls are inadequate to ensure all disposals and sales of capital assets are recorded in the capital assets records – disposals totaling only \$150,000 (out of total reported assets exceeding \$1.3 billion) were recorded during fiscal 2005 which mostly represented disposal or trade-in of six vehicles. Only two pieces of equipment were reported as disposed during fiscal 2005. The State did not record disposals for 144 vehicles during fiscal year 2005, approximating \$4 million.
- ❑ inadequate controls to identify disposals also prevents the State from identifying and reporting gains and losses on disposals of capital assets. During fiscal 2005, the State sold land to a municipality but did not identify and record the disposal and the resulting gain of approximately \$1 million.
- ❑ Significant investment in capital assets from prior years have still not been accumulated by the State including millions in costs relating to a new accounting system for the Department of Transportation.

Audit adjustments were proposed to correct the above misstatements relating to the recording of capital assets in the financial statements. In preparation of the fiscal 2005 financial statements, the State conducted a search for unrecorded capital assets after year-end that resulted in a reduced amount of unrecorded capital assets over what had been noted during previous audits. Until the State can improve its overall controls over the recording of capital assets, this manually intensive review will continue to be necessary to ensure that capital asset additions are identified and reported in the State's financial statements. The State should implement procedures to improve the detection and recording of asset disposals made during the year.

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

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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.

RECOMMENDATIONS

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| 2005-5a | Enhance systems and procedures necessary to provide adequate accounting and physical control over capital assets. |
| 2005-5b | Complete the accumulation of all historical costs relating to the State's investment in capital assets. |

Finding 2005-6

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. These control weaknesses also impact the recording of debt proceeds presented on individual fund 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, arbitrage rebate liabilities, and other long-term 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.

During fiscal 2005, debt issuance proceeds of \$140 million relating to refunding bonds and certificates of participation were omitted from the State's draft financial statements for certain capital projects funds. These omissions were noted during our audit and brought to the State's attention to be corrected in the final audited financial statements. A similar omission was noted during fiscal 2004 and continues to demonstrate the overall inadequacies of controls over the State's reporting of other financing sources and uses as well as the reporting of long-term obligations in the State's financial statements.

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 – invested in capital assets net of related debt - on the government-wide financial statements. To meet this requirement each issuance of

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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

- 2005-6 Improve controls over financial reporting for long-term obligations and debt service payments. Expand use of the State's debt management system to meet these objectives.

Finding 2005-7

CAPITAL LEASES

The State does not have adequate controls in place to identify capital assets (mostly machinery and equipment) acquired through capital leases. Significant unrecorded capital asset acquisitions and corresponding obligations relating to lease agreements entered into by the State have been identified and recorded through our audit process. For example, the State acquired voting machines and computer mainframe equipment both in excess of \$3 million and \$1 million in prior years, respectively, through capital leases and neither was identified and recorded in the State's financial statements.

Further, the State has not routinely recorded capital lease transactions in accordance with generally accepted accounting principles (GAAP). GAAP requires that capital lease transactions, in which the government is the lessee, be accounted for as though the capital acquisition had, in fact, been financed through a third party lender. That is, GAAP require that a governmental fund report at the inception of the capital lease, both an "other financing source" and an "expenditure" (capital outlay) equal to the net present value of the future minimum lease payments. The State currently does not record such amounts and instead only records lease payments made annually as expenditures in governmental funds. Consequently, the related capital assets and lease obligations are not reported on the Government-wide Statement of Net Assets.

The State does not have processes in place to accumulate the information necessary to identify capital lease obligations and assets. New processes should be implemented to ensure that all capital lease activity is recorded in the financial statements in accordance with GAAP.

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RECOMMENDATION

- 2005-7 Implement procedures to ensure that all capital lease activity is identified and recorded in accordance with GAAP in the State's financial statements.

Finding 2005-8

CONTROLS OVER DATA ACCUMULATED FOR PURPOSES OF FINANCIAL REPORTING FROM VARIOUS STATE INFORMATION SYSTEMS

The State has various information systems located within its departments and agencies to administer various functions of State government. These functions include the receipt of taxes, court fines, and child support collections, employee personnel and payroll, and human service benefit programs. Although the results of these operations are ultimately recorded in the State accounting system, the State, in many instances, must request data specifically from these other systems to record various accruals and other information within the State's financial statements.

Further, other State systems are used to disburse approximately \$2 billion in State reimbursements for a variety of services including medical benefits, child support collections, unemployment benefits, etc.. The controls over the adequacy of these payments are maintained within these other information systems. The State does not have any centralized procedures to ensure that these other systems are reconciled with the State accounting system annually as support for amounts reported in the State's financial statements. Failure to reconcile these systems annually could result in misstatements as well as omissions in the financial statements from being detected and ultimately corrected.

In instances where data is utilized from these other systems to accrue amounts in the financial statements, due diligence (through the performance of data analysis, reconciliation and/or comparison) is not adequately performed on the data to ensure its accuracy. Specific examples where controls over data accumulated from other systems has been found to be inadequate include the following:

- ❑ federal expenditures reported by other state systems did not agree with the federal share of expenditures reported in the State accounting system because adjustments made on federal reports had not been recorded in the State accounting system at year-end;
- ❑ data (specifically, receipts) reported by the courts for purposes of recording receivables for court fines and penalties was not compared with the State accounting system to ensure that reported amounts were reasonable;

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- ❑ compensated absences data accumulated from the State's personnel system was not analyzed for reasonableness - incorrect calculations caused compensated absence liabilities to be misstated in the State's financial statements.

The State should adopt procedures to ensure that data accumulated from other information systems for financial reporting is accurate and reliable. These procedures should include having individuals familiar with the requested information being involved in the request, reporting, and verification processes relating to the data being used to record amounts in the financial statements.

RECOMMENDATION

- 2005-8 Adopt controls to ensure the accuracy of data derived from various State information systems utilized to record amounts in the State's financial statements.

Finding 2005-9

ACCOUNTING CONTROLS OVER FEDERAL REVENUE AND EXPENDITURES

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 approximated \$1.7 billion for fiscal 2005. As federal program expenditures are recorded, federal revenue should be recognized 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.

The State currently relies on the linkage of federal accounts by CFDA (Catalog of Federal Domestic Assistance) number (assigned as a specific program identification number by the federal government) to report expenditures and revenue by federal program. Inadequate control procedures over the reporting of federal expenditures impaired the State's ability to prepare the Schedule of Expenditures of Federal Awards (SEFA). These control weaknesses also impacted the determination of major programs requiring audit as part of the State's Single Audit. For fiscal 2005, the State improved the overall CFDA linkage of federal accounts within RISAIL, improving the accuracy of reported federal expenditures in the SEFA. We did, however, note the following weaknesses relating to the State's controls over federal revenue and expenditures during fiscal 2005:

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- ❑ Certain federal accounts referenced incorrect CFDA numbers. Although overall CFDA linkage improved during fiscal 2005, the State should implement procedures to ensure that CFDA linkage within the State accounting system remains accurate.
- ❑ Most agencies that drawdown federal funds, do so on a cash basis and do not have access to federal receivable and deferred revenue balances reported in the State's general ledger. In certain cases, this may result in agencies not collecting amounts due from the federal government in a timely manner. This disconnect between the general ledger balances reported in RISAIL and agency drawdowns also increases the probability that balances reported in the general ledger are not accurate and reflective of actual amounts due from the federal government.

Departments and agencies administering federal programs are responsible for monitoring expenditure amounts compared to grant awards and preparing federal reports detailing this information. In some instances, agencies are making the necessary adjustments on federal reports but not adjusting the State's accounting system to reflect these expenditure adjustments. 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.

RECOMMENDATIONS

- 2005-9a Ensure all departments and agencies administering federal programs complete Federal Grants Information Schedules on a 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.
- 2005-9b Ensure that all federal accounts are linked to the appropriate CFDA reference within the general ledger to allow for accurate reporting of federal revenue and expenditures by program.

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Finding 2005-10

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, 2005 and consequently these balances were omitted from the financial statements.

The State has been unable to report encumbrances outstanding since the inception of the RISAIL accounting system for the following reasons:

- ❑ Certain agencies have established purchase orders, in many instances, to facilitate payments to certain non-vendor type entities such as municipalities. In these instances, the outstanding purchase order amounts were not contractual commitments for goods or services, and
- ❑ Invalid or inactive purchase order data has not been removed from the accounting system.

The State is currently in the planning process for a new integrated accounting system and should ensure that this system will provide accurate encumbrance data to allow the State to comply with all related accounting standards.

RECOMMENDATION

- 2005-10 Ensure accurate data regarding outstanding encumbrances is provided by the accounting system to allow preparation of financial statements in accordance with generally accepted accounting principles.

Finding 2005-11

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. The total of all escrow liability balances at June 30, 2005 was \$59.9 million. Activity in these accounts (receipts and disbursements) exceeded \$2 billion during the fiscal year. Child support collections and payroll clearing accounts are included in this category. Routine review and reconciliation of these escrow liability accounts was not performed to ensure that such amounts were accurately and appropriately reflected in the general ledger.

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We found the following during our audit of escrow liability accounts:

- At June 30, 2005, the State combined all balances relating to inactive health insurance escrow accounts resulting in one account with a remaining balance of \$2.5 million. The State has opted to not adjust this balance until all escrow balances have been reconciled;
- An audit adjustment was required to record the transfer of child support collections totaling \$2.9 million for the quarter ending June 30, 2005 in fiscal 2005;
- Several escrow liability accounts reported debit balances at June 30, 2005 – an anomaly indicating that account activity has either been misposted or more funds had been disbursed than recorded as receipts;
- 22 payroll related accounts (most with reported ending debit balances) were inactive during the fiscal year which is inconsistent with the normal activity for payroll clearing accounts – typically funds are credited to an account after each payroll cycle and disbursed shortly thereafter; and
- Most of the accounts related to the receipt and disbursement of employee payroll costs 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. The State has begun this process in fiscal 2006 in an attempt to fully reconcile these balances and provide better monitoring of the activity recorded in these accounts.

RECOMMENDATIONS

- 2005–11a 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.
- 2005–11b Adjust escrow balances once accounts are reconciled.

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

Finding 2005-12

TAXATION – CONTROLS OVER ELECTRONIC FUNDS TRANSFER (EFT) 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 that contains abbreviated tax payment data (taxpayer identification number, payment amount, tax type, tax period). This electronic file is in an open text file format that allows, rather than restricts, manipulation of data prior to recording in the Division of Taxation's computer systems.

A select group of Taxation personnel are assigned responsibility for downloading 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 mainframe computer systems. The Division of Taxation has taken steps to segregate duties regarding the processing of EFT receipts, however certain individuals still have access that allows them to perform various functions.

The existing EFT process should be revised to the extent that the tasks of downloading, processing, and uploading payment detail files is placed under the control of an automated system that monitors and records the movement and processing of these payment files. The transmission of this data from the bank to Taxation must take place within a secure environment. Once received by Taxation, any changes to these data files should be recorded within a system that logs these changes and maintains a version control over these files. A logging function of this type offers a complete record of all changes made to these data files. This type of automated system is required to ensure that all changes made were required, authorized, and available for management review or audit. Subsequent to fiscal 2005, Taxation has explored options to implement a version control process over the EFT transmission files.

RECOMMENDATIONS

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|----------|---|
| 2005-12a | Ensure transmission of EFT files from the bank to the Division of Taxation takes place within a secure environment. |
| 2005-12b | Place EFT data files immediately under the control of an automated system that logs all changes made to these files and maintains a version control over each individual data file. These log files are to be kept in a secure environment and will be readily available for review or audit. |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Finding 2005-13

RISAIL ACCESS CONTROLS

We found that access to the RISAIL accounting system was not sufficiently restricted during fiscal 2005. 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) access provided through multiple 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.

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

2005-13 Review the access of all RISAIL system users to ensure it is appropriate to their assigned functions and does not allow inappropriate access that results in control weaknesses.

Finding 2005-14

CONTROLS OVER TAXATION SYSTEMS

Controls over access and use of the State's taxation 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 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:

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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- ❑ A written password policy does not exist dictating:
 - An initial password change on first use,
 - The minimum length and makeup of passwords (e.g., 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 attempts (e.g., 3 attempts) does not exist.
- ❑ Automatic logoff of users who have been inactive for a 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 the system and password administrators as well as supervisory programmers.

With the constraints found within both the current operating system and the version of COBOL used within the development of these systems, logical access controls considered to be industry standard “best practices”, cannot be easily applied to these legacy systems.

The programming of the State’s taxation systems often require modification as objectives and conditions change over time. Program change controls involve controlling and managing changes to information systems to ensure the integrity of both data and programming logic. Controls over program changes within the State’s Taxation systems are not adequate to ensure that only authorized changes are made to the system’s programming logic.

The State has begun exploring available options to improve logical access and program change controls of its taxation systems.

RECOMMENDATIONS

- 2005-14a Enhance access controls over the State’s taxation systems by implementing formal standard best-practices and procedures.
- 2005–14b Implement program change control procedures for the State’s taxation systems.

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Finding 2005-15

CONTROLS OVER EMPLOYEE PAYROLL SYSTEM

Payroll data for the majority of State employees is entered via on-line access to the payroll system at the department or agency level. We reviewed the controls over data entry for the employee payroll system and found that established procedures now mandate 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 user identification 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 user identification to track all transactions initiated by an individual user. Management may decide to identify key data fields to track transactions by specific user identification.

Controls over access and use of the State's payroll system should be enhanced by the implementation of adequate identification, authentication and authorization mechanisms, linking users and resources with access rules. Such mechanisms should prevent unauthorized personnel from accessing computer resources. Procedures should also be in place to keep authentication and access mechanisms effective. The State should address these control weaknesses through the same corrective action deemed appropriate for the Taxation systems (as described in Finding 2005-14).

Programming of the employee payroll system often requires modification as objectives and conditions change over time. Program change controls involve controlling and managing changes to information systems to ensure the integrity of both the data and programming logic. Controls over program changes within the employee payroll system are not adequate to ensure that only authorized changes are made to the system's programming logic.

RECOMMENDATIONS

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|----------|---|
| 2005-15a | Capture and maintain the employee's unique user identification password within the transaction file to specifically identify transactions by individual user. |
| 2005-15b | Enhance access controls over the State's payroll accounting systems by implementing formal standard best-practices and procedures. |
| 2005-15c | Implement program change control procedures for the employee payroll system. |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Finding 2005-16

COMPREHENSIVE DISASTER RECOVERY / BUSINESS CONTINUITY PLAN

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

During fiscal 2006, the State issued a request for proposal to engage a contractor to assist in the development of a formal written disaster recovery/business continuity plan.

RECOMMENDATION

2005-16 Develop a formal written disaster recovery/business continuity plan for the Information Technology Operations Center and operations at One Capitol Hill.

Finding 2005-17

COMPREHENSIVE INFORMATION SYSTEMS SECURITY POLICIES AND PROCEDURES

The Division of Information Technology (DoIT), within the Department of Administration's (DOA) has been charged with the safe and secure operation of the State's mission critical automated systems (i.e. Statewide Accounting, Personnel, Payroll, Taxation, 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 State 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

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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 State's information security program relies upon the development and implementation of a standardized, formal, comprehensive information systems security plan. The information systems security plan should 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.

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 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.

During fiscal year 2005, draft system security policies were developed, however they have not yet been formalized or implemented. Additionally, the State is in the process of hiring an information systems security officer.

RECOMMENDATIONS

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|----------|--|
| 2005-17a | Complete implementation of a formal information system security plan including policies, procedures, and standards to control and monitor the State's information systems. |
| 2005-17b | Appoint an individual or individuals to monitor and maintain the plan. This individual should report directly to DOA upper management. |

Finding 2005-18

FINANCIAL REPORTING – INTERMODAL SURFACE TRANSPORTATION (IST) FUND

Controls over financial reporting for the Intermodal Surface Transportation (IST) Fund are deficient and need to be improved to ensure consistent and accurate reporting of fund activity. The IST Fund has been established as a special revenue fund to account for transportation related activities of the State including the highway construction program. Federal revenues, bond proceeds for highway projects, and amounts collected from the state gasoline tax are used to support these activities.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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Financial statements for the IST Fund are prepared with information from the State's accounting system and information provided by the Rhode Island Department of Transportation's (RIDOT) internal records and systems. Both sources of information are not complete on their own, and extensive effort is required each year to assemble and reconcile the various pieces of information needed to prepare the financial statements. Most of the account balances included in the June 30, 2005 draft financial statements required significant audit adjustment due to a variety of control weaknesses over financial reporting.

Internal controls necessary to ensure the proper accounting and reporting of IST Fund accounts payable and federal receivable (amounts due from other governments and agencies) and the related impact on the Fund's expenditures and revenue were not in place and operating effectively during fiscal year 2005. As a result, our opinion on the IST Fund's financial statements was qualified with respect to the completeness of these balances in both the current and prior fiscal years.

Because of the inadequacy of the fund's accounting records, insufficient information exists to allow effective and timely monitoring of financial operations during the fiscal year and to provide a basis for an expectation of operating results for the fiscal year. This lack of relevant information compromises the preparation of financial statements in conformance with generally accepted accounting principles.

Accounts Payable / Liabilities

We noted the following errors in the RIDOT's accounts payable and related balances due to the lack of adequate internal controls.

- ❑ Detailed vendor payable listings were derived by including all transactions paid between July 1st and August 15th regardless of when the services were rendered. Consequently, the initial financial statement payables balance included \$5.5 million of transactions unrelated to fiscal year 2005.
- ❑ Accounts payable summaries duplicated an additional \$4.2 million that was also recorded as a liability generated by the State's accounting system.
- ❑ The retainage payable balance included amounts (\$2.5 million) related to projects that are accounted for in a separate fund (i.e., GARVEE Fund).
- ❑ Initial financial statements did not reflect any deferred revenue (primarily the long-term portion of the Fund's receivable related to earned but unbilled amounts, retainage payable, and final utility bills totaling \$22 million).

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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Due from the Federal Government

Amounts due from the federal government represent the federal share of program expenditures incurred pending federal reimbursement. We noted the following errors in RIDOT's federal receivable balances due to the lack of adequate financial reporting internal controls.

- ❑ duplicate recording of federal receivable (\$2.5 million) resulting from the accrual of federal billings as well as the federal portion of vendor payables;
- ❑ amounts excluded from the federal receivable balance (\$2.2 million) due to July federal billings containing Federal expenditures paid during state fiscal year 2005;
- ❑ overstatement of the federal receivable (\$1.7 million) caused by accruing reimbursement transactions already recorded within the fiscal year; and
- ❑ understatement of the federal receivable (\$3.4 million) resulting from processing Federally reimbursable expenditures through a non-Federal account (restricted account). These expenditures, which were incurred throughout the fiscal year, were never billed to the federal government.

Transfer of Bond Proceeds for Transportation Projects

General obligation bond proceeds are used to meet the state matching requirement for federally funded highway projects. Amounts are transferred from the Bond Capital Fund in lump sum and do not represent the actual share of project expenditures to be funded from bond proceeds. During fiscal year 2005, transfers from the Bond Capital Fund to the IST Fund were approximately \$31.3 million (compared to \$39.5 million in fiscal 2004). While Federal project expenditures intended to be matched with bond funds were incurred throughout the fiscal year, the entire transfer of funds was processed in May 2005. Bond proceeds have specific restrictions regarding their use -- accordingly any unspent bond proceeds held in the IST fund should be readily identifiable to allow compliance with those restrictions.

The share of project costs to be funded through bond funds should be tracked similarly to the federal share of project costs -- as valid project expenditures are incurred and based upon applicable funding sources for a specific project. Transfers from the Bond Capital Fund should be made at designated time intervals (e.g., monthly) and should be equal to the actual share of project costs (based on valid project expenditures incurred) to be funded with bond proceeds.

Fund balance within the IST Fund cannot be readily distinguished as to source of funds. Since no correlation exists between project costs funded with bond proceeds and transfers from the Bond Capital Fund, an accurate financial position of the IST Fund, during the fiscal year by funding source, is not determinable. Bond proceeds transferred in excess of the actual share of project expenditures are reflected as fund balance. If the above change was implemented and

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statements Findings

bond proceeds were transferred on an “earned basis”, any fund balance remaining in the IST fund would be attributable to unspent gas tax revenue. Analysis of the IST fund’s financial position would be simplified and plans for use of the IST fund balance could be made consistent with applicable restrictions.

RIDOT began utilizing a new financial accounting and reporting system in January 2006. The system is intended to manage the federal state highway program including providing essential information necessary for financial reporting.

RECOMMENDATIONS

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|----------|---|
| 2005-18a | Establish internal control procedures to accurately identify and record accounts payable and receivable. |
| 2005-18b | Transfer amounts from the Bond Capital Fund equal to the actual share of project costs to be funded from bond proceeds. |
| 2005-18c | Segregate fund balance within the IST Fund based upon source of funds. |

Finding 2005-19

CONTROLS OVER FEDERAL REVENUE RECORDED WITHIN THE IST FUND

Controls over federal revenue recorded within the IST Fund need to be improved to ensure that (1) the federal share of IST fund expenditures is accurately reflected in the RISAIL accounting system which is the basis for the preparation of financial statements (2) all federally reimbursable expenditures are billed timely, (3) expenditures ineligible for Federal reimbursement are not recorded in federal accounts, and (4) expenditure credits related to previously reimbursed Federal costs are properly recorded in the billing system.

RIDOT’s internal control procedures do not include a reconciliation between the transactions posted in federal RISAIL accounts and transactions processed through the Federal Highway Administration (FHWA) billing system. Transactions processed through Federal Highway Planning and Construction accounts within RISAIL should parallel the federal share of project costs claimed for reimbursement through the FHWA billing system (i.e., only federal costs eligible for reimbursement should be charge to federal RISAIL accounts and all transactions within these accounts should be billed through the federal system). Federal revenues should equal federal expenditures for financial reporting purposes after considering the impact of changes in earned but unbilled and any unique transactions (e.g., advances for revolving loan funds) involving federal funding. RIDOT was required to adjust its Federal Highway Planning and Construction account \$6.9 million during fiscal year 2005 to correct a variance between recorded federal revenues and the actual federal share of expenditures.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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The following discrepancies between the two systems would likely have been detected had a reconciliation process been in place:

- ❑ Five expenditure transactions totaling \$1.2 million were processed between December 2004 and June 2005 through the primary federal Highway Planning and Construction account within RISAIL. These transactions were never billed for reimbursement through the FHWA billing system. RIDOT personnel indicated that, since the transactions were initiated outside RIDOT without RIDOT approval, they were unaware that these federally-reimbursable expenditures existed.
- ❑ Four expenditure transactions and three months of payroll charges totaling \$233,179 were also processed through the same federal account during fiscal year; however, since the Federal / State participation field was erroneously deleted in the Federal billing system no federal reimbursement was calculated (coded as not eligible for reimbursement). Additional transactions were processed during fiscal year 2006 and not billed for reimbursed until RIDOT was informed of the discrepancy.
- ❑ In June 2005, RIDOT processed a transaction totaling \$397,828 to reduce its unclaimed check liability and recorded an expenditure credit for previously billed and reimbursed Federal expenditures. The expenditure credits relating to this transaction were never adjusted against future federal billings.

RIDOT personnel informed us that prior to the implementation of RISAIL control procedures were in place to match federal transactions in the State accounting system to transactions processed through the federal billing system, however, no control procedures are currently in place to ensure that all federal transactions are accounted in both systems.

Federal receivable balances 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 has chosen to use its allocation of federal funds for new projects instead. RIDOT believes these “earned but unbilled” amounts are a necessary consequence of making the most effective use of federal highway authorizations for the State’s highway construction program.

“Earned but unbilled” amounts (which totaled \$13 million at June 30, 2005) are not controlled within RISAIL but instead are reported at fiscal year end by RIDOT to the Office of Accounts and Control. Based on previous history, these amounts will not be fully collected 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). Of the \$13 million, \$5.2 million is estimated as likely to be collected within the next year, and \$7.8 million is considered unavailable. The

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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balance of “earned but unbilled” that remains uncollected rolls forward from one fiscal year to another.

The current process to account for these amounts weakens overall control over financial reporting for the IST 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). Since RIDOT has financed these Federal expenditures with State bond proceeds, failure to collect these amounts due from the federal government for extended periods of time puts the State at a substantial disadvantage. The balance of “earned but unbilled” amounts increased \$2.4 million during state fiscal year 2005.

RECOMMENDATIONS

- 2005-19a Reconcile the federal highway billing system with federal accounts reported by the State’s accounting system.

- 2005-19b Collect all amounts due from the federal government in reimbursement of highway project expenditures as soon as all federal requirements have been met.

Finding 2005-20

CONTROLS OVER THE IDENTIFICATION AND RECORDING OF YEAR-END ACCRUALS

The State has implemented statewide fiscal closing procedures designed to allow the State’s accounting system to accurately report accounts receivable and payable balances at year-end. These procedures require agencies to record all transactions (deposits and payment documents) relating to a fiscal year by a specified closing date. In addition, agencies must submit payment documents with an “effective date” equal to the fiscal year-end date in order for that transaction to be accrued as a liability at year-end. In addition, agencies also have the option of reporting receivables and payables directly to the Office of Accounts and Control using certain standard forms and procedures. Failure to use the correct “effective date” or to submit transactions or required forms by the designated closing date will result in transactions not being properly recorded (accrued) in the correct fiscal year.

We conducted audit procedures to identify unrecorded revenues and expenditures to evaluate whether these transactions were reported in the appropriate fiscal period. We found that the State’s control procedures, as described above, are not operating effectively to ensure the recording of accruals at year-end. We identified unrecorded payables totaling in excess of \$8 million during our audit. Audit adjustments were subsequently recorded to reflect these transactions within the State’s financial statements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Controls should be improved to ensure that significant accounting transactions are accurately accrued at year-end.

RECOMMENDATION

2005-20 Evaluate and improve controls to identify and record accrual transactions at year-end.

Finding 2005-21

INDIRECT COST RECOVERY

Rhode Island General Law section 35-4-37 requires “7% of cash receipts be transferred from all restricted receipts accounts, to be recorded as general revenue”. The General Law also cites specific types of accounts (contributions from charitable organizations, unless prohibited by federal law or regulation, court order, or settlement) that should be excluded from the transfer of cash receipts and additionally lists specific appropriation accounts to be excluded. In addition, the State’s controls to ensure compliance with the General Law were determined to be ineffective.

We found that the State does not maintain an accurate list of restricted receipt accounts to exclude from indirect cost recovery. Forty-three (43) restricted receipt accounts (accounting for 31% of the total number of restricted receipt accounts within the State accounting system) were excluded from indirect cost recovery without supporting documentation for the exclusion. Further inquiry relating to these accounts resulted in documentation being obtained to support exclusion for 38 of the 43 accounts identified.

The Office of Accounts and Control should improve controls over the identification of restricted receipt accounts subject to 7% cost recovery provisions to ensure compliance with General Laws.

RECOMMENDATIONS

2005-21a Improve controls and monitoring to ensure compliance with 7% cost recovery provisions for restricted receipt accounts as mandated by RI General Laws.

2005-21b Seek specific statutory exemptions for accounts not intended to be included under indirect cost recovery mandates.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Finding 2005-22

LOTTERY GAMING SYSTEMS – LOGICAL ACCESS SECURITY

Logical access security to the computer systems used to operate the Lottery's games should be improved by (1) fully utilizing certain designed functions of the systems, (2) strengthening other system security aspects, and (3) implementing a comprehensive plan for computer systems that includes delegating certain aspects of security to the Lottery and monitoring by the Lottery of the overall system security function. As of June 30, 2005, the Lottery has implemented a formal comprehensive security plan, however, material compliance by the Lottery's gaming system provider has not yet been achieved. Material compliance with the Lottery's comprehensive security plan is vital to ensuring that access to the computer systems used to operate the Lottery's games is appropriately restricted to authorized individuals and any unauthorized access is detected by the Lottery on a timely basis with appropriate follow-up.

RECOMMENDATION

2005-22 Ensure material compliance with established comprehensive security policies and procedures to effectively manage and control access to the computer systems used to operate the Lottery's games.

Finding 2005-23

PREPARE TIMELY BANK RECONCILIATIONS – EMPLOYEES RETIREMENT SYSTEM

Monthly bank reconciliations were not performed timely for the Employees' Retirement System of the State of Rhode Island (ERSRI) bank accounts during fiscal 2005. June 30, 2005 balances were not completely reconciled until November 2005. Timely bank reconciliations are an integral component of internal control over the recording of receipts and disbursements. Consequently, controls over receipts and disbursements were severely weakened during fiscal 2005. Delay in reconciling bank and book balances during fiscal 2005 was impacted by the fact that fiscal 2004 bank reconciliations were not completed until April 2005.

Near the close of fiscal 2005 and subsequently, ERSRI began to improve the availability and quality of information necessary to reconcile the System's bank accounts on a timely basis. These steps include addressing issues relating to how receipts are batched for deposit and entered into the accounting system to facilitate timely bank reconciliations, and also to reduce the extent of deposits made to an incorrect bank account.

RECOMMENDATIONS

2005-23a Reconcile all ERSRI bank accounts to the general ledger on a timely basis.

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2005-23b Complete resolution of all issues that impact the availability and quality of information necessary to reconcile the System’s bank accounts on a timely basis.

Finding 2005-24

IMPROVE CONTROLS OVER FINANCIAL REPORTING – EMPLOYEES RETIREMENT SYSTEM

ERSRI’s process for preparing financial statements is deficient. Information needed to prepare financial statements is not readily available and, in some cases, requires extensive analysis and correction. Personnel resources are insufficient to allow timely posting and monitoring of accounting data during the year. There is no timely and consistent management oversight of accounting data to ensure adherence to controls over financial reporting and to ensure data reported by the accounting system is accurate and consistent with normally expected results.

Refine the Accounting System to Meet ERSRI’s Financial Reporting Needs

ERSRI implemented a new accounting system, known as ANCHOR, during fiscal 2002, which was designed to meet both its operational and financial reporting needs. In certain instances the system is not currently meeting the financial reporting needs of ERSRI. Balances reported by the system, most notably for contributions and contributions receivable, require significant analysis and adjustment to yield amounts that are appropriate for financial statements prepared in accordance with generally accepted accounting principles.

Certain of these issues involve how the system was programmed to meet various operational objectives. At times, these operational objectives, in their current form, are inconsistent with financial reporting objectives. For example, contributions received will remain as deferred revenue until the detail contribution data passes edit checks allowing the data to post to the contribution database. From a financial reporting perspective the contributions have been “earned” and should be reflected as revenue in the general ledger. Similarly, the State’s matching contribution for teachers is not recorded until all contribution data has passed 100% of the system edits. For financial reporting purposes, revenue should be recognized as contributions to the system are due based upon employer payroll activity.

ERSRI should focus on the contributions revenue/ receivable cycle and assess how the Anchor and general ledger accounting systems handle the transactions and whether the data is consistent with financial reporting objectives. When the operational and financial reporting objectives are not consistent, ERSRI should explore options to make them consistent or develop specific data sources to meet financial reporting needs.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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RECOMMENDATION

- 2005-24a Identify ANCHOR processes relating to the contributions revenue/receivable cycle that are not consistent with financial reporting objectives. Explore options to make them consistent or develop specific data sources to meet financial reporting needs.

Adopt a Standard Closing Process and Schedule

ERSRI has not adopted a formalized closing process which should detail required closing journal entries to be prepared at the end of the fiscal year. The standard closing process should be included in an accounting manual detailing the following information and processes:

- ❑ Data accumulation and analysis required to prepare the journal entries;
- ❑ Expected transaction flows, balances and relationships for specific accounts;
- ❑ Required journal entries including sample entries detailing specific accounts;
- ❑ Sources of data for each standard journal entry (e.g., external sources, Anchor reports, database queries, etc.);
- ❑ Frequency of posting the journal entries (e.g., annually, monthly);
- ❑ Accounting personnel responsible for preparing and approving the journal entries;
- ❑ Schedule for completion of the journal entries and closing process; and
- ❑ Required reconciliations to subsidiary detail or external data sources for certain account balances.

RECOMMENDATION

- 2005-24b Develop an accounting manual detailing a formalized closing process including sample journal entries, data sources for the journal entries, and responsibility for initiating and approving closing entries.

Ensure Resources are Adequate to Allow Accounting Functions to be Performed Timely and Implement Effective Oversight of the Accounting and Financial Reporting Functions

In recent fiscal years and through the time of our audit, ERSRI had insufficient personnel devoted to accounting functions. Consequently, numerous accounting functions were not performed timely and there was limited oversight of accounting and financial reporting functions. The Executive Director continues to be directly responsible for posting journal entries

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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and preparing the draft financial statements. The lack of accounting resources contributed to the delay in preparing financial statements and severely weakened controls over financial reporting.

RECOMMENDATION

2005-24c Ensure adequate accounting resources exist to monitor control procedures and provide oversight of key accounting and financial reporting functions.

Finding 2005-25

IMPLEMENT RECONCILIATION CONTROLS OVER THE ANCHOR AND GENERAL LEDGER ACCOUNTING SYSTEMS – EMPLOYEES RETIREMENT SYSTEM

The ANCHOR system was designed to include a daily reconciliation function between data contained within the ANCHOR system and data contained within the PeopleSoft general ledger which is used for financial reporting purposes. The purpose of the reconciliation function is to ensure that the data contained within each system is fully synchronized. If variances do occur, the daily reconciliation process allows prompt investigation and correction. Although part of the system design, this function has never been fully operational.

We determined that there were no current operational procedures in place mandating that this reconciliation procedure detailed above, or any other type of reconciliation, be performed on a daily or ‘as required’ basis. This reconciliation process had not been performed, on any type of scheduled basis, since some point back in calendar year 2002.

Daily reconciliation between the Anchor and PeopleSoft components of the ERSRI accounting system is a critical control feature. Failure to perform this reconciliation is a weakness in control over financial reporting. Recently, ERSRI, working with its systems consultant, started to revisit this area of concern.

RECOMMENDATION

2005-25 Implement procedures to perform a daily automated reconciliation function between the ANCHOR and PeopleSoft components of the ERSRI accounting system.

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

Finding 2005-26

IMPROVE CONTROLS OVER DATA ENTRY TO ENSURE CORRECT POSTING OF
DATA TO EMPLOYER ACCOUNTS – EMPLOYEES RETIREMENT SYSTEM

During the last four fiscal years data entry errors occurred which resulted in incorrect postings of contribution data to employer accounts. Because the system did not permit correction of this type of error, offline manual records of contributions by employer were maintained to supplement system generated data. Data contained within the system that is known to be inaccurate thereby necessitating offline records is problematic and compromises the reliability of all system reported data. These errors impact the accurate reporting of contributions and contributions receivable by employer unit.

Additional training and controls need to be implemented over the data entry process to ensure that data is correctly entered in to the system. When errors do occur, the system should allow, with appropriate controls, for correction of the erroneous data. ERSRI has recently implemented, and is now refining, a system modification that allows for correction of data entry errors.

RECOMMENDATIONS

- | | |
|----------|--|
| 2005-26a | Implement additional training as needed to reduce data entry errors for employer contributions. Enhance controls over data entry to limit the opportunity for error. |
| 2005-26b | Complete implementation of the system modification that allows for correction of errors to employer contribution accounts. |

Finding 2005-27

FISCAL AGENT OVERSIGHT – MEDICAL ASSISTANCE PROGRAM

As described in Finding 2005-72 (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 II – Financial Statements Findings

Finding 2005-28

AUTOMATED DATA PROCESSING (ADP) RISK ANALYSIS AND SYSTEM SECURITY
REVIEW

As described in Finding 2005-64 (Section III – Federal Award Findings and Questioned Costs), federal regulations mandate 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 ADP systems and information processing. DHS utilizes two primary systems, INRHODES and Medicaid Management Information System (MMIS), to administer HHS federal programs. Benefit payments disbursed from these two systems during fiscal 2005 totaled over \$1.8 billion. DHS has not adequately documented the existence and effectiveness of key system controls within these systems. Additionally, the department has not tested controls relating to system access, application software development and modification, service continuity, and incident response. DHS should 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.

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	05-31
Food Stamp Cluster:		
Food Stamps	10.551	05-32
State Administrative Matching Grants for Food Stamp Program	10.561	05-29, 05-30
Child Nutrition Cluster:		
School Breakfast Program	10.553	05-29, 05-31
National School Lunch Program	10.555	05-29, 05-31
Special Milk Program for Children	10.556	05-29,
Summer Food Service Program for Children	10.559	05-29, 05-31
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	05-29, 05-30, 05-33, 05-34, 05-35, 05-36, 05-37
Public Works and Economic Development Cluster:		
Economic Adjustment Assistance	11.307	05-38
Mortgage Insurance – Homes	14.117	None
Section 8 Project-Based Cluster:		
Section 8 New Construction and Substantial Rehabilitation	14.182	05-39, 05-40
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	None
Home Equity Conversion Mortgages	14.183	None
Section 8 Housing Choice Vouchers	14.871	None
Unemployment Insurance	17.225	05-29, 05-30
WIA Cluster:		
WIA Adult Program	17.258	05-29, 05-41
WIA Youth Activities	17.259	05-29,
WIA Dislocated Workers	17.260	05-29, 05-41
Airport Improvement Program	20.106	None
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	05-29, 05-42, 05-43, 05-44
Federal Transit Cluster:		
Federal Transit – Formula Grants	20.507	05-29, 05-45
Capitalization Grants for Clean Water State Revolving Funds	66.458	None
Capitalization Grants for Drinking Water State Revolving Funds	66.468	None
Student Financial Assistance Cluster:		
Federal Supplemental Educational Opportunity Grants	84.007	None
Federal Family Education Loans	84.032	05-50
Federal Work-Study Program	84.033	None
Federal Perkins Loan Program – Federal Capital Contributions	84.038	05-51, 05-52
Federal Pell Grant Program	84.063	05-53
Federal Direct Student Loans	84.268	05-52, 05-54, 05-55, 05-56

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

<u>Program Title</u>	<u>CFDA Number</u>	<u>Applicable Findings</u>
Student Financial Assistance Cluster: (continued)		
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	None
Nursing Student Loans	93.364	None
Title I Grants to Local Educational Agencies	84.010	05-29, 05-46, 05-47, 05-48
Special Education Cluster:		
Special Education – Grants to States	84.027	05-29, 05-46, 05-47, 05-48, 05-49
Special Education – Preschool Grants	84.173	05-29, 05-46, 05-47, 05-48, 05-49
Federal Family Education Loans (Guaranty Agency)	84.032	None
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	05-29, 05-30
Improving Teacher Quality State Grants	84.367	05-29, 05-46, 05-47, 05-48
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	05-29, 05-57, 05-58
Temporary Assistance for Needy Families	93.558	05-29, 05-32, 05-59, 05-60, 05-61, 05-62, 05-63, 05-64
Low-Income Home Energy Assistance	93.568	05-29, 05-65
CCDF Cluster:		
Child Care and Development Block Grant	93.575	05-29, 05-32, 05-63, 05-64
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	05-29, 05-32, 05-63, 05-64
Foster Care – Title IV-E	93.658	05-29, 05-30, 05-66
Adoption Assistance	93.659	05-29, 05-30, 05-67
State Children’s Insurance Program	93.767	05-29, 05-32, 05-64, 05-68, 05-69, 05-70
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	05-29
State Survey and Certification of Health Care Providers and Suppliers	93.777	05-29
Medical Assistance Program	93.778	05-29, 05-32, 05-59, 05-64, 05-70, 05-71, 05-72, 05-73, 05-74, 05-75, 05-76, 05-77, 05-78, 05-79
Block Grants for Prevention and Treatment of Substance Abuse	93.959	05-29
Research and Development Cluster	Various	None

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

Finding 2005-29

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 agreement, and expenditures processed through the State accounting system. While we noted certain internal control weaknesses relating to the operation of the web-based cash management system (e.g. incorrect links between accounts and CFDA #'s and untimely posting of expenditure transactions and adjustments), most State agencies do not utilize this system for requesting Federal funds.

Each department is responsible for drawing federal funds for the programs it manages. The following is a summary of major programs administered by the primary government:

Major programs administered by the primary government	20
# of programs included in the Treasury/State agreement	19
# of programs that did not adhere to all appropriate funding techniques outlined in the Treasury/State Agreement (certain program components were determined to be compliance)	14
# of programs not fully adhering to the Treasury/State Agreement and requesting funds on a reimbursement basis (usually bi-weekly)	12

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

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. Centralized monitoring controls are necessary to ensure compliance with the Treasury/State agreement and CMIA requirements.

Federal regulation 31 CFR 205.12 describes the funding techniques that can be used by states to draw federal funds. One allowable technique is “reimbursable funding” which means that the Federal program agency transfers Federal funds to a State after that State has already paid out the funds for Federal Assistance program purposes. Since this methodology for requesting Federal funds essentially parallels the procedures currently being utilized for most Federal assistance programs, the state should consider modifying the funding techniques reflected in the Treasury/State agreement to more fully coincide with current practices.

For certain major programs, ACH is becoming the more common method of disbursing program funds, consideration should be given to modifying the Treasury/State agreement accordingly.

RECOMMENDATIONS

- | | |
|----------|---|
| 2005-29a | Implement a centralized monitoring system and strengthen controls over draw down procedures to ensure department compliance with the Treasury/State agreement and CMIA requirements. |
| 2005-29b | 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 closely match funding techniques to current practices. |

An interest liability exists 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 records supporting these interest calculations for audit purposes. The state’s interest liability is reported to the federal government on the CMIA Annual Report. Our audit disclosed various inconsistencies in the report data used to compile interest liabilities for major assistance programs. Our audit revealed the following:

- The Treasury-State Agreement stipulates that no interest liabilities will be incurred for transfers of funds made in accordance with the agreed upon procedures specified in the agreement. We noted that the interest liability calculation did not consider those programs, or program components, which were in compliance with the approved funding techniques. For example, benefit payments under both the Temporary Assistance for

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

Needy Families and Medical Assistance Programs were drawn in accordance with the specified funding technique and should have been excluded from the calculation.

- ❑ Average daily balances were calculated based on state fiscal year 2005 expenditure and receipt data extracted from the State's accounting system. We noted various discrepancies between the transaction totals supporting the 2005 calculation and the actual amounts reflected in the accounting system. For example, the documentation supporting the daily balance calculation for two major assistance programs reflected zero receipts while Federal receipts totaling \$12.8 and \$6.5 million were recorded in the accounting system.
- ❑ Certain federal accounts used in the interest liability calculation were incorrectly linked to the Catalog of Federal Domestic Assistance numbers as reflected in the State's general ledger.
- ❑ The 2005 CMIA Annual Report included a prior period adjustment to State interest liability totaling approximately (\$160,000). This claim resulted from the manner in which 2004 expenditure and receipt transaction data was used for interest calculation purposes. We noted that the transaction data utilized in the 2004 recalculation was inconsistent with the data recorded in the State accounting system. For example, the fiscal 2004 calculation for one major program indicated a State liability of \$88,160, based on total expenditures of \$84.8 million and total receipts of \$85.3 million. The revised calculation reported in the 2005 annual report utilized total expenditures of \$76.5 million and receipts of only \$883,000, eliminating the previously reported liability entirely. Both the original and revised calculations failed to consider that the benefit payment component relating to this program was drawn in accordance with the approved funding technique and should not have been included.

Questioned Costs: Unknown

RECOMMENDATIONS

- 2005-29c Modify procedures to ensure that all programs or program components complying with the funding techniques specified in the Treasury/State agreement are excluded from the interest liability calculation.
- 2005-29d Strengthen procedures to ensure that the detailed transaction data used in interest liability calculations is supported by the data recorded in the State accounting system.

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

Finding 2005-30

VARIOUS PROGRAMS – refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

MANAGEMENT OF EQUIPMENT ACQUIRED WITH FEDERAL FUNDS

As described in Finding 2005-5 (Section II – Financial Statement Findings), accounting controls were not adequate during fiscal 2005 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.

Questioned Costs: None

Finding 2005-31

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 for Children – CFDA 10.559

Administered by: Rhode Island Department of Education (RIDE)

INVENTORY OF DONATED FOOD COMMODITIES

Under the Food Donation 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 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 44 items that were eligible for use by the

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

Child Nutrition Cluster of federal programs. At June 30, 2005, the inventory balances of 30 items were adjusted to agree with the physical inventory counts. The adjustments ranged from 1 to 64 cases and included both increases and decreases to the recorded balances.

On July 29, 2005, we counted the quantity on hand for ten of the items. In seven instances, our counts did not agree with the Department's inventory records. Our variances ranged from an understatement of 13 cases to an overstatement of 230 cases in the inventory records.

Using the Department's reports on commodities shipped and orders received, we also "rolled forward" the June 30, 2005 balances to July 29, 2005 for the selected ten commodities. We noted variances ranging from 1 to 309 cases. For the commodity that had a 309 case variance, we "rolled forward" the similar commodity intended for the food banks. The variance was also 309 cases, but in the opposite direction. The net variance was zero.

We also noted several variances while testing the records for five commodities for the selected month of October 2004. We found five variances between our calculated inventory balances and the recorded balances, ranging from 4 to 594 cases.

Some of the variances noted above could be attributable to the fact that the warehouse is also responsible for storing commodities intended for food banks. The items are similar to those intended for the child nutrition programs and are coded similarly. In certain instances, counts for food bank commodities varied by similar amounts but in the opposite direction. Other variances could be attributable to timing differences at month end between when a school's order for commodities is posted and when the shipment is posted.

Questioned Costs: None

RECOMMENDATION

2005-31 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.

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

Finding 2005-32

FOOD STAMPS – CFDA 10.551

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558

CCDF 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)

INRHODES SYSTEM– LOGICAL ACCESS CONTROLS / SEGREGATION OF DUTIES

The INRHODES computer system is used to administer multiple federally financed benefit programs. The INRHODES system also interfaces with other systems that are integral to the administration of those programs (e.g., MMIS for Medicaid claims processing and E-Funds systems for delivery of electronic benefit payments). Controls over access to the INRHODES system data is provided by a combination of physical, system, and application specific logical access controls. Logical access controls are the layer of security controls that have been designed to prevent unauthorized individuals from gaining access to the application data. The process of assigning access rights to a specific individual is normally based upon two generally accepted standards of practice – segregation of duties and least privilege. The concept behind least privilege is that staff is granted access to only those resources at or below a specific level of “need to know” sensitivity. Segregation of duties is a critical element of any given security policy. In its proper design, it segregates critical systems, application and operational IT components into separate and distinct job functions that prevent any single individual from doing harm to the application, whether by an accidental or intentional act. Within the INRHODES system, access controls are integral to overall program controls and are essential to prevent opportunities for fraud.

DHS has assigned users predefined “User Roles”, in accordance with their specific position classification / job function. These user roles have been created in an effort to match the appropriate level of system access to his/her specific job function in accordance with the least privilege theory detailed above. As of fiscal 2005, there were over 1,050 active INRHODES users within 50 different assigned user roles.

We found the following regarding INRHODES system access and system access controls:

- One user role (known as the ‘SSS’ user group) allows the greatest amount of application specific system access. We found that as of June 2005 there were 14

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

DHS employees and 55 contractor employees that had been assigned this user role. Individuals in this role have access to the production version of the INRHODES system, and can perform any allowable application specific function upon the INRHODES data, regardless of their specific job function. Ordinarily, assignment of this user role with its wide system access and functionality would be severely limited. Further, information systems security ‘best practices’ along with the required segregation of duties, would mandate that contractor employees not be granted any type of access into the production version of the INRHODES system.

- ❑ Control over the establishment and maintenance of user accounts and privileges for contractor employees, including the ‘SSS’ user role had been delegated to a contractor employee. Control and assignment of user access rights should be assigned to a DHS Security Administrator. The system security administrator should have no other application specific responsibilities other than security over the system.
- ❑ Neither the DHS nor the contractor security administrator received any type of scheduled, monitoring and tracking security reports, offering details pertaining to the activities of INRHODES users.

These issues weaken control over user access to the INRHODES system and consequently weaken program controls over eligibility, benefit amounts and other program compliance requirements.

Questioned Costs: None

RECOMMENDATIONS

- | | |
|----------|---|
| 2005-32a | Assign INRHODES system access for contractor employees such that access to the production version of the system is not permitted or severely limited and adequately controlled. |
| 2005-32b | Review INRHODES system access for all users to assure that it is appropriate and consistent with assigned job functions. Specifically review all users assigned the ‘SSS’ user role and limit assignment of this role to just those individuals requiring that wide level of access. |
| 2005-32c | Assign all INRHODES systems security administrative functions to DHS personnel. Contract vendors needing access to any INRHODES resources should formally request the access through this DHS administrator. DHS should develop procedures that mandate all contracted vendors having access to INRHODES be required to re-certify their access needs with the DHS systems security administrator on a scheduled basis. |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

- 2005-32d Develop and implement standard monitoring and tracking security reports that will supply the DHS systems security administrator, required details pertaining to the activities of all INRHODES users. Follow-up on all activity considered questionable or potentially inappropriate.

Creation of EBT Cards

Program benefits (TANF, Food Stamps) are delivered through electronic benefit transfer (EBT) cards provided to program recipients. Machines installed within DHS offices are used to emboss new or reissued EBT cards with information pertinent to the authorized user of this card including a “PIN” number chosen by the program participant.

A key control over the issuance of EBT cards is segregation of duties over the case creation/eligibility determination process and the EBT card creation process. No single individual should be authorized to work, or supervise the work of a case, from the startup application process, continuing through eligibility determination and culminating with the EBT card issuance. We were initially informed that there was no INRHODES user role that allowed performance of all these functions. We subsequently found approximately 120 individuals have been assigned user roles that would allow performing these incompatible functions.

We also observed that certain employees with wide system access also have access to storerooms where blank EBT cards are stored. Access to storerooms for blank EBT cards should not be allowed for individuals that also have system access that allows them to create/modify case information and EBT card authorizations.

EBT Card PIN Machine Operation

The EBT card creation process includes procedures to establish a unique “PIN” for each card issued by the system. The pinning terminal is located within close proximity to the EBT card embossing machine and is electronically connected to the E-Funds computerized network. By design, there are a limited number of DHS employees within each remote location that have been granted the authority to utilize these terminals. Each one of these employees has been issued a unique sign-on ‘User ID’ that allows them to activate the pinning terminal. In theory, the establishment of a small number of authorized users along with each user having a unique User ID’s, would ensure a strong security control exists over this process.

Through observation, we determined that upon initial activation of the pinning terminal, the units remained active for an extended period. This could allow the card pinning process to be performed by unauthorized DHS staff. This weakness is exacerbated by the fact that certain user access roles, as discussed above, permit creation of an EBT card. Controls should be enhanced by implementing an automated sign-off, or deactivation of these devices upon completion of the pinning process.

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

Questioned costs: None

RECOMMENDATIONS

- 2005-32e Modify the functions permitted by a specific user access role to ensure that individuals cannot perform incompatible functions. Further, the review should be expanded to search out any other type of inappropriate or overlapping access that exists between any other existing INRHODES user roles.
- 2005-32f Establish an automated sign-off / deactivation process over the pinning terminals, which would take place immediately upon the completion of the pinning process. If this deactivation cannot take place immediately, then the E-Funds security system should be configured to ‘time-out’ these terminals after the shortest allowable ‘time-out’ period.

Finding 2005-33

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN – CFDA 10.557
Administered by: Rhode Island Department of Health

CASH MANAGEMENT

During our audit of compliance with the Cash Management requirement we noted instances where the benefit drawdown requests were not made in accordance with the provisions of the CMIA Agreement. Specifically, we noted that WIC personnel do not maintain adequate records to support the basis for drawdown requests relative to the food benefit account. At various times throughout the year the cash balance in the separate WIC benefit payment account was in excess of the immediate cash requirements.

The WIC program is subject to the provisions of the Cash Management Improvement Act (CMIA). On July 1, 2004 the State of Rhode Island entered into a *Cash Management Improvement Act Agreement* with the Secretary of the Treasury, United States Department of the Treasury in order to implement Section 5 of the CMIA of 1990, as amended. This agreement was in effect for the fiscal year commencing July 1, 2004 and ending June 30, 2005. The agreement provides guidance on approved methods for requesting drawdown of federal funds and assessment of interest liabilities for excess funds requested.

The agreement referred to above authorizes the State to utilize the Pre-Clearance Funding method for requesting advances for the WIC benefit expenditures. Under this method, the drawdown shall be based on (a) the average daily clearance activity of the WIC benefit payment

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

account; (b) the current balance in the WIC benefit payment account; and (c) the variance in daily clearance activity of the WIC benefit payment account, which may contribute to an overdraft if not accounted for.

Lack of compliance with the cash management requirements may result in the assessment of an interest liability to the Federal Government.

This noncompliance is the result of the failure to establish a formal set of policies and procedures that can be followed for the requisition of federal funds.

Questioned Costs: None

RECOMMENDATION

2005-33 We recommend that WIC Department personnel prepare a formal policy and procedures manual to govern compliance with the Cash Management requirements stipulated in the CMIA agreement. We further recommend that the manual require finance personnel to maintain adequate documentation to substantiate all drawdown requests and compliance with the federal requirements.

Finding 2005-34

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN – CFDA 10.557

Administered by: Rhode Island Department of Health

REPORTING

As part of our audit procedures we randomly selected five reports (out of fourteen) which were required to be filed to the U.S. Department of Agriculture. We examined these reports for timeliness of filing and accuracy of the information presented. The expenditure and rebate information presented in the reports was traced to financial records and other support documents generated from the WIC management information system. The results of our audit procedures identified one report that failed to disclose required rebate information and also contained an overstatement of \$10,000 in federal expenditures.

Each WIC State agency uses the FNS-798 to report projected and actual Federal food expenditures and participation for each month of the fiscal year. Participation for any given month equals the number of individuals who received supplemental foods or Food Instruments (FI's) during that month plus the number of infants who received no supplemental foods or FIs, but were breast-fed by participating women during that month. The FNS-798 report also must

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

include information on the monthly rebates for infant formula. In addition, State agencies prepare the FNS-798A annually to report: (1) NSA expenditures by function for the fiscal year being closed out; (2) the method by which NSA expenditures were charged as indirect costs; and (3) the method by which the indirect cost amount was determined.

Failure to file complete and accurate reports results in noncompliance with the reporting requirements established by the federal regulations. Although the FNS-798 report remains open and may be adjusted for a five month period of time, we believe that the initial report filed should properly reflect complete and accurate information as noted in the financial and management information system records maintained by the WIC Department.

The omission of the rebate information was due to an oversight by financial management while the misstatement of expenditures is believed to be a typographical error. The FNS-798 reports reflect information for the entire grant year to date and we noted that the subsequent month submission was updated to reflect the complete and accurate information.

Questioned Costs: None

RECOMMENDATION

2005-34 Current procedures for filing the FNS-798 report requires that the electronic submission be signed by the preparer and also by another individual who is attesting to the completeness and accuracy of the information. Accordingly, we recommend that the WIC Department continue to comply with the established review and submission procedures. However, we recommend that management stress the importance of filing complete and accurate reports and that the individuals responsible for completing and certifying the reports take due professional care in signing off on the submissions.

Finding 2005-35

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND
CHILDREN – CFDA 10.557

Administered by: Rhode Island Department of Health

SPECIAL TESTS AND PROVISIONS - DISPOSITION OF FOOD INSTRUMENTS

The State of Rhode Island currently distributes WIC food checks at twenty-seven (27) sites operated by eleven (11) local agencies. It is estimated that these agencies currently distribute 860,000 to 1.2 million checks per year. Information on the distribution of checks is uploaded to the State database on a daily basis. Accordingly, the State is aware of all checks

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

issued under the WIC Food Benefit program (WIC). However, during our audit we noted that WIC currently does not have adequate procedures for compliance with the requirements to monitor the disposition of all food instruments (issued WIC checks). We noted that WIC does maintain documentation of follow-up procedures and resolution on disputed checks. However, there were no procedures in place or documentation available to support compliance with the requirement governing the accountability of all issued Food Instruments.

Federal regulations require that all State agencies account for the disposition of all Food Instruments (FIs) within 150 days of the FI's first valid date for participant use. The State agency must identify all FIs as either issued or voided; and identify issued FIs as either redeemed or unredeemed. Redeemed FIs must be identified as one of the following: (1) validly issued, (2) lost or stolen, (3) expired, (4) duplicate, or (5) not matching valid enrollment and issuance records. In addition, the State agency is required to reconcile its records to issued FIs on a one-to-one basis within the 150-day time frame set by regulation.

The lack of an established policy or procedure for accounting for the disposition of all FIs results in the State's inability to accurately monitor the ultimate success of the program. Lack of monitoring does not allow the State to accurately report on the ultimate disposition of FIs.

The failure to trace the disposition of all FIs on a one-to-one basis and/or document the compliance with the 150 day requirement is the result of lack of personnel that is believed to be needed to enable the State to comply with this requirement. As noted above, the State does monitor the FI activity and adequately follow-up on disputed FIs. Compliance with this and other requirements was believed by management to be of more benefit and necessity than the monitoring of FIs on a one-to-one basis.

Questioned Costs: None

RECOMMENDATION

2005-35 We recommend that the Administration review the current procedures for monitoring the disposition of WIC Food Instruments and the federal requirements of such. Upon completion of the review, we recommend that a formal policy and procedures manual be developed and implemented to ensure compliance with the federal requirements.

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

Finding 2005-36

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN – CFDA 10.557

Administered by: Rhode Island Department of Health

SPECIAL TESTS AND PROVISIONS - HIGH RISK VENDORS

Subsequent to June 30, 2005 the State of Rhode Island, Department of Health WIC Office implemented and documented a new policy and procedures manual that is used to provide guidance for determining the risk classification of its retail food vendors. However, during the period of our report (fiscal year ending June 30, 2005) the State did not have a formal system for identifying and documenting the process for determining the risk classification of the vendors.

Federal regulations require that a State agency operating a retail food delivery system must conduct compliance investigations, which consist of inventory audits and/or compliance buys, on a minimum of 5 percent of the vendors authorized as of October 1 of each year. The State agency must conduct compliance investigations on its high-risk vendors up to the 5 percent minimum. High-risk vendors are identified at least once annually using criteria developed by FNS, and/or other statistically based criteria developed by the State agency and approved by FNS. If the number of high-risk vendors exceeds 5 percent of the total, then the State agency must prioritize vendors for investigative purposes based on their potential for noncompliance and/or loss.

Based on our audit procedures performed, the WIC has been completing tests of at least 5 percent of the authorized vendors and documenting the results of those compliance investigations. However, due to the lack of documentation supporting the determination of vendor classification (i.e. high vs. low risk) we are unable to determine if WIC has tested the vendors most at risk for noncompliance.

The lack of documentation to support the vendor risk determination was the result of failure to have a formal policy and procedures manual which governed the methods used to rate the vendors as well as to document the selection process.

Questioned Costs: None

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RECOMMENDATION

2005-36 As indicated above, the WIC implemented a new MIS vendor analysis system subsequent to June 30, 2005. This system appears to provide a significant amount of data that is utilized to rate (provide a numerical score) the retail food vendors resulting in the identification of high-risk vendors. We recommend that WIC continue to utilize this new system. However, we also recommend that management review and update the policy and procedures manual to ensure that it contains all pertinent information that would enable an outside user to understand the scoring system, and the criteria for determining the range of scores that constitute classification as a high-risk vendor. Lastly, we recommend that management prepare and maintain a memorandum that specifically identifies the vendors that were selected for testing and the reasons for their selection.

Finding 2005-37

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN – CFDA 10.557
Administered by: Rhode Island Department of Health

MANAGEMENT OF EQUIPMENT ACQUIRED WITH FEDERAL FUNDS

The State of Rhode Island and Providence Plantation's accounting controls are not adequate to ensure that the acquisition and disposal of capital assets are 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 overall weaknesses in the controls over capital assets, we were unable to test the WIC Program's compliance with the equipment management requirement.

The WIC Program (and the State of Rhode Island and Providence Plantations as a whole) should maintain a detailed set of capital asset records to account for all assets acquired with federal funds.

The lack of control increases the risk of safeguarding of capital assets and prohibits the WIC Program from accounting for all capital assets which were acquired with federal funds.

The noncompliance and lack of control is the result of inadequacies of capital assets policies and procedures at the State level.

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Section III – Federal Award Findings and Questioned Costs

Questioned Costs: None

RECOMMENDATION

2005-37 We recommend that WIC personnel in conjunction with personnel from the Office of Accounts and Control complete an accumulation of all historical costs relating to capital assets acquired by the WIC Program. The detail listing should include a description of the capital asset, date of acquisition, cost basis, estimated useful life, location of asset, and applicable identification information (i.e. serial number etc).

Finding 2005-38

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

CASH MANAGEMENT

The U.S. Department of Commerce has determined and notified the Corporation that the Corporation has excess cash as defined under the program guidelines. As such, the U.S. Department of Commerce has instructed the Corporation to deposit such excess cash into a separate interest-bearing bank account (Sequestered Funds) and remit all interest earned on such Sequestered Funds to the U.S. Treasury. Additionally, no disbursements of Sequestered Funds are permissible unless all other capital on hand is exhausted and the Corporation obtains written approval from the Economic Development Administration. All Sequestered Funds remaining as of March 31, 2005 must be remitted to the U.S. Treasury.

The Corporation has appealed this decision with the U.S. Department of Commerce and has not obtained a resolution to the matter.

Questioned Costs: None

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Finding 2005-39

SECTION 8 PROJECT-BASED CLUSTER

Section 8 New Construction and Substantial Rehabilitation – CFDA 14.182
Administered by: Rhode Island Housing and Mortgage Finance Corporation (R.I. Housing)

ELIGIBILITY

The United States Department of Housing and Urban Development' (HUD) *Rent and Income Determination Quality Control Monitoring Guide – July 2003* (the Guide) requires Rhode Island Housing to select a minimum number of tenant files during its management and file review of a development to determine whether the development determined tenant eligibility in accordance with HUD guidelines. During our audit, we noted that for 8 of the 12 selected developments, Rhode Island did not select at least the minimum number of tenant files during its management and file review of the development. Selecting less than the minimum number of tenant files required by HUD for review does not permit Rhode Island Housing to adequately determine whether the development determined eligibility in accordance with HUD guidelines.

Questioned Costs: None

RECOMMENDATION

2005-39 Rhode Island Housing should select the minimum number of tenant files required by the Guide and institute a control policy and procedure to determine whether it is complying with the requirement.

Finding 2005-40

SECTION 8 PROJECT-BASED CLUSTER

Section 8 New Construction and Substantial Rehabilitation – CFDA 14.182
Administered by: Rhode Island Housing and Mortgage Finance Corporation (R.I. Housing)

REPORTING

The provisions of 24 CFR Section 883.07(e) govern the use of residual receipts funds for developments committed to enter into a Housing Assistance Payment contract on or after February 29, 1980 (Post-1980 Developments). As a result of communications by and between Rhode Island Housing and HUD, and after additional review of the regulation, Rhode Island Housing has agreed with HUD's interpretation that certain residual receipt funds for two Post-1980 Developments were used for other than project purposes. During June 2005, Rhode Island

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Housing returned funds totaling \$537,778 to the respective Post-1980 Development's residual receipts escrow accounts.

Questioned Costs: None

Finding 2005-41

WIA CLUSTER:

WIA Adult Program – CFDA 17.258

WIA Dislocated Workers – CFDA 17.260

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

ELIGIBILITY

Participants in the WIA Adult Program (CFDA 17.258) and WIA Dislocated Workers (CFDA 17.260) are required to register with Selective Service, if applicable. Our sample of 10 adult participants included one individual who stated on his application that he had registered with Selective Service, but did not include a selective service registration number.

We inquired on-line at the Selective Service website, and found that this individual had not registered, and was therefore ineligible for benefits. Since the participant is over the age of 26, he is no longer eligible to register. This participant received occupational skills training at a cost of \$4,000 to WIA.

We believe this situation represents a weakness in internal control over eligibility. DLT should require registration to be confirmed directly through the Selective Service website, as applicable, and include a copy of the confirmation in the participant's file.

Questioned Costs: \$4,000

RECOMMENDATION

2005-41 Require confirmation of Selective Service registration, as applicable.
 Include a copy of the confirmation in the participant's file.

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Section III – Federal Award Findings and Questioned Costs

Finding 2005-42

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 requirements. 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 25 construction contracts for the Highway Planning and Construction (HPC) program and 5 for Grant Anticipation Revenue Vehicles (GARVEE) funded projects that were active during fiscal year 2005 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:

- ❑ 12 of the 30 projects tested had at least one labor compliance checklist missing,
- ❑ overall 73 of 238 total checklists were missing (30.7%), and
- ❑ 27 checklists were not signed by two representatives of the State, and 7 checklists were not signed at all.

Questioned Costs: None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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RECOMMENDATION

2005-42 Strengthen oversight of the labor compliance monitoring procedures to ensure contractor compliance with Davis Bacon Act requirements.

Finding 2005-43

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

APPROVAL OF LABOR ADDITIVE CHARGES

In prior year audits we recommended that RIDOT 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. Additionally, RIDOT should develop procedures to ensure that 1) only allowable costs are included in its labor additive calculation, and 2) estimated charges to Federal projects are adjusted to actual on an annual basis.

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 direct 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 is then applied to direct personnel costs charged to each project (i.e., for every direct personnel cost dollar charged to a project, the labor additive rate would be applied 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. 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-

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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 in May 2005 RIDOT submitted summary documentation supporting its fiscal year 2004 labor additive rate calculation to the FHWA for approval. RIDOT personnel have indicated that, since FHWA has not yet approved the new labor additive rate calculation, the 2003 rate continues to be utilized for Federal billings. We also determined that, FHWA informed RIDOT, in correspondence dated June 15, 2005, that FHWA would review the computation and methodology to ensure that the rate complies with Circular A-87 requirements.

As we previously reported, the fiscal year 2003 rate was derived incorrectly due to RIDOT inappropriately including leave without pay hours in its allocable benefits calculation, and excluding an adjustment reflecting that the fiscal 2002 estimated rate used for FHWA billings exceeded the 2002 actual rate. RIDOT has never quantified the impact of including leave without pay hours in its 2003 calculation or adjusted its rate to account for variances between estimated and actual. 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.

Additionally, we noted that formal policies or procedures do not exist for calculating the labor additive rate and that RIDOT has no internal controls to ensure the rate is calculated timely, correctly or checked for accuracy. Our audit disclosed that RIDOT did not calculate the fiscal year 2004 rate until May 2005, and that the fiscal year 2005 rate has not been determined.

Questioned Costs: None

RECOMMENDATIONS

- | | |
|----------|---|
| 2005-43a | 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. |
| 2005-43b | Revise the methodology for computing the labor additive rate to include only allowable costs to Federal projects. |
| 2005-43c | Adjust charges to Federal projects based on a provisional labor additive rate to actual on an annual basis. |

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

Finding 2005-44

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

FEDERAL REIMBURSEMENT FOR EXPENDITURE CREDIT

As described in Finding 2005-19 (Section II – Financial Statement Findings), controls over the Federal billing process also need to be improved to ensure that 1) the federal share of IST fund expenditures is accurately reflected in the RISAIL accounting system which is the basis for the preparation of financial statements, 2) all federally reimbursable expenditures are billed timely, 3) expenditures ineligible for federal reimbursement are not recorded in federal accounts, and 4) expenditure credits related to previously reimbursed federal costs are properly recorded in the billing system. RIDOT's current internal control procedures do not include a reconciliation between the transactions posted in federal RISAIL accounts and transactions processed through the Federal Highway Administration (FHWA) billing system.

In June 2005, RIDOT processed a transaction totaling \$397,828 to reduce its unclaimed check liability and record an expenditure credit for previously billed and reimbursed federal expenditures. The federal expenditure credits relating to this transaction were never input to the federal billing system to reimburse FHWA for the previously billed costs.

Questioned Costs: \$397,828

RECOMMENDATION

2005-44 Reimburse the Federal Highway Administration for the expenditure credit not processed through the billing system.

Finding 2005-45

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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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RIDOT did not submit its Disadvantaged Business Enterprise (DBE) Program reports to the Federal agency for the periods April 1, 2004 to September 30, 2004 and October 1, 2004 to March 31, 2005. The DBE reports, if submitted, would have indicated that no FTA contracts were awarded during the reporting periods.

Questioned Costs: None

RECOMMENDATION

2005–45 Prepare and submit DBE reports as required by program regulations.

Finding 2005-46

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 STATE GRANTS – CFDA 84.367

Administered by: Rhode Island Department of Education (RIDE)

SUBRECIPIENT CASH MANAGEMENT

RIDE did not have adequate procedures in place during most of fiscal 2005 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 educational agencies beyond their immediate needs.

The *Common Rule* {34 CFR 80.21(c) and 80.37 (a)(4)} requires grantees such as 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 to 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. According to RIDE financial management, this policy was instituted in June 2005.

Questioned Costs: None

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

RECOMMENDATION

2005- 46 Require all subrecipients to request federal grant funds on a reimbursement basis.

Finding 2005-47

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 STATE GRANTS – CFDA 84.367

Administered by: Rhode Island Department of Education (RIDE)

LEVEL OF EFFORT-SUPPLEMENT NOT SUPPLANT

RIDE requires each Local Educational Agency (LEA) to compile a Consolidated Resource Plan (CRP), which describes how the LEA plans to use Federal funds to meet its educational needs for the fiscal year. The CRP contains assurances indicating compliance with all requirements, including the Supplement not Supplant requirement. This requirement stipulates that program funds will be used only to supplement, not supplant the level of funds available from non-Federal sources for the education of participating students. The CRP submitted by each LEA is required to include fiscal data and budgets demonstrating compliance with the Supplement not Supplant requirement.

We found that RIDE documented only those reviews in which the LEA did not meet all requirements. When the LEA met all of the requirements, RIDE did not document its review of the CRP. Therefore, we could not determine whether RIDE reviewed the CRP and concurred that the LEA met the Supplement not Supplant compliance requirement for four of the ten LEAs we tested.

In addition, we found one instance in which the superintendent of schools of the LEA did not sign the assurances included in the CRP, as required.

Questioned Costs: None

RECOMMENDATION

2005-47 Document whether each LEA met the Supplement not Supplant requirement based on review of the Consolidated Resource Plans and related documentation submitted by the LEA. Ensure that each CRP contains assurances signed by the LEA.

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

Finding 2005-48

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 STATE GRANTS – CFDA 84.367

Administered by: Rhode Island Department of Education (RIDE)

SUBRECIPIENT AUDIT REPORTS

Subrecipients are required to submit a Single Audit Report to each pass through entity (e.g., State of Rhode Island – Rhode Island Department of Education) providing federal funds. Federal regulations also require pass through entities such as RIDE to submit a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensure that the subrecipient takes appropriate and timely corrective action.

We found that 5 of the 8 LEAs whose audit reports contained education-related findings deemed by RIDE to be significant enough to warrant follow-up had not been submitted to RIDE until 17 months after the LEAs fiscal year-end. We also noted that several management decision letters had not been completed and forwarded within six months of receipt of the audit report as required by federal regulation.

Timely receipt and review of subrecipient audit reports and appropriate follow-up is necessary to prevent control weaknesses and noncompliance at the LEA level from going uncorrected for extended periods, thereby impacting compliance with federal requirements relating to administration of grant funds by subrecipients.

Questioned Costs: None

RECOMMENDATION

2005-48 Obtain subrecipient audit reports in a timely manner, and provide applicable management decision letters to local educational agencies within required time frames.

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

Finding 2005-49

SPECIAL EDUCATION CLUSTER:

Special Education – Grants to States – CFDA 84.027

Special Education – Preschool Grants – CFDA 84.173

Administered by: Rhode Island Department of Education (RIDE)

CERTIFICATION OF CENSUS INFORMATION

By Federal regulation (34 CFR 300.754), state educational agencies are required to “obtain certification from each agency and institution that an unduplicated and accurate count has been made.” This census is the basis for RIDE to report the number of children receiving special education and related services to the federal Department of Education.

Our audit found that RIDE uses two different systems to obtain census data. One is the certified census data provided by local educational agencies on October 1 of each year. RIDE assembles the second count from data provided by Special Needs offices at the LEAs as of December 1, annually. RIDE uses this second list as the basis for determining an unduplicated and accurate count of children with disabilities receiving special education and related services.

We noted that there are differences between the two census counts. Since federal regulation requires local certification of census data, we believe RIDE should require LEAs to certify the census counts provided as of December 1 of each year, and forego the October 1 submission.

Questioned Costs: None

RECOMMENDATION

2005-49 Ensure data reported to the federal Department of Education regarding the number of children receiving special education and related services is based on certified census counts provided by local education agencies. Require local educational agencies to certify the census count of children receiving special education and related services as of December 1, annually.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Finding 2005-50

STUDENT FINANCIAL ASSISTANCE CLUSTER:

Federal Family Education Loans - CFDA 84.032
Administered by: Community College of Rhode Island

STUDENT EXIT INTERVIEWS

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

Eight of 25 students selected for testwork who received a Federal Family Education Loans and ceased enrollment during the fiscal year did not have exit interviews performed or mailed within the required 30 days.

Questioned Costs: None

RECOMMENDATION

2005-50 The College should review and enhance its current procedures for conducting exit counseling procedures to ensure counseling is performed in conformity with Federal regulations.

Finding 2005-51

STUDENT FINANCIAL ASSISTANCE CLUSTER:

Federal Perkins Loan Program - Federal Capital Contributions – CFDA 84.038
Administered by: University of Rhode Island

LOAN DOCUMENTATION

Perkins loan regulations require an institution to maintain Perkins loan records for each student, which include information collected at initial and exit loan counseling sessions.

We noted nine student files that lacked evidence to indicate that an initial interview had been performed.

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

Questioned Costs: None

RECOMMENDATION

2005-51 The University should enhance its policies and procedures to ensure all documentation is properly maintained in accordance with federal regulations.

Finding 2005-52

STUDENT FINANCIAL ASSISTANCE CLUSTER:

Federal Perkins Loan Program - Federal Capital Contributions – CFDA 84.038

Federal Direct Student Loans – CFDA 84.268

Administered by: University of Rhode Island

DISBURSEMENT NOTIFICATION

If an institution credits a student's account with Federal Direct Loan (FDL) funds or Federal Perkins Loan Program 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 University currently does not have a procedure in place to notify students of the date and amount of the disbursement of their loan and the right to cancel loan proceeds upon receipt of FDL and Federal Perkins Loan Program funds.

Questioned Costs: None

RECOMMENDATION

2005-52 We suggest that the University implement procedures to notify the student of the receipt of their FDL, or Federal Perkins Loan funds and their right to cancel, whether written or electronically.

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

Finding 2005-53

STUDENT FINANCIAL ASSISTANCE CLUSTER:

Federal Pell Grant Program – CFDA 84.063

Administered by: Community College of Rhode Island

TRANSMISSION OF STUDENT PAYMENT DATA

Institutions must report student payment data within 30 calendar days after the school makes a payment or becomes aware of the need to make an adjustment to previously reported student payment data or expected student payment data.

The spring disbursements for 29 of 30 students in our sample who received Federal Pell Grants were not transmitted to the Department of Education within the 30-day timeframe.

Questioned Costs: None

RECOMMENDATION

2005-53 The College should review its procedures to ensure students receiving Federal Pell Grants are transmitted to the Department of Education within the required 30-day timeframe.

Finding 2005-54

STUDENT FINANCIAL ASSISTANCE CLUSTER:

Federal Direct Student Loans – CFDA 84.268

Administered by: University of Rhode Island

STUDENT EXIT INTERVIEWS

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

Four of the 30 students tested that received a Federal Direct Loan and ceased enrollment that did not have evidence that an exit conference was performed or mailed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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We also noted that the exit interview for one student was not performed within the required 30-day timeframe.

Questioned Costs: \$54,426 (amount of total loans awarded and disbursed to the six students without evidence of any exit interviews).

RECOMMENDATION

2005-54 We recommend that the University strengthen its procedures to ensure that a signed exit interview form or confirmation that on-line counseling was performed be received from all borrowers to be in compliance with the federal requirements regarding exit interviews.

Finding 2005-55

STUDENT FINANCIAL ASSISTANCE CLUSTER:

Federal Direct Student Loans – CFDA 84.268

Administered by: University of Rhode Island

NOTIFICATION OF STATUS CHANGES

Institutions must complete and return within 30 days of receipt of the roster file sent by the NSLDS. Once received, institutions must update the file for changes in student status, report the effective date of the status, and submit the changes to the NSLDS. Unless an institution expects to complete its next roster file within 60 days, the institution must notify NSLDS within 30 days of notification of a student's change in status.

Student status was not transmitted to the NSLDS within the required timeframe for five of the 30 students selected for status change testwork.

Questioned Costs: None

RECOMMENDATION

2005-55 We recommend the University strengthen its procedures over notification of status changes to NSLDS to ensure notification occurs in a timely and accurate manner.

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

Finding 2005-56

STUDENT FINANCIAL ASSISTANCE CLUSTER:

Federal Direct Student Loans – CFDA 84.268
Administered by: University of Rhode Island

REFUND CALCULATIONS

Per federal regulations, Title IV refund calculations are required to be completed no later than 30 days after the date the institution determines the student withdrew.

Through our testwork performed over Title IV refunds, we noted that 7 refund calculations were not performed within the 30-day time requirement.

Questioned Costs: None

RECOMMENDATION

2005-56 The University should take the necessary procedures to ensure that Title IV refund calculations are being performed in accordance with federal regulations.

Finding 2005-57

CENTERS FOR DISEASE CONTROL AND PREVENTION – INVESTIGATIONS AND
TECHNICAL ASSISTANCE – CFDA 93.283

Administered by: Rhode Island Department of Health

SUSPENSION AND DEBARMENT

Non-Federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Procurement contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria are considered “covered transactions.” All non-procurement transactions (i.e., sub-awards to sub-recipients) are considered covered transactions.

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System*

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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(EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

The Department of Health contracted for goods and services under various Centers for Disease Control & Prevention grant programs. We found that four contracts with service providers did not contain certifications that the providers were not suspended or debarred and documentation of the verification of checking the EPLS was not completed.

Questioned Costs: None

RECOMMENDATION

2005-57 We recommend that the Department of Health ensure that all contracts for goods and services under Centers for Disease Control & Prevention grant programs contain the required certifications.

Finding 2005-58

CENTERS FOR DISEASE CONTROL AND PREVENTION – INVESTIGATIONS AND
TECHNICAL ASSISTANCE – CFDA 93.283
Administered by: Rhode Island Department of Health

PAYROLL CERTIFICATION/ACTIVITY REPORTS

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.

Regulations require that where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. These reports must reflect an after the fact distribution of the actual activity, be prepared at least monthly, and be signed by the employee.

During fiscal 2005, the Department of Health – CDC did not require employees who worked solely on a single Federal award or cost objective, or their supervisors, to sign certifications to that effect for the period covered by the certification. Personnel activity reports were not prepared on a monthly basis for employees working on multiple activities.

Questioned Costs: None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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RECOMMENDATION

2005-58 We recommend that the Department of Health – CDC require employees working on a single Federal award or cost objective, or their supervisors, to sign certifications to that effect, on at least a semi-annual basis. We also recommend that personnel activity reports showing actual distribution of activity be prepared on a monthly basis for employees working on multiple activities.

Finding 2005-59

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) 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 40 TANF cases from the four quarters of state fiscal year 2005

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where IEVS data had been electronically posted to a case record. For each case, we assessed whether the IEVS data had been properly considered in the eligibility and benefit determination process.

We obtained a file from the Department's INRHODES system of all interface matches during state fiscal year 2005. We compared this file to another file containing all TANF benefit payments made in state fiscal year 2005. The comparison was done to identify which data matches involved cases that received TANF benefit payments during the quarter to which the discrepancy applied and we randomly selected for testing 40 of these cases.

We identified the following exceptions during our testing:

- ❑ Nineteen (19) cases with discrepancies resulting from data matches were not investigated or resolved. Based on our evaluation of electronic case file data, seven (7) discrepancies could have been easily resolved by the caseworker and would not appear to have impacted eligibility or the household's benefit level. Twelve (12) cases with discrepancies may impact eligibility or the household's benefit level.
- ❑ Six (6) cases 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 may 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

- | | |
|----------|--|
| 2005-59a | 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. |
| 2005-59b | 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
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Finding 2005-60

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558
Administered by: Department of Human Services (DHS)

SPECIAL REPORTING

The Department’s internal control procedures require further strengthening 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.

Although there was significant improvement in the accuracy of reporting expenditure information since our prior audit, we continued to find numerous deficiencies in the accuracy of the reported number of families served for the various programs. Deficiencies included computational errors, inaccurate or incomplete information reported and discrepancies between amounts reported in the ACF-204 and supporting documents. In a few cases supporting documentation could not be located.

For example, in one instance computer reports supporting a significant duplication estimate could not be located. The duplication factor was identified on supporting worksheets, but then the department mistakenly reported the total which included the duplication, instead of reporting the total after subtracting the amount of the duplication as intended. In another instance, a question regarding prior program authorization was answered “no” when it should have been answered “yes”. Reported amounts sometimes include the number of participants rather than the number of families, as required. In a few cases the number of families served inappropriately were not based on a full year of data for the fiscal year reported. In some other cases only new enrollees were included in counts, ignoring the fact that there may be families that were enrolled in the prior year and continued in the program during a portion of the year reported. Many of these errors and discrepancies could be easily prevented by a review of the report information and comparison to supporting documentation prior to approval of the report for submission to the federal government.

Supervisory review and approval procedures for the report should be further strengthened to ensure that all necessary information is included in the report and the information is accurate, represents 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

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

RECOMMENDATIONS

- 2005-60a 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.
- 2005-60b Maintain adequate detailed supporting documentation for all information reported.
- 2005-60c Correct the fiscal year 2004 ACF-204 report and resubmit it to the federal government.

Finding 2005-61

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558
Administered by: Department of Human Services (DHS)

REPORTING – ACF-196, TANF FINANCIAL REPORT

We found that expenditures identified on the ACF-196 TANF financial report are not consistently supported by the State's accounting records. For example, for the period October 1, 2004 to June 2005 expenditures recorded in the state accounting system were approximately \$5.9 million more than reported on the TANF ACF-196 Financial Reports for the same period. This was primarily a timing difference because the variance reversed itself in the succeeding quarter.

Questioned Costs: None

RECOMMENDATION

- 2005-61 Strengthen internal procedures to ensure that expenditures reported on the quarterly ACF-196 TANF Financial Report are supported by amounts reflected in the state accounting system.

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

Finding 2005-62

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558
Administered by: Department of Human Services (DHS)

PERFORMANCE REPORTING

The Department should revise its procedures for preparing the ACF-199, TANF Data Report (OMB No. 0970-0199) so that it is properly prepared in accordance with U.S. Department of Health and Human Services (HHS) instructions. This report is submitted on a quarterly basis to the Administration for Children and Families, a component of HHS and contains various information on the TANF cases, including the number of hours each adult recipient spent in activities that count towards meeting federal work requirements.

In testing the March 2005 quarterly TANF Data Report, we found the department is not reporting actual hours of recipient participation in work activities as required by HHS instructions for preparing the ACF-199 TANF Data Report. Instead, the department is reporting scheduled hours for approximately 10 out of the 12 months included in the four quarterly reports for work activities involving employment hours. In accordance with the department's prospective budgeting methodology, in general, actual hours are only reported when computer information is updated upon performing eligibility redeterminations approximately every six months. Only scheduled hours are being reported for recipient cases with other work activities not involving employment; i.e., job search, training and educational work activities, etc.

HHS instructions specify that "states are to collect actual hours of participation and that it is not acceptable to report scheduled hours of participation in a work activity as actual hours of participation". Further, HHS stipulates that "States should validate actual participation in each work activity". The department should consult with HHS to derive an acceptable, practical, and efficient method for gathering and reporting the actual work activity data required.

Questioned Costs: unknown

RECOMMENDATION

2005-62 Implement a method of gathering and reporting actual work activity hours as required by HHS instructions.

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Finding 2005-63

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558

CCDF 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

Administered by: Department of Human Services (DHS)

ELIGIBILITY - CASE FILE DOCUMENTATION

The Department provides cash assistance and other services to eligible families in an approved employment plan of the State's Family Independence Program (FIP). It also provides services to children of low-income families whose gross income is within established eligibility limits. Department personnel from the Family Independence Program (FIP) Office accept applications and approve payments for FIP cash assistance and child care services. Families apply for FIP cash assistance using the DHS Application for Assistance and the Statement of Need forms. Families seeking eligibility for the Child Care Assistance Program (CCAP) must submit a signed FIP request for services or CCAP application form. All FIP and child care service applications are required to be submitted 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, as well as, other program specific eligibility factors such as the amount of resources, age of children, etc. as applicable.

We tested the case files of 40 families receiving FIP cash assistance and/or 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 Family Independence Program and Child Care Programs eligibility determination process:

- ❑ Five instances where the required hardcopy documentation (e.g. application, income documentation, etc.) could not be located.
- ❑ One instance where the earned income amount (wages) utilized in the eligibility calculation varied from the hard copy income documentation contained in the case file.
- ❑ One instance where the unearned income from child support, utilized in the eligibility calculation, differed from the data reflected in the eligibility system's Child Support Enforcement module within INRHODES.

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- ❑ Two instances where FIP eligibility redeterminations were not completed within the mandated 1 year period. In one instance, 29 months passed before a redetermination was done and in the second instance, 22 months elapsed before another redetermination was completed.
- ❑ Seven instances where application questions concerning certain federal prohibitions were not answered by the applicant.
- ❑ One instance where there was no electronic information or hard copy documentation indicating that any referral for a work activity had been properly made.
- ❑ Two instances where there was no hard copy documentation or electronic case log entries supporting other electronic information indicating that a referral for work activity was made and subsequent enrollment and attendance were confirmed.
- ❑ In addition, we noted that the state plan indicates the individual job search activity is a “supervised individual job search”. However, DHS policies and procedures do not identify the specific procedures workers are to follow in providing supervision for individual job search activities. As a result, in practice there is no demonstrable or documented supervision of individual job search activities.
- ❑ Supervisors perform routine case reviews on a sample basis to ensure that workers are determining eligibility appropriately. However, we found that child care cases are not specifically included in the case review process.

Controls should be strengthened to ensure that workers comply with established procedures thereby assuring the accuracy of eligibility determinations and calculations of benefits or provider payments.

Questioned Costs: unknown

RECOMMENDATIONS

- | | |
|----------|---|
| 2005-63a | Strengthen controls to ensure adherence to procedures requiring agency personnel obtain and properly utilize required documentation to update electronic case file records prior to determining eligibility and payment amounts, as well as, determining compliance with work participation requirements. |
| 2005-63b | Identify policies and procedures regarding supervision of individual job search activities. |
| 2005-63c | Include Child Care cases in the sample case review process. |

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

Finding 2005-64

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558

CCDF 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)

AUTOMATED DATA PROCESSING (ADP) RISK ANALYSIS AND SYSTEM SECURITY
REVIEW

Federal regulation (45 CFR section 95.621) mandates that States are responsible for the security of all ADP operational systems involved in the administration of U.S. Department of Health and Human Services (DHHS) 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 the Medicaid Management Information System (MMIS), to administer DHHS federal programs. Benefit payments disbursed through these two systems during fiscal year 2005 totaled over \$1.8 billion. 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 addresses 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 documented certain system controls but did not include verification of their operation or effectiveness. For example, controls relating to system access, application software development and changes, service continuity, and incident response capability were not tested for operational effectiveness.

DHS should implement a comprehensive system security review process 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 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.

45 CFR Section 95.621 requires State agencies to review the ADP system security of installations involved in the administration of HHS programs on a biennial basis. At a minimum,

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. 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

- 2005-64a 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.
- 2005-64b Implement procedures to ensure that risk assessments are conducted at required intervals and when significant system changes that could affect overall information system security occur.
- 2005-64c 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 2005-65

LOW-INCOME HOME ENERGY ASSISTANCE - CFDA 93.568
Administered by the Department of Administration – State Energy Office

FINANCIAL REPORTING

LIHEAP grantees are required to complete and submit annually the *Financial Status Report (FSR)* (SF269A – OMB No. 0348-0038). Recipients use the FSR to report the status of funds for all non-construction projects. The key line items are as follows:

6. *Final Report Y/N* – Yes is checked if this is the last report for the funding/grant period.

10c. *Federal share of outlay* – The total program outlays less any rebates, refunds or other credits.

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10f. Federal share of unliquidated obligations – The total amount of unliquidated obligations, including unliquidated obligations to subgrantees and contractors. Unliquidated obligations on a cash basis are obligations incurred but not yet paid. On an accrual basis, they are obligations incurred, but for which an outlay has not yet been recorded. An obligation is not necessarily a liability in accordance with generally accepted accounting principles. When an obligation occurs (is made) depends on the type of property or services that the obligation is for. If an obligation is for personnel services by an employee of the State, the obligation is made when the services are performed. On the final report submitted to the Federal Government, line 10d. must be zero.

10g. Total Federal Share – The sum of 10c. and 10f.

10h. Total Federal funds authorized for this funding period – The total amount awarded and authorized by the Federal Agency.

10i. Unobligated balance of Federal funds – The difference of the total Federal funds authorized (awarded) for the funding period and the Total Federal Share which includes the sum of the total Federal Share of Outlays and the Federal Share of Unliquidated Obligations.

During our review of the report submitted, SF-269, we noted the following:

Key line item	Reported	Actual
6.	Y	N
10c.	\$ 10,499,024	\$ 10,882,714
10f.	4,640,752	3,554,149
10g.	15,139,776	14,436,863
10h.	15,139,776	15,150,603
10i.	—	713,740

Questioned Costs: unknown

RECOMMENDATION

2005-65 We recommend that the State submit a corrected version of the SF-269 in accordance with the Financial Status Report instructions. In addition, the State is required to obligate any unused funds by September 30, 2006, currently totaling \$713,740. If the State cannot obligate these funds by that date, we recommend that the State seek out and document approval from the grantor to carry the funds forward.

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Finding 2005-66

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, such as:

- ❑ 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)}.
- ❑ The child must meet the eligibility requirements of the former Aid to Families with Dependent Children (AFDC) program -- i.e., meet the State-established standard of need as of July 16, 1996 -- {42 USC 672 (a)}.

We selected a sample of 25 maintenance payments (other than day care) and tested them for applicable eligibility requirements. The federal share of these costs totaled \$2,893,638 in fiscal year 2005, and the universe of payments in our sample was \$5,991.

We found that 2 of the 25 payments in our sample were not eligible for federal funding because they were made on behalf of children who did not meet all of the eligibility requirements. One of these two payments was for a child who resided in an unlicensed home, and the other payment was for a child who did not meet the AFDC eligibility requirements. The federal share of these unallowable costs totaled \$357.

During fiscal year 2005, DCYF reassessed its interpretation of federal laws and regulations governing the amount of maintenance costs that are eligible for federal financial participation (FFP). It concluded that all maintenance costs, other than those pertaining to room and board, were eligible for FFP in those cases where the child did not reside in a licensed foster family home or child care institution -- i.e., costs such as food, clothing and day care. Maintenance costs for these cases (previously known as “eligible but not claimable”) had not been claimed previously. In fiscal 2005, DCYF began claiming such costs and made retroactive claims for certain maintenance costs.

Federal law stipulates that FFP is available for maintenance payments only if the child meets certain specific eligibility requirements. 42 USC 672 (b) requires that the child must be in a “foster family home” or “child care institution”, both of which must be “licensed by the state” pursuant to 42 USC 672 (c). We believe, therefore, that DCYF cannot obtain federal reimbursement for eligible but not claimable costs. Accordingly, we question the allowability of

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

the prior quarter adjustments for day care expenses and all other charges for “eligible but not claimable” cases as outlined below:

- DCYF identified all previously “eligible but not claimable” costs for day care expenses incurred in fiscal 2004 totaling \$173,763 and, accordingly, processed an increasing prior quarter adjustment for this amount with the March 31, 2005 IV-E 1 claim. It later identified similar costs for the quarters ending September 30, 2004 and December 31, 2004 totaling \$97,439, and processed another increasing prior quarter adjustment for this amount with the June 30, 2005 IV-E 1 claim. Total amount questioned (federal share) is \$271,202.
- DCYF also claimed federal reimbursement for day care expenses incurred between January and June 2005 for these “eligible but not claimable” cases on the March 31 and June 30, 2005 IV-E 1 reports. The amounts claimed for these “eligible but not claimable cases” could not be specifically segregated from other claimed maintenance costs. Total amount questioned (federal share) is not determinable.
- DCYF also started claiming federal reimbursement for all other eligible but not claimable costs, such as clothing -- i.e., in addition to day care expenses -- with the March 31 and June 30, 2005 IV-E 1 claims. The amounts claimed for these “eligible but not claimable cases” could not be specifically segregated from other claimed maintenance costs. DCYF did not claim these costs retroactively -- i.e., it did not process prior quarter adjustments to obtain federal funding for these costs. Total amount questioned (federal share) is not determinable.

Questioned Costs: Known questioned costs (federal share) is \$271,559 – other questioned costs are not determinable.

RECOMMENDATIONS

- | | |
|----------|--|
| 2005-66a | Adjust federal reports to reimburse the federal government for the unallowable maintenance costs. |
| 2005-66b | Quantify all previous maintenance cost claims that relate to children who resided in unlicensed homes and adjust federal reports to reimburse the federal government; discontinue claiming these costs on future IV-E 1 reports. |

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

Finding 2005-67

ADOPTION ASSISTANCE - CFDA 93.659

Administered by: Department of Children, Youth, and Families (DCYF)

ELIGIBILITY

DCYF can obtain federal funding for an adoption subsidy payment if the case meets certain eligibility requirements. For example:

- ❑ the child must meet the requirements of 1) the former Aid to Families with Dependent Children program (i.e., meet the State-established standard of need as of July 16, 1996), or 2) the Title XVI Supplemental Security Income program {42 USC 673 (a);
- ❑ DCYF must determine that the child has special needs as defined by 42 USC 673 (c);
- ❑ the subsidy agreement must be signed before the adoption decree {45 CFR 1356.40 (b) (1)};
- ❑ DCYF must conduct a criminal records check on the prospective adoptive parent(s) {45 CFR 1356.30}; and

We selected a sample of 31 adoption subsidy payments and tested them for applicable eligibility requirements. The federal share of these costs totaled \$5,868,786 in fiscal year 2005, and the universe of payments in our sample was \$8,314.

We found that 6 of the 31 payments in our sample were not eligible for federal funding. This was due to the fact that certain records supporting the payments were not available for our review and, as a result, we were unable to substantiate that these payments met all eligibility requirements. Many of the records supporting the federal funding of subsidy payments were maintained in various locations and, in some cases, the records could not be located. DCYF should develop policies to centralize and retain all such records. This is particularly important because the claims for reimbursement could span up to a 21-year period. DCYF should consider electronic imaging of these critical documents to facilitate storage and retrieval. The federal share of the six unsupported payments totaled \$1,597.

DCYF can improve its policies, procedures, and documentation to ensure that it obtains the full amount of federal funding available for adoption subsidy payments in accordance with applicable laws and regulations. We found inconsistencies in documentation supporting eligibility for the program.

DCYF currently uses its standard adoption subsidy agreement as the primary record to evidence that its claims for federal reimbursement meet all relevant laws and regulations (other

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Section III – Federal Award Findings and Questioned Costs

records are maintained in its computer system and in other hard copy forms). We found that the adoption subsidy agreements did not, in several cases, provide sufficient evidence to support that the subsidy payments were eligible for federal funding. For example, several agreements indicated that the payments did not meet some of the requirements necessary to obtain federal funding, and a few others denoted that the payment did not meet all of the requirements for federal funding. We were able to determine, however, that the underlying records proved that these cases did, in fact, meet such requirements.

We also found other contradictions in the records supporting eligibility for federal funding. For example, the minority status of a child can be a factor in determining whether the child meets the special needs criteria of the program. In one case, the subsidy agreement, the adoption petition, and other documents were inconsistent as to the minority status of the child. When we questioned the eligibility of this case, DCYF produced another document suggesting that the child met the minority status criteria.

Questioned Costs: \$1,597

RECOMMENDATIONS

- | | |
|----------|--|
| 2005-67a | Adjust federal reports to reimburse the federal government for the unallowable adoption subsidy charges. |
| 2005-67b | Reassess and document policies and procedures used to identify adoption subsidy payments that are eligible for federal financial participation; implement an appropriate quality control system to ensure that all claims meet federal eligibility requirements. |

Finding 2005-68

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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

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 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 2005 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 population of 156,884 monthly capitation payments (totaling in excess of \$35 million) claimed for the SCHIP Demonstration population revealed that 22,177 or 15.19% of these payments totaling \$5,380,112 (federal share - \$3,718,195) were for parents that had verified third party

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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liability coverage (as recorded in the MMIS) during the month of capitation. In addition, 10,832 fee-for-service claims totaling \$615,117 (federal share - \$425,107) were also charged to SCHIP for periods in which third party coverage was indicated. During fiscal 2005, DHS only claimed 70% of the above total costs of \$4,143,302 on federal reports due to SCHIP funding limitations (70% of the \$4,143,302 (federal share amounts) reported above totals federal questioned costs of \$2,900,311). Although these payments do not appear to meet stated criteria allowable for enhanced SCHIP reimbursement (FY 2005 average FFP = 69.11%), these costs would be eligible for reimbursement through the Medical Assistance Program (FFP = 55.54%), resulting in net federal questioned costs of \$569,486. These questioned costs are based solely on the specific claims that were represented by DHS as supporting claiming made during fiscal 2005.

We tested capitation and fee-for-service claims identified by ad-hoc queries and charged to the SCHIP program. We found the following:

- ❑ Claims charged to the program for four individuals who did not meet SCHIP program eligibility requirements. The claims were charged to SCHIP due to incorrect eligibility codes that were determined manually by DHS eligibility technicians (see Finding 2005-70 relating to manually determined eligibility segments). The claims above were also determined to be ineligible for Medical Assistance resulting in questioned costs totaling \$101,368 (federal share - \$70,056).
- ❑ DHS claimed a total of approximately \$30.8 million in federal SCHIP reimbursement during fiscal 2005. This amount represents monthly capitation and fee-for-service payments made on behalf of SCHIP eligible individuals. Due to funding limitations, DHS was only able to claim for expenditures incurred into March 2005. The State did not maintain and could not exactly replicate the capitation and fee-for-service claim detail to support the amounts claimed when requested for our audit. Although we were ultimately able to determine that the State had sufficient SCHIP eligible claims during fiscal 2005 to support the amounts claimed, DHS should more thoroughly document the specific claims identified as SCHIP eligible and provide an adequate audit trail for SCHIP expenditures.

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.

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: \$2,970,367 – SCHIP Program (net questioned costs after reflecting costs eligible for Medicaid reimbursement is \$569,486)

RECOMMENDATIONS

- | | |
|----------|--|
| 2005-68a | 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. |
| 2005-68b | Credit federal reports for expenditures that do not comply with the terms and conditions of the SCHIP program. |
| 2005-68c | Implement procedures to fully consider the existence or availability of other insurance when determining eligibility for SCHIP. |
| 2005-68d | Maintain adequate supporting documentation for all capitation and fee-for-service claims identified as SCHIP eligible through ad-hoc queries. |

Finding 2005-69

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.

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 (55.54% for Medicaid vs. 69.11% for SCHIP). Cost sharing collections in fiscal 2005 totaled \$3.5 million (for approximately 3,600 individuals), however, the Department cannot determine the amount that should be applied to each program.

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

Questioned Costs: None

RECOMMENDATION

2005-69 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 2005-70

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 represent 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.

We found four cases where manually determined eligibility segments resulted in assigned aid categories that 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:

- 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, these 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 2005-68). 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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

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 important that adequate controls be in place over any manual override of the eligibility determination process.

Questioned Costs: None

RECOMMENDATION

2005-70 Improve controls and policies relating to manually determined eligibility segments within INRHODES to ensure that aid category codes are assigned appropriately to medical benefit recipients within the Medical Assistance and SCHIP programs.

Finding 2005-71

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 \$1.7 million was charged to the Social Services Block Grant program and \$19 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.

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

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

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 2005, the department processed an expenditure adjustment transferring \$711,148 from the SSBG to Title XIX (Medical Assistance) to correct erroneous funding source codes indicated by the homemaker service vendors.

Questioned Costs: None

RECOMMENDATION

2005-71 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.

Finding 2005-72

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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

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 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. DHS has signed a new contract effective for fiscal 2006 with its fiscal agent that includes an annual “SAS 70” audit requirement. The fiscal agent has contracted with a firm to conduct a Type I “SAS 70” engagement during fiscal 2006.

- *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

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| 2005-72a | Obtain an annual examination (“SAS 70” review) performed by independent certified public accountants of the fiscal agent’s internal control policies and procedures. |
| 2005-72b | 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. |

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

Finding 2005-73

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 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 2005, recovery from third party insurers was not attempted for claims totaling approximately \$2.3 million (federal share - \$1.3 million) because the time limit for submission of claims had expired. Claims totaling \$888,930 (federal share - \$493,712) were submitted for reimbursement but were subsequently denied mostly due to untimely filing.

In addition, attempted Medicare recoveries approximating \$1 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 2005 and in prior years. During fiscal 2004, DHS hired a contractor to begin matching Medicaid recipient data with third party private insurance data in an effort to identify medical coverage more effectively. While these data matches have increased the amount of third party insurance coverage identified by the fiscal agent, it is too soon to evaluate if these matches are resulting in improvements in cost avoidance and third party recovery amounts.

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

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.

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: \$1,793,712

RECOMMENDATIONS

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|----------|---|
| 2005-73a | Review existing procedures to ensure that third party liabilities are identified on a timely basis. |
| 2005-73b | Reimburse the federal government for its share of uncollected third party liability recoveries. |

Finding 2005-74

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 our testing of claims processed through the MMIS for fiscal 2005, we noted that DHS's nursing facility rate setting unit had not communicated a required rate change for a provider to the State's fiscal agent. DHS immediately made the necessary rate change resulting in \$65,997 (federal share - \$36,655) being recouped during fiscal 2006 from this provider.

During fiscal 2005, program expenditures (federal and state share) in excess of \$65 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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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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 (DCYF) 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 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.

Local Education Agencies

School-based health services reimbursable under the Medicaid program are provided by local education agencies (LEA) 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.

DHS has communicated policies and procedures and attempted to identify training needs of school personnel involved in administering Medicaid benefits. DHS, however, has not implemented procedures to ensure LEA compliance with Medicaid regulations. Because LEA claims are subject to only limited edit controls within the MMIS, DHS should, on a test basis, implement procedures to evaluate individual LEA compliance with mandated procedures. DHS should also document the results of these reviews and any corrective action taken.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

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, purchases of goods and services over \$25,000 which will be reimbursed with Medicaid administration funds should require approval of DHS prior to expenditure.

In instances where MOUs are in place, DHS is not adequately monitoring other agencies' compliance with agreement terms and conditions. During our testing of administrative expenditures charged by other State agencies, we noted the following:

- ❑ The Department of Elderly Affairs (DEA) charged certain administrative costs totaling \$29,280 (federal share - \$14,640), 100% to the Medical Assistance program as opposed to an allowed 50% federal reimbursement percentage. Although DHS claimed only 50%

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

of the costs on federal reports, expenditures recorded in the State Accounting System and the State's Schedule of Expenditures of Federal Awards included the entire amount.

- The Department of Mental Health, Retardation, and Hospitals (MHRH) allocated certain indirect costs at enhanced rates instead of the allowable 50% federal reimbursement percentage (federal share - \$1,036).

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.

Questioned Costs: \$37,691

RECOMMENDATIONS

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|----------|--|
| 2005-74a | Improve controls by requiring all benefit-type program expenditures to be processed through the MMIS. |
| 2005-74b | Enhance oversight and monitoring procedures related to school-based medical services to ensure that LEA claiming complies with mandated policies. |
| 2005-74c | Implement oversight procedures for the determination of per-diem rates established for state operated facilities. |
| 2005-74d | Implement control procedures to ensure the allowability of administrative expenditures charged to the Medicaid program by other departments. |
| 2005-74e | Implement monitoring procedures to ensure that other State agencies are complying with MOU and/or interagency agreements that define allowable Medicaid expenditures. |
| 2005-74f | Reimburse the federal government for its share of questioned costs identified. |
| 2005-74g | Improve controls over nursing home per diem rates by periodically verifying rates established through the rate setting process with those reported in the MMIS system. |

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

Finding 2005-75

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.

The State's fiscal agent has been attempting to obtain 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, since November 2000. During our testing of claims paid in fiscal 2005, we still found 7 out of 94 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, the Department of Health, and the Department of Elderly Affairs contracted with various vendors for Medicaid eligible services in excess of \$100,000 during fiscal year 2005. We found instances in each department where contracts with vendors in excess of \$100,000 did not contain certifications that the vendor was not suspended or debarred from participating in the Medicaid program.

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 findings resulting from a Program Integrity audit conducted by the Centers for Medicare and Medicaid Services (CMS) during fiscal year 2003. CMS 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 had not addressed this issue as of the time of our audit.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

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

- 2005-75a Review and strengthen procedures to ensure current agreements containing the required suspension and debarment certifications are in place for all providers.
- 2005-75b Implement procedures to ensure that individuals/entities participating in the Medical Assistance Program have not been excluded from participation by any federal organization.
- 2005-75c Revise Addendum I to the department's standard provider agreement to fully comply with 42 CFR 455.106.

Finding 2005-76

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.

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. Receivable balances at June 30, 2005 resulting from employment terminations included seven instances where individuals enrolled in the program received \$8,262 (federal share) for health insurance premiums when they no longer had

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

active medical coverage. These amounts represent overpayments to Medicaid recipients that should have been credited back to CMS.

Federal regulation 42 CFR 433.40 requires the State to credit the Medical Assistance Program for provider payment checks which remain outstanding more than 180 days but did not credit the federal government for its share. DHS has a process to identify checks outstanding more than 180 days but did not credit the federal government for its share in a timely manner. At June 30, 2005, the total amount of provider checks outstanding more than 180 days was \$12,569 (federal share).

Questioned Costs: \$20,831

RECOMMENDATIONS

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|----------|--|
| 2005-76a | Reimburse the federal government for program overpayments within 60 days of their discovery. |
| 2005-76b | Credit the federal government in a timely manner for all provider payments outstanding more than 180 days. |

Finding 2005-77

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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

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 2005-74, 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.

No review process is in place to ensure consistent and accurate reporting of program expenditures on the CMS-64.

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 that DHS did not report the correct amount of actual disbursements for two quarters during fiscal year 2005. For the quarter ending June 30, 2005, disbursements reported on the PMS-272 Report were understated by \$4.8 million.

Questioned Costs: None

RECOMMENDATIONS

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|----------|---|
| 2005-77a | Align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS. |
| 2005-77b | Completely reconcile administrative expenditures reported on the CMS-64 with those reported in the State's accounting system. |
| 2005-77c | Report cumulative disbursements on the PMS-272 based on actual expenditures in accordance with report guidelines. |

Finding 2005-78

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 two years from the end of the hospital's fiscal year. DHS uses these settlement reports to determine

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

amounts owed to or from participating hospitals. During fiscal 2005, most hospitals should have submitted cost reports for their fiscal years ended in 2002 and prior.

At June 30, 2005, eight out of thirteen hospitals were current with their required cost settlement reports through fiscal 2002. Two hospitals had submitted cost reports only through fiscal 2001 and an additional two hospitals had submitted cost reports only through fiscal 2000. One hospital had submitted cost reports only through fiscal 1995.

One of the hospitals referenced above submitted overdue settlement reports during fiscal year 2003 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. DHS recovered a small portion of the amount due during fiscal year 2004, representing the undisputed portion of the settlement amount; however, the hospital provider is currently disputing the remainder of the settlement amount. Resolution and collection of all amounts owed is still pending.

DHS should settle all amounts owed to or from hospital providers in a timely manner. Enforcement provisions (withholding of amounts owed to a hospital as provided in Rhode Island General Law section 40-8-13.2) should be utilized as deemed appropriate. In instances where Medicaid has overreimbursed hospitals, this will allow timely credit of these amounts to the federal government.

Questioned Costs: None

RECOMMENDATIONS

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|----------|---|
| 2005-78a | Recover identified hospital settlements from providers in a timely manner and credit the federal government for their share within 60 days. |
| 2005-78b | Utilize the enforcement provisions of the Rhode Island General Laws to ensure hospitals submit year-end settlement reports within required time frames. |

Finding 2005-79

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

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Section III – Federal Award Findings and Questioned Costs

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.

We noted seven 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 2005-76, premium overpayments related to these cases totaled \$8,262.

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 \$17,003. Had timely identification of employment termination been made and these individuals were re-enrolled in RItE Care, DHS would have incurred capitation expenditures of \$14,436 only.

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: None

RECOMMENDATION

2005-79 Improve controls to ensure that RItE Share participants enroll and sustain valid health insurance coverage to prevent program overpayments.

Corrective Action Plan



Corrective Action Plan
Findings Included in 2005 Single Audit Report

Finding 2005-1 – Corrective Action

2005-1a

The Department of Administration has developed a multi year strategy for the continued implementation of the Oracle Application Suite. The schedule includes completing the conversion from Buyspeed to Oracle Purchasing and General Ledger packages and conversion from our existing budget system into Oracle Enterprise Budgeting and Planning as of June 30, 2006.

2005-1b

A process to analyze all significant general fund general ledger account balances that were not previously analyzed was developed in the fall of 2005 and actual reconciliation of these accounts is underway currently. This process, which is over 50% complete, involves staff in the Office of Accounts & Control and certain other state agencies. All significant accounts will be reconciled by June 2006.

2005-1c

Currently the conversion of all subsidiary accounting systems are under way and will be completed by June 30, 2006. Completed conversions are as follows:

- Workers compensation weekly payroll
- Transportation snow plow payments
- Registry Refunds
- DOA tax Refunds
- IFTA Refunds
- Sales & Use Tax Refunds
- Cigarette Tax Refunds
- Sales Permit Refunds
- Withholding tax Refund
- Hard to dispose tax refunds
- Estate tax refunds
- Insurance Tax Refunds
- Litter Tax Refunds
- Bank excise Tax Refunds
- Letter of Good standing Fee tax Refunds
- Public service Refunds
- Fuel Assistance Program

2005-1d

New and improved controls over classifying and recording expenditures at the fund level will be implemented by June 30, 2006. This will include controls put in place as a result of the

Corrective Action Plan
Findings Included in 2005 Single Audit Report

Oracle implementation and controls related to the use, by Accounts and Controls staff, of formalized policies that will be used to guide staff members in the pre-audit/post audit function.

2005-1e

Reports have been developed to conduct post audit of transactions to ensure proper recording of expenditures. In addition, the use of commodity codes to record expenditure types is being reviewed to determine if the Oracle system will allow the link between commodity codes and natural accounts. The post audit process will include a review of all fixed asset natural accounts on a monthly basis to ensure that these expenditures are being properly reported. This finding will be resolved as of April 30, 2006.

Anticipated Completion Date: June 30, 2006

Contact persons: Jerome Williams, Executive Director
Department of Administration
(401) 222-2280

Tracy Williams
Chief Information Officer
(401) 222-4444

Lawrence C. Franklin, Jr.
State Controller
(401) 222-6731

Finding 2005-2 – Corrective Action

2005-2a

The Oracle implementation will add new and improved controls over transactions in the accounting system. In addition formalized policies have been developed that will be used to guide staff members in the pre-audit/post audit function. This will also help to improve controls over transactions in the accounting system.

2005-2b

Additional exception reports and analysis will be implemented during fiscal year 2006 to overcome RI SAIL system limitations until implementation of the Oracle suite of financial applications is completed.

Corrective Action Plan
Findings Included in 2005 Single Audit Report

2005-2c

Data integrity controls over the check run have been reviewed as part of the Oracle implementation and will be in place as part of this implementation on or before June 30, 2006.

2005-2d

Formalized policies and procedures have been developed that will be used to guide staff members in the review and approval of accounting transactions. It should be noted that a yearly review process of each procedure as well as yearly training will be conducted to ensure that staff members are following these procedures. We believe that this finding is now resolved.

Anticipated Completion Date: June 30, 2006

Contact persons: Tracy Williams
Chief Information Officer
(401) 222-4444

Lawrence C. Franklin, Jr.
State Controller
(401) 222-6731

Finding 2005-3 – Corrective Action

New and improved controls over departmental restricted and operating transfer accounts will be implemented by September 30, 2006.

Anticipated Completion Date: September 30, 2006

Contact persons: Lawrence C. Franklin, Jr.
State Controller
(401) 222-6731

Finding 2005-4 – Corrective Action

2005-4a

Beginning on July 1, 2006, investment activity will be recorded on a daily basis in the general ledger by modifying the existing SI50 investment system so that it can communicate on a daily basis directly to the Oracle General Ledger system.

Corrective Action Plan
Findings Included in 2005 Single Audit Report

2005-4b

Treasury acknowledges the concern voiced by the OAG about adequate segregation of duties in the short-term investment area. During FY 2006 Treasury implemented a new procedure whereby the release of the daily investment-related wire transfers to the State's custodian bank are to be made by the Accountant/Investment Analyst or the Cash Manager, and are no longer to be performed by either of the two Investment Analysts who continue to be responsible for initiating and placing the investments.

Anticipated Completion Date: June 30, 2006

Contact persons: Catherine King Avila,
Deputy General Treasurer for Administration
(401) 222-2287

Lawrence C. Franklin, Jr.
State Controller
(401) 222-6731

Finding 2005-5 – Corrective Action

2005-5a

The Oracle fixed asset module will be upgraded and in use for all capital asset acquisitions after March 31, 2006. Improved controls and procedures to insure adequate accounting and physical control over land, buildings and equipment have been implemented in FY 2006 pursuant to the FY 2004 audit finding. Additionally review processes relating to construction in progress, physical inventories and deletions will be implemented by June 30, 2006.

2005-5b

Work to accumulate data regarding pre-2002 infrastructure assets has begun and will be completed by June 30, 2006. Data has been accumulated for fiscal years 1992 through 2001. Data for fiscal years 1980 through 1990 is now being compiled and is expected to be complete by June 30, 2006.

Anticipated Completion Date: June 30, 2006

Contact person: Lawrence C. Franklin, Jr.
State Controller
(401) 222-6731

Corrective Action Plan
Findings Included in 2005 Single Audit Report

Finding 2005-6 – Corrective Action

As part of the implementation of the Oracle integrated financial system, the state (Office of Accounts and Control and Budget Office) will utilize the “DBC” debt service accounting system currently used by Treasury. The Division of Information Technology has hired a project manager to begin implementation. Implementation is planned to be complete by May 31, 2006.

Anticipated Completion Date: May 31, 2006

Contact persons: Tracy Williams
Chief Information Officer
(401) 222-4444

Lawrence C. Franklin, Jr.
State Controller
(401) 222-6731

Finding 2005-7 – Corrective Action

With the exception of the Certificates of Participation (COPS) program, the State generally does not enter into significant capital leases. Assets acquired via the COPS program are capitalized and accounted for in the manner required by GASB.

We will evaluate current procedures used to capture information necessary to record these transactions. Also, we will review material capital leases (other than "COPS") entered into in the future to ensure they are recorded in accordance with GAAP.

Anticipated Completion Date: June 30, 2006

Contact person: Lawrence C. Franklin, Jr.
State Controller
(401) 222-6731

Finding 2005-8 – Corrective Action

New data integrity and quality assurance review processes will be implemented both at the agency level and the Office of Accounts & Control during fiscal year 2006 to detect material errors and improve controls over transactions recorded in RI SAIL and amounts reported in the CAFR. These processes will include a requirement that a responsible official of the agencies submitting significant data to be included in the financial statements complete a certification as well as analytical review procedures to be employed by the Office of Accounts and Control to provide greater assurance that the information is accurate.

Corrective Action Plan
Findings Included in 2005 Single Audit Report

Anticipated Completion Date: June 30, 2006

Contact person: Lawrence C. Franklin, Jr.
State Controller
(401) 222-6731

Finding 2005-9 – Corrective Action

2005-9a

Revised procedures will be implemented by June 2006 to require the completion of Federal Grants Information Schedules (FGIS) by the responsible agencies on a timely basis after the close of the fiscal year. The procedures will require that each agency CFO complete a certification that federal program expenditures and revenues as reported in the State's accounting system are consistent with expenditures reported to the federal government and that expenditures have not exceeded grant award amounts. The procedures will also require that the Controller's Office insure that the FGIS forms are received for all agencies managing federal grants and that a sample of the reports be reviewed for completeness.

2005-9b

Processes were implemented in FY 2006 to insure that CFDA numbers are accurate and that all federal accounts have a CFDA number/description included in the accounting system. We believe that this finding is now resolved.

Anticipated Completion Date: June 30, 2006

Contact person: Lawrence C. Franklin, Jr.
State Controller
(401) 222-6731

Finding 2005-10 – Corrective Action

A team from the Office of Accounts and Control and the Division of Information Technology is developing interim reporting methods until implementation of the Oracle Accounts Payable module is complete. Implementation of this process is expected to be complete by June 30, 2006.

Anticipated Completion Date: June 30, 2006

Contact persons: Tracy Williams
Chief Information Officer
(401) 222-4444

Corrective Action Plan
Findings Included in 2005 Single Audit Report

Lawrence C. Franklin, Jr.
State Controller
(401) 222-6731

Finding 2005-11 – Corrective Action

2005-11a

A process to analyze all significant escrow liability account balances was developed in the fall of 2005 and actual reconciliation of the accounts is underway currently. This process, which is over 50% complete, involves staff in the Bureau of Audits, Office of Accounts & Control and certain other state agencies. All significant accounts will be reconciled by June 2006.

2005-11b

Escrow account balances in the general ledger will be adjusted once all significant accounts are reconciled to subsidiary records as described above. All significant accounts will be reconciled by June 2006.

Anticipated Completion Date: June 30, 2006

Contact person: Lawrence C. Franklin, Jr.
State Controller
(401) 222-6731

Finding 2005-12 – Corrective Action

2005-12a

The State will be requesting Bank of America to transfer the file to the State using a secure protocol. Bank of America uses the PGP protocol. In December of 2005, a new procedure was put into place for the State to pick up the file using HTTPS which is secure and encrypted.

2005-12b

This audit finding will be addressed by the State using the Clear Case version control tool when the data file is transmitted to the State. Clear Case will ensure that any changes made to the file will be tracked and provide reports on the changes made to the file.

Anticipated Completion Date: June 30, 2006

Corrective Action Plan
Findings Included in 2005 Single Audit Report

Contact persons: R. Gary Clark
Tax Administrator
(401) 222-3050

Tracy Williams
Chief Information Officer
(401) 222-4444

Finding 2005-13 – Corrective Action

Access controls are being assessed and will be enhanced as part of the Oracle implementation on June 30, 2006.

Anticipated Completion Date: June 30, 2006

Contact person: Tracy Williams
Chief Information Officer
(401) 222-4444

Finding 2005-14 – Corrective Action

2005-14a

The State will be implementing a user requirements system, Clear Quest to implement formal change management. In addition, procedures will be developed to enhance security and segregation of duties in accordance with the password policy developed by DOIT. The password policy has provisions dealing with legacy systems which must be approved by the CIO or his/her designee. Implementation date for this finding is May 13, 2006.

2005-4b

As part of the upgrade to a supported release of the VSE operating system, a new change control process will be in place. Taxation will be using the Rational Clear Case version control tool. Implementation date for this finding is May 13, 2006.

Anticipated Completion Date: May 13, 2006

Contact person: Tracy Williams
Chief Information Officer
(401) 222-4444

Corrective Action Plan
Findings Included in 2005 Single Audit Report

Finding 2005-15 – Corrective Action

2005-15a

A list of data elements is currently being developed and program changes will be in place to track any changes to those data elements. We are currently planning for this work to be completed by June 30, 2006.

2005-15b

The State will be implementing a user requirements system, Clear Quest to implement formal change management. In addition, procedures will be developed to enhance security and segregation of duties in accordance with the password policy developed by DOIT. The password policy has provisions dealing with legacy systems which must be approved by the CIO or his/her designee.

2005-15c

As part of the upgrade to a supported release of the VSE operating system, a new change control process will be in place. Payroll will be using the Rational Clear Case version control tool. Implementation date for this finding is May 13, 2006.

Anticipated Completion Date: June 30, 2006

Contact person: Tracy Williams
Chief Information Officer
(401) 222-4444

Finding 2005-16 – Corrective Action

A purchasing award has been made to a firm which is being hired to develop a business /continuity plan. This plan will be completed by June of 2006.

Anticipated Completion Date: June 30, 2006

Contact person: Tracy Williams
Chief Information Officer
(401) 222-4444

Corrective Action Plan
Findings Included in 2005 Single Audit Report

Finding 2005-17 – Corrective Action

2005-17a

A comprehensive security plan has been drafted and due to be released April 30, 2006. Subsequent to the release date, there will be communication of the plan to all employees who use the State's information systems.

2005-17b

A CISO position description has been drafted, the position has been posted, candidates have been interviewed and an offer of employment will be extended pending the appropriate approval.

Anticipated Completion Date: June 30, 2006

Contact persons: Tracy Williams
Chief Information Officer
(401) 222-4444

Jerome Williams, Executive Director
Department of Administration
(401) 222-2280

Finding 2005-18 – Corrective Action

2005-18a

The Department coordinated with the Auditor General to better understand the documentation and procedures necessary to address this recommendation. The implementation of Oracle FMS will enable the Department to develop more accurate information for the accrual process.

2005-18b

The Department is currently working with DOA to develop procedures for the transfer of bond proceeds. We anticipate a resolution to be in place by fiscal close 2006.

2005-18c

A fund balance carry forward schedule has been prepared for FY2005. Phase II of the Oracle FMS implementation will include the ability to generate reports and balances based on funding source.

Corrective Action Plan
Findings Included in 2005 Single Audit Report

Anticipated Completion Date: June 30, 2006

Contact person: Robert Shawver
Rhode Island Department of Transportation
(401) 222-6590 ext. 4224

Finding 2005-19 – Corrective Action

2005-19a

Reconciliations between the Oracle FMS and federal highway billing program, and between RISAIL and Oracle FMS will give a more accurate picture of Federal Revenue vs. Federal Expenditures.

2005-19b

Implementation of the Oracle FMS will allow the Department to improve upon the amount of time from payment of a voucher to reimbursement from the federal government. The new system will request reimbursement from FHWA, in compliance with the Cash Management Improvement Act automatically after a vendor check is processed.

Anticipated Completion Date: June 30, 2006

Contact person: Robert Shawver
Rhode Island Department of Transportation
(401) 222-6590 ext. 4224

Finding 2005-20 – Corrective Action

Existing control procedures to identify and record accrual transactions at year-end were reviewed and revised for the June 30, 2005 closing. Procedures have been further modified as deemed necessary to improve them. We believe that this audit finding is resolved.

Anticipated Completion Date: June 30, 2006

Contact person: Lawrence C. Franklin, Jr.
State Controller
(401) 222-6731

Corrective Action Plan
Findings Included in 2005 Single Audit Report

Finding 2005-21 – Corrective Action

2005-21a

Controls to ensure compliance with cost recovery provisions for restricted receipt accounts have been improved during fiscal year 2005. Further efforts during fiscal year 2006 include documenting a process to identify exempt accounts, labeling exempt accounts in RISAIL, correctly calculating the assessment against non-exempt accounts and insuring that documentation is in place to support all exclusions, are ongoing.

2005-21b

The Office of Accounts and Control and the Budget Office identified those accounts not intended to be included under indirect cost recovery mandates and sought specific statutory exemptions for several of them during the last, and for several during the current, session of the General Assembly.

Anticipated Completion Date: June 30, 2006

Contact person: Lawrence C. Franklin, Jr.
State Controller
(401) 222-6731

Finding 2005-22 – Corrective Action

The Lottery has implemented the recommendation by (1) making the necessary changes to the gaming systems, which allow us to effectively monitor and ensure the security/integrity of the gaming systems, (2) the Lottery has delegated the responsibilities of information security to a dedicated resource within the Lottery to ensure compliance with the Information System Security Plan, and (3) the Lottery has implemented daily, weekly, semi-annual, and annual monitoring procedures, which are designed to ensure compliance with the Lottery's Information Security Program. As new technology is introduced into the Lottery, and software changes are made to the Lottery's gaming systems, this on-going monitoring will be effective in ensuring that the necessary changes are made to the Lottery's Policies and Procedures, which will, as a result, strengthen the overall Information Security Program.

The Lottery has delivered its Information Security Policies and Procedures to the gaming systems vendor and is requiring compliance by March 2006.

All of the security issues that were noted in the Auditor General's findings that could be corrected with the current gaming systems have been addressed. The gaming system vendor has assured the Lottery that the outstanding findings will be addressed by the new on-line system, which is scheduled to be delivered by December 2006.

Corrective Action Plan
Findings Included in 2005 Single Audit Report

To further ensure that the new on-line system has all of the necessary security controls in place prior to its delivery, the Lottery, in conjunction with its information security consulting firm, has worked to develop security requirements that the gaming systems vendor must include in the new on-line gaming system. This document was finalized in January 2006 and has been delivered to the gaming systems vendor.

Once the new system has been delivered, the Lottery, and its third party auditing firm, will do an independent audit of the on-line system to ensure that all of the security measures are in place and that the gaming system vendor is in compliance with the Lottery's Information Security Policies and Procedures.

Anticipated Completion Date: December 2006

Contact person: Gerald S. Aubin
Rhode Island Lottery
(401) 463-6500

Finding 2005-23 – Corrective Action

ERSRI concurs with these recommendations.

Anticipated Completion Date: June 30, 2006

Contact person: Frank Karpinski, Executive Director
Employees' Retirement System of RI
(401) 222-2203

Finding 2005-24 – Corrective Action

2005-24a

ERSRI concurs with this recommendation. ERSRI currently performs the required reporting of revenue and receivables via a combination of system generated reports and manual adjustment. ERSRI will analyze this process with the goal of automating it.

2005-24b

ERSRI concurs with this recommendation.

2005-24c

ERSRI concurs with this recommendation. In furthering this goal, reconfiguration of benefit, accounting, and hybrid functions, as well as realignment of management responsibilities to better reflect the division of benefit and accounting processes, were completed by fiscal year-end 2005.

Corrective Action Plan
Findings Included in 2005 Single Audit Report

Anticipated Completion Date: June 30, 2006

Contact person: Frank Karpinski, Executive Director
Employees' Retirement System of RI
(401) 222-2203

Finding 2005-25 – Corrective Action

ERSRI's original system design specifications acknowledged the criticality of daily reconciliation to control features in financial reporting. ERSRI has determined additional modifications are warranted. ERSRI is currently analyzing a refined daily reconciliation procedure within ANCHOR that has been successfully deployed by other clients of its consultant. Additionally, in FY 06, ERSRI is performing first level reconciliations between the ANCHOR system and its general ledger.

Anticipated Completion Date: June 30, 2006

Contact person: Frank Karpinski, Executive Director
Employees' Retirement System of RI
(401) 222-2203

Finding 2005-26 – Corrective Action

ERSRI strengthened existing procedures and supplemented staff training during fiscal 2005 to reinforce internal controls on the cash receipt process. ERSRI anticipates final implementation of the system modification in fiscal 2006.

Anticipated Completion Date: June 30, 2006

Contact person: Frank Karpinski, Executive Director
Employees' Retirement System of RI
(401) 222-2203

Finding 2005-27 – Corrective Action

See Corrective Action Plan for finding 2005-72

Finding 2005-28 – Corrective Action

See Corrective Action Plan for finding 2005-64

Corrective Action Plan
Findings Included in 2005 Single Audit Report

Finding 2005-29 – Corrective Action

2005-29a

The Department of Administration is seeking to establish a central federal grants monitoring/cash management unit within the Office of Accounts and Control.

Anticipated Completion Date: June 30, 2006

2005-29b

Effective at 1/1/2006 the State Controller requests each agency covered by the CMIA agreement to advise of any changes needed in funding techniques on a quarterly basis.

2005-29c

Not being able to predict which agency (ies) will or will not comply with the CMIA agreement, DOIT calculates CMIA interest liability for all CFDA numbers covered by the agreement. Based upon an annual review of compliance the State Controller excludes compliant agencies. This practice saves computer programming time related to changing the interest calculation program each year for compliant agencies.

2005-29d

The State Controller will establish several procedures to review the accuracy and completeness of the CMIA interest report.

Anticipated Completion Date: May 1, 2006

Contact persons: Lawrence C. Franklin, Jr. (All recommendations).
State Controller
(401) 222-6731

Jerome Williams, Executive Director (recommendation (a)).
Department of Administration
(401) 222-2280

Finding 2005-30 – Corrective Action

See Corrective Action Plan for finding 2005-5.

Corrective Action Plan
Findings Included in 2005 Single Audit Report

Finding 2005-31 – Corrective Action

Since the audit we have put into place a standard operating procedure whereby USDA commodities are inventoried on a monthly basis. Inventories are taken for the commodities of the National School Lunch Program and for the Emergency Food Allocation Program. USDA commodities are segregated according to program as well as being separated from state purchased products. This procedure allows for the separation of similar commodities for the various programs.

The office staff of the Central Distribution Center is now auditing both receivings and billings associated with the National School Lunch Program. This is a three-step process:

1. Internal receipt forms are checked against the actual bills of lading, invoices etc. as provided by the USDA, the vendor and the trucking company.
2. The reconciled receiving data are then checked against the postings for each month to account for accuracy and program designation.
3. Billings to individual agencies are then checked against the posting for the particular agency using the original order form from the agency.

The same standard operating procedure is used for The Emergency Food Allocation Program with the exception of the billing process which is under the auspices of the Department of Human Services. This audit process is intended to help find discrepancies and correct them at that time helping to avoid inconsistencies during the annual audit.

The Department of Corrections is working in conjunction with the Department of Administration, Division of Information Technology to develop a warehouse management system for the Central Distribution Center. The new system will be web based, consisting of real time transactions for all inventory processes from receipt to storage to distribution utilizing scanning technology. The system will contain all pertinent financials for the operation of the Central Distribution Center to coincide with the new RIFANS program as well as other Oracle based technologies that may apply to any functions of the Central Distribution Center. Staff from the DOC Central Distribution Center and DOA Division of Information Technology have developed a prototype system for the overall operation of the warehouse; the next step will be the customization of this development by outside vendors.

It should be noted that funds have been dedicated to this project which has the support of the Division of Information Technology. When the project is completed, the work process will be paperless and will allow us to track any commodity from receipt to distribution, to include all information that is unique to each commodity.

Anticipated Completion Date: December 31, 2006

Contact person: Terrence E. McNamara
Administrator, Physical Resources
(401) 462-4023
Terrence.McNamara@doc.ri.gov

Corrective Action Plan
Findings Included in 2005 Single Audit Report

Finding 2005-32 – Corrective Action

2005-32a-d

D.H.S. will review system security and system access and work with D.O.I.T. to address these issues including, follow-up on all activity considered questionable or potentially inappropriate.

- a. To work with the DHS Contractor, NG/IT, to delineate the necessary duties in both the development and production environments of InRhodes. To seek guidance from the Division of Information Technology to construct the required segregation of duties between these two environments and to establish the correct user access roles for the InRhodes system to insure the data is secure.
- b. To work with the DHS Contractor and the FAMIS Unit to review the InRhodes User Access roles, specifically the 'SSS' User role, to insure they are appropriate and consistent with the job function of the individual.
- c. To seek consultation and guidance with the Division of Information Technology to establish the necessary functions to control security access for all InRhodes users, including the contract vendor (NG/IT.) To establish as security review scheduled for all non-DHS personnel.
- d. To work in conjunction with the Division of Information Technology to establish monitoring and tracking security reports for InRhodes users.

2005-32e-f

The Department concurs with this recommendation and has undertaken a review of InRhodes User roles.

- e. The specific roles in question, supervisory and 'SSS' roles, that could be used to issue an EBT Card and/or PIN have been corrected. The supervisory roles in question were corrected in January 2006 and the 'SSS' role was corrected in February 2006.
- f. New PIN terminals will be installed when the new EBT Contract is finalized. The contractor, eFunds, will install OMNI 3200 PIN terminals, which will be programmed to timeout after five (5) minutes of inactivity by the user. The present procedural requirements will also remain in place that requires users to sign-off from the PIN terminal when not in use.

Contact person: Edward P. Sneesby, Associate Director
Management Services/Program Operations
(401) 462-2424

Corrective Action Plan
Findings Included in 2005 Single Audit Report

Finding 2005-33 – Corrective Action

We accept the auditors' recommendation. Most of the excess funds discussed during the audit were the result of formula rebate wires that post directly to the food benefit bank account. The formula manufacturer initiates these wires, usually in an amount of at least \$350,000, and the exact date is not known. Therefore, there are occasions when a wire may be initiated by the WIC Program a day before the rebate wire posts to the account, resulting in a high account balance. The WIC Fiscal Manager will obtain certification from the rebate manufacturer as to the specific date that the wire will post.

The WIC Program will also better chronicle the activities in the WIC accounts for better compliance with the CMIA requirements. Detailed activity and monitoring procedures will be implemented.

Contact person: Becky Bessette
Chief, WIC Program
(401) 222-4604

Finding 2005-34 – Corrective Action

The auditors' recommendation is accepted. In the future, a paper copy will first be verified by two staff members prior to the electronic submission. This additional step should help avoid typographical errors. As noted in the audit report, the two errors were corrected in the subsequent monthly submission of the FNS-798 report.

Contact person: Becky Bessette
Chief, WIC Program
(401) 222-4604

Finding 2005-35 – Corrective Action

The auditors' recommendation is accepted. WIC will fully comply with Regulation 246.12(Q) that requires the State Agency to account for the disposition of all food instruments as either issued or voided and as either redeemed or unredeemed. This process must be performed within 150 days after the first valid date for participant use of a food instrument.

The WIC Program will develop and implement a formal policy and procedures manual to ensure compliance with the federal requirements, Regulation 246.12(Q).

Contact person: Becky Bessette
Chief, WIC Program
(401) 222-4604

Corrective Action Plan
Findings Included in 2005 Single Audit Report

Finding 2005-36 – Corrective Action

The auditors' recommendation is accepted. WIC will clarify the policy and procedure manual to ensure an outside user would understand the scoring process and criteria for identification and ranking of high risk WIC vendors. In addition, WIC will identify the vendors that were selected for testing and the reasons for their selection.

Contact person: Becky Bessette
Chief, WIC Program
(401) 222-4604

Finding 2005-37 – Corrective Action

Due to the fact that this is a State-wide problem, the response to this audit finding is being provided by the Accounts and Control Division and will be included in the State-wide Audit Report prepared by the Office of the Auditor General for the State of Rhode Island.

Contact person: Becky Bessette
Chief, WIC Program
(401) 222-4604

Finding 2005-38 – Corrective Action

Staff has submitted an appeal to EDA dated March 31, 2004 to which a response has not been obtained as of June 30, 2005. Once EDA's decision is made as to the appeal request, staff will submit required reporting.

Contact person: Earl F. Queenan
Director of Accounting and Finance
(401) 222-2601

Finding 2005-39 – Corrective Action

Among other things, HUD requirements state that a specific number of tenant files must be examined for eligibility in the Management and Occupancy Review (MOR). Rhode Island Housing performed this review, but in certain instances, the number of files reviewed were fewer than the HUD requirement.

As of July 2005, Rhode Island Housing has ensured that the number of files reviewed were in accordance with HUD guidelines. In addition, as of January 2006, Rhode Island Housing will review three (3) additional files per site beyond those required by HUD to ensure compliance.

Corrective Action Plan
Findings Included in 2005 Single Audit Report

Contact person: John Gordon
Director, Asset Management Division
(401) 751-5566

Finding 2005-40 – Corrective Action

Rhode Island Housing, based on its interpretation of 24 CFR Section 883.07(e), and believing it was in compliance, had transferred certain funds representing Residual Receipts to the Affordability Housing Trust Fund to be used for the preservation of affordable housing in the future. Based on ensuring communication with HUD regarding this interpretation, and HUD's adherence to its interpretation of the regulation, Rhode Island Housing subsequently agreed to comply with HUD's interpretation and returned the funds to the respective Development's residual escrow account. No additional corrective action needs to be taken for these two Post-1980 Developments or any other Post-1980 Developments regarding this specific HUD requirement.

Contact person: Michael V. Milito
Corporate Counsel
(401) 751-5566

Finding 2005-41 – Corrective Action

Management of the Workforce Partnership of Greater RI (WPGRI) and the netWORKri One-Stop Career Center system reviewed the finding and will jointly issue a memorandum to field staff reminding them of the importance to confirm Selective Service registration where applicable. The WPGRI has also revised the Selective Service data entry field to require an answer when staff input eligibility criteria. In addition, the WPGRI has added this field to its monthly computerized eligibility review to ensure compliance as applicable. This corrective action is currently in the implementation stage and will be completed within 30 days.

Contact person: J. Michael Koback
Executive Director, Workforce Partnership of Greater RI
(401) 462-8714
mkoback@dlt.state.ri.us

Finding 2005-42 – Corrective Action

The Department intends to retrain resident engineers and record keepers to reinforce the Davis-Bacon requirements and stress the importance of the Act. We will also review the PURK manual in an attempt to simplify procedures to ensure compliance.

Corrective Action Plan
Findings Included in 2005 Single Audit Report

Contact person: Frank Corrao III, P.E.
Rhode Island Department of Transportation
Deputy Chief Engineer
(401) 222-2468 ext. 4300

Finding 2005-43 – Corrective Action

The Department has requested a formal ruling and is currently waiting for a response.

The Labor Additive Rate allows the Department to add the “overhead” costs (i.e. Medical Benefits, FICA, Retirement Benefits, and Paid Leave) to the salary expenditures of the Department. All projects (state, federal and other) are charged these overhead costs through the Labor Additive Rate. The Federal Highway Administration permits the adding of the Labor Additive Rate or Overhead Factor Rate to payroll charges and the billing of said charges. The current rate being billed is .62773.

We do agree with receiving concurrence from Federal Highway Administration for any changes to the Labor Additive Rate, and in fact have submitted the FY05 Actual ('06 Provisional) to FHWA for review. This will be done on an annual basis. It is critical to note that any changes in the rate up or down do not require going back and charging or crediting projects as the annual change in the rate accommodates this process. Also, as was noted in the class we attended regarding A-87 Cost allocation plans, the Labor Additive process is outside the boundaries of A-87, as states are allowed to do both, one or neither.

Contact person: Robert Shawver
Rhode Island Department of Transportation
(401) 222-6590 ext. 4224

Finding 2005-44 – Corrective Action

The Department is currently working to ensure proper credit to the Federal Highway Administration in the amount of \$397,828 for checks voided by the Treasury Department. This will be entered as part of the third December 2005 billing.

Contact person: Robert Shawver
Rhode Island Department of Transportation
(401) 222-6590 ext. 4224

Finding 2005-45 – Corrective Action

There were no new programs and no activity from April 1, 2004 – March 31, 2005.
The Department concurs and semi-annual reports will be filed regardless of activity.

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Contact person: Robert Shawver
Rhode Island Department of Transportation
(401) 222-6590 ext. 4224

Finding 2005-46 – Corrective Action

The Department concurs with the finding. Effective as of June 1, 2005 for School Districts and July 1, 2005 for Community Based Organizations, the Department now requires all subrecipients to request federal grant funds on a reimbursement basis. In order to achieve this goal, we implemented a batching process with wire transfers so that subrecipients could receive their federal grant funds in time to meet payroll. This issue is now resolved.

Contact Person: Deborah A. Kennedy, JD
Federal Grants Coordinator
(401) 222-4646
Email: Deborah.kennedy@ride.ri.gov

Finding 2005-47 – Corrective Action

The Department partially agrees with this finding. The Department recognizes the supplement/not supplant rule as one of the most important federal mandates, which the Department takes very seriously. As a result, the Department takes extra steps to assure the budgets are approved in accordance with the federal laws, rules and regulations. The supplement/not supplant rule and its application varies among the different federal programs. To ensure we adhere to the rule, as intended, we have an established process developed by and under the Consolidated Resource Plan (CRP) committee. This committee is a team that consists of at least one program manager responsible for each federal program that falls under the consolidated process (primarily allocation funding), grant officers from the Office of Finance, and a Chairperson to lead the group, and organize the flow of work and timelines. Both the program and the fiscal reviewers check to assure every budget item is supplemental (where required) and that the LEAs are not shifting their budget needs off of local/state funding onto the federal program. To overcome the presumption of supplanting, the LEA must provide adequate supporting documentation in accordance with each federal grant program. The Department will only approve and issue a federal grant award once all reviewers have approved their sections. The Department is not obligated under law, rule or regulation to make a statement to confirm the absence of a supplement/supplant issue.

Historically, the Department has been diligent in documenting those districts that have not complied with federal requirements, including the supplement/not supplant rule, and have not been cited in the past. It is reasonable that if a review sheet is absent on this issue, then there was not a presumption of supplanting. However, moving forward, for the FY07 application reviews and thereafter, the Department agrees to add a line on the standardized one-page review sheet that every program manager completes, stating, “No apparent supplanting issues” with a checkbox to check off. The CRP committee will not accept any reviews that

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do not have the box checked off. This would assist the auditors in their review to easily determine that the Department has complied with the supplement/not supplant requirement.

The Department further agrees to take the necessary steps to ensure all certifications /assurances are signed by the LEAs prior to approving.

Contact person: Deborah A. Kennedy, JD
Federal Grants Coordinator
(401) 222-4646
Email: Deborah.kennedy@ride.ri.gov

Finding 2005-48 – Corrective Action

The Department concurs with the finding. Local Education Agencies (LEAs) have nine (9) months after the end of their fiscal year to submit their audit report to the Department. The Department then has six (6) months to follow through with a management response. Of the eight (8) audits that were identified for follow-up by the Department, only five (5) fell under the Single Audit Act, requiring follow-up. The fiscal year for most LEAs is July 1 through June 30. The LEA's final audit is required to be submitted to RIDE no later than March 31 of the following year. In FY 2004, the Grant Officer responsible for the audit oversight went on leave some time in February 2005. Another Grant Officer was assigned the audit oversight some time in March 2005. Thus, we were delayed in the audit oversight process due to the training period involved to get the new Grant Officer up and running.

Moving forward, the Department agrees to send out the first response from the Audit Oversight staff person, with a second response from the Deputy Commissioner, and a third response from the Commissioner. All notices will be sent within the timelines stated in our policy. We will also consider withholding a percentage of the LEA's federal award; withholding or disallowing overhead costs; suspend federal awards; or terminating the award for those districts that do not file a final audit in time.

Contact person: Deborah A. Kennedy, JD
Federal Grants Coordinator
(401) 222-4646
Email: Deborah.kennedy@ride.ri.gov

Finding 2005-49 – Corrective Action

The Department partially agrees with the finding. The US Department of Education requires an annual federal student census report on Special Education students, for which we are required to collect student headcounts on December 1st of each year. To assure reliable data, the Department has an established ACCESS database system and process in place. Headcounts are entered by the LEAs in our web-based system and uploaded into our ACCESS database. From this database, we generate reports to check for students enrolled in more than one school district on the same dates. Student headcount data is a fluid and labor-

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intensive process, with substantial mobility issues as students move from one school district to another. Staff works diligently to reconcile the December 1st headcount data. When the census data is final, the Director of Special Populations reviews and approves the data and the report, and the Department submits the final headcounts to the LEAs for their records. The report is submitted to the USDOE on February 1st.

The Department uses the December 1st headcount that is data entered into the Special Ed component of the web-based system (and not the October 1 enrollment data). The Department further asserts that we have an existing process that requires quarterly signed certifications by the LEA's. The Department will align to the exact December 1st date in the future.

Contact person: Deborah A. Kennedy, JD
Federal Grants Coordinator
(401) 222-4646
Email: Deborah.kennedy@ride.ri.gov

Finding 2005-50 – Corrective Action

A new process has been developed that is run on a weekly basis. This automated process identifies students that cease to be enrolled on at least a half time basis. Based on the results of this process a letter is automatically generated and mailed to those students who have a current or past loan. This new process will eliminate the issue of meeting the 30 day mailing deadline.

Contact person: Albert Sevigny, Controller
Community College of Rhode Island
(401) 825-2150

Finding 2005-51 – Corrective Action

The University concurs with the recommendation. The University has changed the procedures for the new academic year and has implemented the Truth in Lending Entrance information (TIL). This information is available for all Perkins borrowers and the University will not accept promissory notes without the TIL attached.

Contact person: Sharon Bell, Controller
University of Rhode Island
110 Carlotti Administration Building
75 Lower College Road, Room 110
Kingston, RI 02881
(401) 874-2378

Corrective Action Plan
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Finding 2005-52 – Corrective Action

The University concurs with the recommendation. The University has implemented a procedure to notify students of the date and amount of their loan disbursements and their right to cancel the loan funds.

Contact person: Sharon Bell, Controller
University of Rhode Island
110 Carlotti Administration Building
75 Lower College Road, Room 110
Kingston, RI 02881
(401) 874-2378

Finding 2005-53 – Corrective Action

Under the new Banner administrative system once the Pell award information updates the Bursar's system, a process is run that creates a Pell disbursement file. This Pell disbursement file is sent electronically through the Electronic Data Exchange network to the U.S. Department of Education. This new process will ensure that the U.S. Department of Education is notified within the 30 day time frame.

Contact person: Albert Sevigny, Controller
Community College of Rhode Island
(401) 825-2150

Finding 2005-54 – Corrective Action

The University concurs with the recommendation. The University will diligently follow the policies and procedures currently in place to conduct exit interviews. As recommended by the Department of Education, the University encourages borrowers to complete interactive electronic exit counseling on the Direct Loan Servicing Online web site.

Of the 30 students tested that received Federal Direct Loans and ceased at least half-time enrollment, exit counseling material for three students was mailed after the 30-day time frame and 1 student did not have evidence that an exit interview was mailed.

The University will strengthen its procedures of mailing exit counseling materials to those students who withdraw or are retroactively administratively withdrawn, take a Leave of Absence, or drop all classes without formally withdrawing from the University.

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Contact person: Sharon Bell, Controller
University of Rhode Island
110 Carlotti Administration Building
75 Lower College Road, Room 110
Kingston, RI 02881
(401) 874-2378

Finding 2005-55 – Corrective Action

The University concurs with the recommendation. The University has taken steps to strengthen its procedures of notification of student's change of status to the National Student Loan Clearinghouse.

Contact person: Sharon Bell, Controller
University of Rhode Island
110 Carlotti Administration Building
75 Lower College Road, Room 110
Kingston, RI 02881
(401) 874-2378

Finding 2005-56 – Corrective Action

The University concurs with the recommendation. The University will diligently follow the policies and procedures currently in place to conduct Title IV calculations within the 30 day time frame requirement.

Contact person: Sharon Bell, Controller
University of Rhode Island
110 Carlotti Administration Building
75 Lower College Road, Room 110
Kingston, RI 02881
(401) 874-2378

Finding 2005-57 – Corrective Action

Accepted. The Department of Health will ensure all contracts and contract modifications have the necessary certifications to comply with federal regulations.

Contact person: Bernard Lane, Jr.
Administrator, Management Services
(401) 222-1001

Corrective Action Plan
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Finding 2005-58 – Corrective Action

Accepted. Beginning in FY 2006, employees working on a single Federal award or cost objective, or their supervisors, must sign certifications to that effect, on at least a semi-annual basis. The department is working in cooperation with the Department of Administration in the development of an automated activity reporting system.

Contact person: Bernard Lane, Jr.
Administrator, Management Services
(401) 222-1001

Finding 2005-59 – Corrective Action

2005-59a-b

D.H.S. agrees with this recommendation and will maintain required documentation.

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 twenty-five (25) cases found by the Auditor General's review to have discrepancies in the resolution of the IEVS data matches. This corrective action will be completed by June 30, 2006.
2. 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. This corrective action will be completed as quickly as available programming resources permit.
3. Continue the established practice that IEVS discrepancies identified by the Quality Control Unit in its QC review process are sent to the Administrator for Field Operations in addition to the usual process of sending these IEVS discrepancies to the supervisors. This corrective action is already implemented.
4. The Department will create a unit composed of Eligibility Technicians whose primary assignment will be to review and resolve all SWICA interface discrepancies in FIP (TANF). The Department has considered this corrective action in the past but limited personnel resources have prohibited implementation. Personnel resources are being shifted to this new assignment to establish this unit. This unit will review and resolve all SWICA discrepancies and refer all overpayments to the Claims, Collections and Recoveries Unit. The timeline to establish this unit and have it operational is April 30, 2006.

Anticipated Completion Dates: See Above.

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Contact persons: Edward Sneesby, Associate Director - Program Operations
(401) 462-2424
Tina Janik, Administrator - Field Operations
(401) 462-3019

Finding 2005-60 – Corrective Action

2005-60a

The Department has developed written guidelines for Individual and Family Support Services (I & FSS) staff who manage various purchase of service contracts and pre-certified vendors to assure uniformity with federal fiscal year reporting requirements for collecting monthly and quarterly component activity reports from providers. All information compiled will be carefully reviewed for accuracy by Supervisory staff prior to submission of ACF 204 reports to federal government.

2005-60b

The appropriate staff members from the Individual & Family Support Services, MIS, Program Operations will meet with the Department's InRhodes contractor, Northrop-Grumman/IT to review the specifications for data requirements for completion of the ACF-204 and to program InRhodes to produce the correct data elements both in summary report form and in required detailed supporting documentation. The FY2005 report, submitted in December 2005 will be reviewed to determine if it meets the Auditor General's recommendation. The FY2006 report, due December 2006 will be produced in accordance with federal requirements and required documentation.

2005-60c

2004 ACF-204 report, Page 32, Line 8 has been corrected and is being submitted to ACF with the unduplicated count of families served.

Anticipated Completion Date: See Above.

Contact persons: Edward P. Sneesby, Associate Director –Program Operations
(401) 462-2424
Donalda Carlson, Administrator – I&FSS
(401) 462-6833
Randy Rosati, Assistant Administrator – MIS
(401) 462-3014

Finding 2005-61 – Corrective Action

DHS reconciles the TANF Cash Assistance accounts on a monthly (internal) and quarterly basis (FGR-1). Variances may arise relating to federally mandated recording of expenditures

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at a 40% / 60% ratio versus the ultimate reporting of TANF and state separate and segregated programs.

DHS will make adjustments prior to the end of the reporting period to approximate anticipated reporting.

Anticipated Completion Date: June 30, 2006.

Contact person: Ronald Gaskin, Assistant Director Financial Management
(401) 462-6856

Finding 2005-62 – Corrective Action

D.H.S. will review current A.C.F. regulations and implement proper procedures to report the required information.

The Department recognizes the Auditor General's finding concerning the ACF-199 but notes that the Administration for Children and Families (ACF) has accepted this report without comment. This is an issue that Congress and the President addressed in the Deficit Reduction Act of 2005, which reauthorized the TANF program. This legislation directed the Secretary of Health and Human Services to promulgate regulations no later than June 30, 2006, to ensure consistent measures of work rates for programs funded with federal and state TANF funds. The regulations are to address what activities may be treated as work, uniform methods for reporting hours of work and the type of documentation needed to report the number of hours worked.

The appropriate Department staff members from Program (Individual & Family Support Services), MIS, Field Operations and InRhodes system development will review the Federal regulations when issued in June 2006 to develop the necessary procedures and systems changes to collect and report the required data elements for TANF work activities so that the ACF-199 TANF Data Report is completed in accordance with the federal requirements.

Anticipated Completion Date: September 30, 2006.

Contact persons: Edward P. Sneesby, Associate Director – Program Operations
(401) 462-2424
Tina A. Janik, Administrator – Field Operations (401) 462-3019
Donalda Carlson, Administrator – I& FSS (401) 462-6833
Randy Rosati, Assistant Administrator – MIS (401) 462-3014

Corrective Action Plan
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Finding 2005-63 – Corrective Action

2005-63a, b, and c

D.H.S. will establish policies and procedures regarding supervision of individual job search activities.

1. To correct the cases, which the Auditor General's staff found to be deficient and to insure that proper documentation is maintained in the case file. The supervisors will review the case file with the appropriate worker to ensure an understanding of the correct policy and procedure for documenting both the paper case file and the InRhodes case file.
2. To review with the Program, Policy and Field Operations Administrators the correct supervision protocol for individual job search activities and to issue guidance to FIP Social Casework staff on that protocol.
3. To establish a regular Supervisory Review by the FIP Service and Child Care Assistance programs supervisors of selected case records to check workers' adherence to correct policy and procedure for the documentation of case records.
4. The fourth step is to assess with the Quality Control Unit the feasibility of establishing quality assurance reviews of Child Care Assistance Program eligibility determinations by the Quality Control Unit. As this will likely involve creating additional staff, this will need the approval of the Director.

Anticipated Completion Date: It is anticipated that the completion of the corrective actions (1, 2, & 3) will be June 30, 2006. The completion of corrective action #4 is anticipated to be September 30, 2006.

Contact persons: Edward P. Sneesby, Associate Director –
Management Services/Program Operations
(401) 462-2424
Tina A. Janik, Administrator – Field Operations
(401) 462-3019

Finding 2005-64 – Corrective Action

2005-64a

A Security Workgroup has been formed to address DHS security program issues. The Security Workgroup has representation from the Medicaid program and InRhodes. The Workgroup discusses policies and procedures for conducting periodic risk analysis and system security reviews. Under the EDS contract a Security Officer who will assist the state in these coordinated efforts was hired.

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DHS has purchased a product that performs a comprehensive ADP risk analysis – the WCTP Risk Analyzer. Analysis was performed and software was also made available to other health and human services agencies. Internal Network Vulnerability Assessment and Penetration Test Report was delivered in October, 2005.

2005-64b

The DHS has developed risk assessment procedures and purchased a third party risk assessment tool, the WCTP Risk Analyzer. DHS has made the methodology/software available to other State Departments that interface with the MMIS.

The acquisition and use of the WCTP Risk Analyzer enables DHS, the supporting operational vendor (EDS) and related state agencies to identify the potential vulnerabilities that might affect confidentiality, integrity, and availability of confidential data; list the existing controls to mitigate the risk posed by those vulnerabilities; capture information regarding the existing controls; determine the level of residual risk, and identify other mitigation activities that could be employed to further reduce that risk.

2005 –64c

The WCTP Risk Analyzer product was constructed using the methodology found in NIST SP 800- 30 “Risk Management Guide for Information Technology Systems”. In addition, a significant number of vulnerability items were identified using NIST SP 800-66 “An Introductory Resource Guide for Implementing the Health Insurance Portability and Accountability Act (HIPAA) Security Rule” and NIST 800-26 “Security Self-Assessment Guide for Information Technology Systems”.

D.H.S. will work with the Contractors and D.O.A., D.O.I.T., A.D.P. Risk Analysis and System Security.

Contact person: Frank A. Spinelli, Administrator
(401) 462-1892

Finding 2005-65 – Corrective Action

The Central Business Office has prepared a revised SF-269 in accordance with the Financial Status Report instructions. The corrected report will be submitted to the U.S. Department of Health and Human Services.

Anticipated Completion Date: February 15, 2006

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Contact persons: Matteo Guglielmetti, RI State Energy Office
(401) 462-6920
Manuel DelSanto, RI Department of Administration,
Central Business Office
(401) 222-4210

Finding 2005-66 – Corrective Action

The department accepts the foster care eligibility findings and will continue to administer quality assurance oversight of the eligibility staff in order to eliminate errors in federal IV-E claiming. The department will work with the MIS staff to review the system's reimbursement program in order to ensure that children who reside in unlicensed placements do not receive Title IV-E reimbursable claims in other categories, such as clothing allowance expense and child care expense. Management and Budget will recalculate the amount that was inaccurately charged to the federal government and will reimburse them in full.

Anticipated Completion Date: April 30, 2006

Contact persons: Leo DuCharme, (Fiscal)
(401) 528-3630
Kevin Savage, (Eligibility)
(401) 528-3229

Finding 2005-67 – Corrective Action

DCYF accepts the adoption assistance eligibility findings. As you know, this was the first audit of adoption subsidy cases in 10 years. There were 6 exceptions found, all relating to missing documentation. The exceptions did not, however, produce evidence that IV-E payments were authorized on the basis of erroneous determination practices. The department accepts the unallowable maintenance costs of \$1,597 and will readjust the Title IV-E claim to reflect that cost.

The audit assisted the department in identifying ways that the department can improve claiming and records keeping practices which the department will begin to implement this year:

- The DCYF Adoption Subsidy Unit will review, at the time of recertification, each Title IV-E subsidy to verify that "special needs" criteria exists and document the special needs criteria in the RICHIST database as well as on the written agreement.
- Management and Budget will work with the MIS division to redesign the adoption subsidy module of the RICHIST database to create a tab that mirrors page 1 of the Adoption Subsidy Agreement which identifies specific eligibility criteria.

Corrective Action Plan
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- The department administration recently reviewed, with the entire staff, appropriate record keeping practices in order to avoid any future mishandling of vital child welfare records.

Anticipated Completion Date: April 30, 2006

Contact persons: Leo DuCharme, Fiscal
(401) 528-3630
Kevin Savage, Eligibility
(401) 528-3229

Finding 2005-68 – Corrective Action

2005-68a

As noted regarding the 2004 audit findings, the Department believes that it has put into place the necessary controls to assure the integrity of SCHIP eligibility determinations. The Department no longer uses queries to accumulate costs attributable to SCHIP, but rather, standard monthly reports generated by the MMIS. The Department has worked assiduously since 2001 to have these standard monthly reports produced by the State's fiscal agent following parameters specified by the AG's staff. Accordingly, each month the fiscal agent processes SCHIP eligibility reports for each applicable SCHIP eligibility group – children covered under the SCHIP State Plan and the waiver populations of parents and pregnant women. The Department made each one of these standard reports available for AG review during the 2005 audit. If the AG staff determined these reports to be inadequate, which were developed according to AG staff specifications, then the Department would appreciate new specifications for these reports from the AG staff.

Effective January 1, 2006 reports are warehoused by E.D.S.

2005-68b

Over the past year, the Department worked with the Centers for Medicare & Medicaid Services (CMS) to combine the Medicaid and SCHIP waivers for administrative purpose for both parties. From the State perspective, the State operates an integrated waiver program and has since SCHIP became effective October 1, 1997. Until April 17, 2003, when the SCHIP State Plan was amended for the “separate child health program” for pregnant aliens, SCHIP operated solely as a “Medicaid expansion”. Even the program for pregnant aliens is integrated, because they are enrolled in RItE Care Health Plans. The Special Terms and Conditions (STCs) of the combined waivers further attest to the program integration by requiring that Medicaid funds be used for SCHIP waiver-eligible populations, when SCHIP Federal funds are exhausted. Effective January 13, 2006, these new STCs for the combined waivers provide important clarity for program operations and Federal claiming and will serve as the date from which any changes in claiming will be made.

D.H.S. will review federal reports and make corrections.

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2005-68c

When the Department was negotiating the STCs of the waivers with, the Department discussed with CMS how the term “uninsured” should apply under the SCHIP waivers with specific reference to RItE Share. A conservative test for presence of third-party coverage is in place for SCHIP-eligible children. A similar test for adults will be put into place for applications on or after January 13, 2006 to correspond to the effective date of the new STCs.

D.H.S. will review current procedures.

2005-68d

As noted in response to Finding 2005-68a above, the Department no longer uses ad hoc queries, but rather uses standard monthly reports. These standard, approved, monthly reports have been provided in full to AG staff, along with back up, detailed files that can, themselves, be crosschecked against the MMIS.

Monthly standard reports replaced ad-hoc queries.

Contact person: Patricia Leddy, Administrator
(401) 462-2127

Finding 2005-69 – Corrective Action

When the Department was negotiating the latest STCs for the waivers with CMS, the Department raised the issue with CMS about how the cost-sharing collections and RItE Share payments should be handled from a Federal claiming perspective. It was mutually agreed with the CMS that discussion of this issue would be deferred until a later date, as the matter was not one that needed to be resolved in order to extend the waivers for another three years.

Presently, any cost-sharing (i.e., family premium share amounts) collected is applied to the Medicaid program even if someone may be SCHIP eligible. Additionally, RItE Share payments are claimed in Medicaid (Title XIX). The SFY’05 premium collections were \$3,584,639 while the RItE Share payments were \$5,510,519. This methodology moderates the impact to Federal claiming. These potential net SCHIP family payments can be evaluated against eligible SCHIP capitation and fee for service claims paid at the member level that exceeded \$80 million in FY 2005. This is a complicated matter because of the composition of families enrolled in RItE Care or RItE Share. Most families are what would be described best as “blended” families (e.g., a combination of Medicaid- and SCHIP-eligible individuals). This has occurred because Rhode Island’s expansion of Medicaid for certain categories of low-income children pre-dated SCHIP. Thus, children under age 8, irrespective of income level or any other case characteristics, cannot be SCHIP eligible, although their parents or older siblings might be.

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Given that only a small percentage of the RIte Care/RIte Share enrolled population is subject to premium sharing, that the majority of the enrollees are Medicaid- and not SCHIP-eligible, that most families subject to premium sharing are blended, that the composition of blended families is not a constant, and that the State has consistently expended its Federal SCHIP allotment in recent years, the State has tried to be pragmatic in simply applying premium share collections wholly to Medicaid.

Because the audit continues to find this practice problematic, the Department has formally requested guidance from CMS on whether the current practice is acceptable and, if not, what possible approaches the State might use, with a guiding principle that the approach needs to be cost-effective, given the potential administrative cost (e.g., MMIS changes and training) and the fact that the State's Federal SCHIP allotment would be essentially unaffected (and used completely anyway).

Contact person: Patricia Leddy, Administrator
(401) 462-2127

Finding 2005-70 – Corrective Action

The Department implemented a number of new eligibility controls in response to prior audit findings. As noted in response in the 2004 audit, the improved controls put into place since the FY2003 audit findings resulted in a 71 percent reduction in incorrect manual assignment of aid categories. Such assignment can result in claiming for enhanced Federal matching funds under SCHIP that may be more appropriately classified as Medical Assistance. As there were no Questioned Costs in the 2005 audit since the State expended its Federal 2005 SCHIP allotment by March 2005. Therefore, any aid category assignment error would not have had any appreciable effect on SCHIP claiming in 2005, as the Federal SCHIP funds allotted to the state would nonetheless have been expended without the cases identified in the State Single Audit. The Department will review these procedures and implement any changes necessary to reduce incorrect manual assignment of aid categories.

D.H.S. will review the four (4) cases cited.

Contact person: Frank A. Spinelli, Administrator
(401) 462-1892

Finding 2005-71 – Corrective Action

The Department's Center for Adult Health is in the process of modifying its claim processing system to ensure that vendor billings for homemaker services are verified as part of the HIPAA local code remediation project. These modifications will also solve the inappropriate funding source issue, as payment will be tied to program eligibility. These modifications were to be completed in 2004, but due to the complexity of the local code remediation project and other priorities, the completion date is now projected to be June 2006.

Corrective Action Plan
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In order to ensure proper payment, the Department has implemented a post payment review of homemaker claims. This system is used to capture unauthorized payments and identify inappropriate payments for expenditure adjustment. Month to month fluctuations in service needs are common, so a six-month review period is conducted. The post payment review captures excess service/payment over a more realistic period that allows for reasonable monthly fluctuations.

Anticipated Completion Date: June 2006

Contact person: Frank A. Spinelli, Administrator
(401) 462-1892

Finding 2005-72 – Corrective Action

2005-72a

The Division of HCQFP has a new contract signed with EDS to continue as our fiscal intermediary for the operation of our MMIS, effective July 1, 2005. EDS is in the process of defining the scope of SAS 70 work with Ernst & Young. Work to begin shortly.

Anticipated Completion Date: June 2006

2005-72b

The Division continues to improve our oversight of the fiscal agent. The implementation of preparing federal reports through the MMIS has been delayed and remains a goal of the Department. The drug rebate billing and collection continues to improve; however, this is dependent on the response of the drug manufacturers. The TPL tape matches have provided more accurate data resulting in updated TPL segments. The facsimile claiming process is being automated to further enhance our opportunity for recovery of these claims. Was scheduled for completion by June 30, 2006. Revised completion date is October, 2006.

Anticipated Completion Date: October 2006

Contact person: Frank A Spinelli, Administrator
(401) 462-1892

Finding 2005-73 – Corrective Action

2005-73a

The department and its fiscal agent have implemented the following changes that are expected to improve timely filing requirements:

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- The frequency of data matches has been changed from one-time efforts to a routine quarterly process. In SFY05, cost avoidance, including POS, impacted 54,699 claims, cost avoided \$10 million, generated 52,695 facsimile claims with recoveries of \$4.3 million, and resulted in combined savings and recoveries in excess of \$14.3 million.
- The timely filing process has been modified to generate claim facsimiles more closely aligned with the payor's service reimbursement and timely filing criteria.

Additionally, as part of the Fiscal Fitness initiatives, the department had issued an RFP and obtained proposals from independent vendors to maximize TPL in the areas of Estates and Casualty recovery. Vendors that submitted proposals for Estate and Casualty recovery withdrew their proposals based on insufficient potential for additional recovery following their assessment of the State's current results in Estate and Casualty recovery.

Anticipated Completion Date: On-going

2005-73b

The Department disagrees that there is responsibility to reimburse the federal government for denied facsimile claims, many of which are Medicare. The primary reason for denial is timely filing from the other insurer when that information is retrieved and updated as efficiently as possible. Many of the denied claims are not processed by the insurance carrier when submitted, resulting in expiration of filing limits. This is being addressed through modification of the procedures for facsimile claiming.

Contact person: Frank A. Spinelli, Administrator
(401) 462-1892

Finding 2005-74 – 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 2005, 99% of the MHRH offline claims began processing on the MMIS. HIPAA has 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 Department has instituted a number of controls to ensure the integrity of expenditures for services provided by the LEAs and with the Medicaid regulations, in response to the OIG audit conducted in 2002. These enhanced controls began with the Department's preparation and distribution of the *Medicaid Direct Services Guidebook for Local Education Agencies* in May 2004. The purpose of this guidebook is to assist LEA personnel in implementing and maintaining a Medicaid reimbursement program for services provided by or for a Local Education Agency. Also in May 2004, DHS held five (5) statewide training sessions to

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present the guidebook to all LEAs. The training sessions were held at the following locations: one at Barry Hall conference room in the John O. Pastore complex, two at the CCRI Warwick campus, one at the CCRI Lincoln campus, and one at the East Bay Collaborative in Warren. Attendees (approximately 40-50) at each of these sessions consisted of CMS officials, LEA billing agencies, Rhode Island Department of Education, and personnel from all LEAs and charter schools that had an interagency agreement with the Department.

In May and June 2005, DHS conducted five LEA site visits as part of an annual review of compliance with the policies and procedures delineated in the guidebook. The LEAs that participated in the annual review were the Cranston, Pawtucket, Providence, and Warwick, LEAs and Cuffee Charter Schools. These site visits not only assessed compliance with the guidebook, but also served to identify any training needs and clarify the roles and responsibilities of the school personnel involved in the Medicaid Direct Services reimbursement program. Based upon these site visits, the Department provided its findings to those entities reviewed but shared its findings and reinforced its requirements with all LEAs and Charter Schools. The Department will continue its annual reviews, and revise its guidance and provide additional training as necessary based upon these reviews, to assure compliance with Medicaid program regulations.

The Division implemented new approval rules in fiscal 2004 to better control the filing of rate changes by other agencies.

Financial management will continue to review the claiming of administrative expenditures by other departments to ensure that the Interagency Agreement is followed. These agreements have been rewritten for the period October 1, 2005 through September 20, 2010.

D.H.S. corrected the nursing home rates and will recoup the overpayments. D.H.S. will implement controls to ensure that rate changes are timely applied.

Contact persons: Ronald Gaskin, Assistant Director
(401) 462-6856
Frank A. Spinelli, Administrator
(401) 462-1892

Finding 2005-75 – Corrective Action

The Division of HCQFP and our fiscal agent have improved procedures for enrolling providers, have implemented length of time for enrollment of providers and have disenrolled inactive providers and providers failing to comply. We support the criteria in 42 CFR 455.106 and believe that we are in compliance.

Contact person: Frank A. Spinelli, Administrator
(401) 462-1892

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Finding 2005-76 – Corrective Action

As noted below concerning Finding 2005-79, the Department is planning enhanced procedures to assure more accurate data on the employment of RIte Share enrollees. The Department is confident that more accurate data will assure more timely reimbursement of program overpayments. D.H.S. will review the identified overpayments and reimburse the federal government. All outstanding checks more than 180 days have been identified through December 31, 2005 and will be recorded on the CMS-64 report for the quarter ending March 31, 2006.

Contact person: Ronald Gaskin, Assistant Director
(401) 462-6856

Finding 2005-77 – Corrective Action

The PMS-272 report is due 45 days after the end of the quarter. The quarter ending June 30 is the last quarter of the state fiscal year, which may result in late filing of the expenditure report, CMS-64 report. The PMS-272 reported expenditures cannot exceed the authorized year to date Grant Award. D.H.S. adheres to PMS-272 reporting requirements.

Under the State accounting system, RI-SAIL, any changes of the current 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, Assistant Director
(401) 462-6856

Finding 2005-78 – Corrective Action

In February 2006, the department reiterated to the hospitals, in writing, the requirement for hospital settlements to be submitted on a timely basis per RIGL 40-8-13.2. Hospitals prepare the settlement document that is submitted to the state generally after Medicare completes the audit of the Medicare Cost Report. The audit by Medicare occurs on a varied timetable. If hospitals strictly comply with the 2-year condition for submission of the settlement to the state, hospitals will need to submit revised settlements after Medicare completes its process, imposing additional resource demands on (a) the hospital for preparation of the settlement based on the unaudited and the audited Medicare Cost Report, and (b) the state, potentially for review and settlement of different versions for the same fiscal year.

D.H.S. will continue to work with the hospitals to reach resolution of Medicaid settlements.

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Anticipated Completion Date: June 30, 2006.

Contact person: Frank A. Spinelli, Administrator
(401) 462-1892

Finding 2005-79 – Corrective Action

RItE Share enrollees have an affirmative obligation to notify the Department in a timely manner whenever their employment/insurance status changes in a way that would affect their eligibility or enrollment into RItE Share. Most RItE Share enrollees do notify the Department of changes in a timely manner; some do not, which is the focus of this recommendation.

Maintaining accurate information on employment is a key element in sustaining valid health insurance information. We use information obtained through insurance data matches that are done quarterly through our fiscal intermediary. In addition, through enhancements made to our InRhodes system and a related interface between InRhodes and the Employer Contact Unit (ECU), the ECU is notified of enrollees' changes in employment when they are entered in InRhodes.

The Department is exploring the option to make use of a national employment verification service that is currently used on a limited basis. This service will allow the Department to routinely check on the employment status of RItE Share enrollees who are employed by relatively large employers in Rhode Island. The Department will also explore with the Rhode Island Department of Labor and Training (DLT) the possibility of using DLT's database of newly hired employees to identify RItE Share enrollees who have changed jobs but may not have yet notified the Department. State law mandates that Rhode Island employers notify DLT of new hires. In addition, the Department is reviewing the approaches being used by other States with premium assistance programs for their potential applicability to assuring valid insurance information on RItE Share enrollees.

D.H.S. will continue to explore various methods to obtain health insurance information for RItE Share clients.

Anticipated Completion Date: On-going

Contact person: Patricia Leddy, Administrator
(401) 462-2127

Summary Schedule
of Prior Audit Findings



Summary Schedule of Prior Audit Findings Table of Prior Findings by Federal Program		
<u>Program Title</u>	<u>CFDA Number</u>	<u>Findings included in Previous Single Audit Reports</u>
Food Donation	10.550	04-31
Food Stamp Cluster:		
State Administrative Matching Grants for Food Stamp Program	10.561	04-29, 04-30
Child Nutrition Cluster:		
School Breakfast Program	10.553	02-22, 04-29, 04-31
National School Lunch Program	10.555	02-22, 04-29, 04-31
Special Milk Program for Children	10.556	02-22, 04-29
Summer Food Service Program for Children	10.559	04-29, 04-31
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	04-29, 04-30, 04-32, 04-33, 04-34
Public Works and Economic Development Cluster:		
Economic Adjustment Assistance	11.307	04-35, 04-36
Community Development Block Grants/State's Program	14.228	02-30
Section 8 Housing Choice Vouchers	14.871	04-37
Unemployment Insurance	17.225	04-29, 04-30, 04-38
Trade Adjustment Assistance - Workers	17.245	01-22
WIA Cluster:		
WIA Adult Program	17.258	04-29, 04-39
WIA Youth Activities	17.259	04-29, 04-39
WIA Dislocated Workers	17.260	04-29, 04-39
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	04-29, 04-40, 04-41
Federal Transit Cluster:		
Federal Transit – Formula Grants	20.507	04-29, 04-42
Freight Rail Improvement Project	None	04-29, 04-43
Capitalization Grants for Drinking Water State Revolving Funds	66.468	04-44, 04-45
Student Financial Assistance Cluster:		
Federal Family Education Loans	84.032	04-52 (02-39, 03-34)
Federal Perkins Loan Program – Federal Capital Contributions	84.038	04-48, 04-49
Federal Pell Grant Program	84.063	04-50, 04-51
Federal Direct Student Loans	84.268	04-49, 04-50, 04-52

Summary Schedule of Prior Audit Findings Table of Prior Findings by Federal Program		
<u>Program Title</u>	<u>CFDA Number</u>	<u>Findings included in Previous Single Audit Reports</u>
Title I Grants to Local Educational Agencies	84.010	04-29, 04-46
Special Education Cluster:		
Special Education – Grants to States	84.027	04-29, 04-46, 04-47
Special Education – Preschool Grants	84.173	04-29, 04-46, 04-47
Vocational Education – Basic Grants to States	84.048	04-46 (98-24)
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	04-29, 04-30
Improving Teacher Quality State Grants	84.367	04-29, 04-46
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	04-29, 04-53, 04-54, 04-55
Temporary Assistance for Needy Families	93.558	04-29, 04-56, 04-57, 04-58, 04-59, 04-71
Child Support Enforcement	93.563	04-29, 04-30, 04-60, 04-61, 04-62, 04-63, 04-71
Low-Income Home Energy Assistance	93.568	02-44, 04-29, 04-64, 04-65, 04-66, 04-67
Community Services Block Grant	93.569	02-52
CCDF Cluster:		
Child Care and Development Block Grant	93.575	04-29, 04-58, 04-59, 04-68, 04-71
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	04-29, 04-58, 04-59, 04-68, 04-71
Foster Care – Title IV-E	93.658	03-52, 04-29, 04-30, 04-69, 04-70
Social Services Block Grant	93.667	02-52
State Children's Insurance Program	93.767	03-55, 04-29, 04-71, 04-72, 04-73, 04-74
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	04-29
State Survey and Certification of Health Care Providers and Suppliers	93.777	04-29
Medical Assistance Program	93.778	03-55, 04-29, 04-56, 04-71, 04-74, 04-75, 04-76, 04-77, 04-78, 04-79, 04-80, 04-81, 04-82, 04-83, 04-84, 04-85
Block Grants for Prevention and Treatment of Substance Abuse	93.959	03-72, 03-73, 04-29, 04-86
State Domestic Preparedness Equipment Support Program	97.004	04-29, 04-87, 04-88, 04-89, 04-90, 04-91
Research and Development Cluster	Various	04-92

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>
01-22	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>).						
	01-22c	Seek to automate the process using existing and more sophisticated systems.	00-20c		X			
02-22	10.553 10.555 10.556	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.						
	02-22b	Reconcile the expenditures included on quarterly reports (SF-269) to amounts included in the State Accounting System.	01-14b	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		
02-44	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.						
	02-44b	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				See current year finding 2005-65 and related corrective action plan concerning federal reporting.
	02-44c	Submit a corrected <i>LIHEAP Carry Over and Reallotment Report</i> .					X	

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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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 ensure compliance.
	02-52b	Perform timely and substantive follow-up on subrecipient audit findings – particular emphasis is warranted when findings remain uncorrected for multiple reporting years.	93.569 01-45b 98-40		X			Types of monitoring tools used by the Department include; reviewing agency board minutes, attending agency program events, sponsoring training sessions for subrecipient staff, attending agency association meetings. In most cases, the Department's subrecipients are also receiving federal and state funds from 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. DHS believes a statewide approach of onsite monitoring and reviews would be a more effective way to accomplish this goal.
03-52	93.658	The department's accounting system is not able to separate daycare charges for the Adoption Assistance and Foster Care programs.						
	03-52	Implement procedures to compile day care costs eligible for reimbursement under the Foster Care program.			X			
03-55	93.767 93.778	SCHIP expenditures were initially claimed as Medicaid program expenditures and later adjusted and claimed as SCHIP expenditures.						
	03-55	Estimate the federal share of eligible SCHIP program expenditures for the purposes of drawing cash against the appropriate cash award and letter of credit.	02-56				X	

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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03-72	93.959	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.						
	03-72a	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.		X				
	03-72b	Complete reviews or monitoring of all treatment facilities as required by federal regulations.		X				
03-73	93.959	DSA should enhance its oversight and monitoring of the subrecipient administering the revolving loan fund to ensure compliance with all applicable federal regulations.						
	03-73a	Improve monitoring of the subrecipient administering the revolving loan fund.		X				
	03-73b	Implement formal written policies and procedures regarding maximum loan amount limits and permitted exceptions.		X				
	03-73c	Implement formal written policies and procedures regarding loan defaults.		X				
4-29	Various	The State did not have adequate controls to ensure compliance with federal cash management requirements in drawing cash for federal programs.						
		Implement a centralized monitoring system and strengthen controls over drawdown procedures to ensure compliance with the Treasury/State agreement and CMIA requirements.	97-11 98-08 99-10 00-10 01-09 02-17a 03-20a		X		See Corrective Action Plan for Finding 2005 - 29	

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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		Our review of the annual interest liability report disclosed various inconsistencies in the report data used to compile interest liabilities for the major programs.						
04-29b		Strengthen procedures to ensure that all interest liability calculations are performed and based on correct program information as required by Federal regulations.	02-17b 03-20b			X		See Corrective Action Plan for Finding 2005 - 29
		Several major programs were using inappropriate funding techniques. The proper technique will minimize the interest liability.						
04-29c		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.	02-17c 03-20c		X			See Corrective Action Plan for Finding 2005 - 29
04-30	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 02-16 03-19			X		See Corrective Action Plan for Finding 2005-30
04-31	10.550 10.553 10.555 10.559	We noted numerous variances in inventory records of food commodities.						
04-31		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.	03-21			X		See Corrective Action Plan for finding 2005 - 31
04-32	10.557	Documentation was not maintained to clearly distinguish additional charges that specifically relate to the WIC program.						
04-32		Maintain adequate supporting documentation for charges transferred between programs and transfer charges among programs within the proper state fiscal year.		X				

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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04-33	10.557	Adjustments were not supported by time and effort reports, we were unable to determine questioned costs for two employees because a budget to actual comparison was not performed, and accurate timekeeping records were not maintained.						
	04-33a	Institute new timekeeping records to indicate the program worked and cost category within the program for reporting purposes.		X				
	04-33b	Compare budgeted salary allocations to actual at least quarterly as required by OMB A-87 or obtain FNS approval for periodic time reporting.		X				
	04-33c	Adjust budgeted time to actual within the proper state fiscal year.		X				
04-34	10.557	We found actual investigations of high-risk vendors were documented; however, the process for identifying and selecting high-risk vendors for review was not documented. Therefore, we could not verify that all high-risk vendors were identified and prioritized.						
	04-34	Document the process of establishing high-risk vendors to ensure it is done in compliance with FNS regulations.				X		See Corrective Action Plan for finding 2005 – 36
04-35	11.307	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 the person independent of the person preparing the reports who was responsible to perform a detail review of each report signed and dated each report to document his review, the errors were not detected. Consequently, information provided to the grantor agency about the federal program was not correct.	02-24 02-26 03-23	X				
04-36	11.307	The US Dept of Commerce has determined and notified the Corporation that the Corporation has excess cash as defined under the program guidelines.				X		See Corrective Action Plan for finding 2005 – 38
04-37	14.871	The Corporation used prior year income information in the initial application or recertification process rather than using income information within a 90-day period of the application/recertification.						

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>Implemented</i>	<i>Partially Implemented</i>	<i>Not Implemented</i>	<i>No Longer Valid</i>	<i>Comments</i>
	04-37	The Corporation should obtain and verify income information that is not in excess of a period of 90 days from the date of certification or recertification. If a potential or existing participant does not provide the required income information, the Corporation should not approve the potential participant's application or recertify an existing participant.		X				
04-38	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> .						
	04-38	Improve controls to ensure the accuracy and completeness of the ETA 227 report by documenting supervisory review and approval prior to submission to the federal government.	02-34	X				
04-39	17.258 17.259 17.260	Our testing of WIA client files revealed three clients who received services but were not included in the client eligibility database.						
	04-39	Implement procedures to ensure all client eligibility data is entered into the WIA database on a timely basis.		X				
04-40	20.205	Labor compliance checklists were sometimes missing, others were missing one or both required signatures.						
	04-40	Strengthen oversight of the labor compliance monitoring procedures to ensure contractor compliance with Davis Bacon Act requirements.	03-29			X		See Corrective Action Plan for finding 2005 – 42
04-41	20.205	RIDOT's method for allocating labor charges to various projects by use of a "labor additive" has not been approved by the FHWA. We found unallowable costs included in the calculation of the rate.						
	04-41a	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.	03-30a			X		See Corrective Action Plan for finding 2005 – 43
	04-41b	Revise the methodology for computing the labor additive rate to include only allowable costs to Federal projects.	03-30b			X		See Corrective Action Plan for finding 2005 – 43
	04-41c	Adjust charges to Federal projects based on a provisional labor additive rate to actual on an annual basis.	03-30c			X		See Corrective Action Plan for finding 2005 – 43

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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04-42	20.507	RIDOT did not submit one of two required DBE reports.						
04-42		Prepare and submit DBE reports as required by program regulations.	03-31			X		See Corrective Action Plan for finding 2005 – 45
04-43	None	RIDOT has not submitted required financial reports for the Freight Rail Improvement Project on a regular basis.						
04-43a		Prepare and submit quarterly reports as required by the Grant Agreement. Reconcile amounts reported to the State's accounting system.	03-32a			X		
04-43b		Require reports to be reviewed by supervisory personnel prior to submission.	03-32b			X		
04-44	66.468	The required level of binding commitments was not met by the Agency. The Agency became compliant on March 31, 2004		X				
04-45	66.468	ACH withdrawals were inadvertently omitted from the SF-272 report when prepared.						
04-45		A corrected Form SF272 should be filed with the Environmental Protection Agency.		X				
04-46	84.010 84.027 84.173 84.367	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.						

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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04-46		Require all subrecipients to request funds on a reimbursement basis.	84.010		X			We have implemented payments to LEA's under the reimbursement method and no longer issue advance payments. See Corrective Action Plan for Finding 2005 – 46.
			97-25					
			98-24					
			84.010			X		
			84.027					
			84.173					
			99-29					
			00-24					
			01-27					
			02-38					
03-33								
04-47	84.027 84.173	Sufficient documentation does not exist to support changes made by RIDE to census information submitted by LEA's.						
			04-47			X		
04-48	84.038	In two out of 13 files tested we found promissory notes were not signed after the disbursement dates (University of Rhode Island).						
			04-48			X		
04-49	84.038 84.268	Proper notification must be given to students with date and amount of disbursement of their loan and right to cancel (University of Rhode Island).						
			04-49				X	See Corrective Action Plan for Finding 2005 – 52
04-50	84.063 84.268	Disbursement records were not transmitted to the Department of Education within the required 30 days (University of Rhode Island).						

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>
	04-50	The University should review its procedures to ensure disbursement records are transmitted to the Department of Education within the required 30 days.	03-38	X				
04-51	84.063	Institution did not properly transmit payment information for those students receiving grants to DOE within the required 30-day timeframe (Community College of Rhode Island).						
	04-51	We recommend that the College strengthen its procedures to ensure students receiving Federal Pell Grants are transmitted to the Department of Education within the required 30-day timeframe.				X		See Corrective Action Plan for Finding 2005 -53
04-52	84.268	Not all of the student files selected for testing contained a record of an exit interview being performed or mailed (University of Rhode Island).						
	04-52	We recommend that the University strengthen its procedures to ensure that a signed exit interview form or confirmation that on-line counseling was performed be received from all borrowers to be in compliance with the federal requirements regarding exit interviews.	<u>84.032</u> 02-39 03-34			X		See Corrective Action Plan for Finding 2005 - 54
04-53	93.283	Not all of the contracts with service providers contained certifications that the providers were not suspended or debarred from participating in the CDC grant programs.	03-39			X		See Corrective Action Plan for Finding 2005 - 57
04-54	93.283	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.						
	04-54	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.	03-40			X		See Corrective Action Plan for Finding 2005 - 58
04-55	93.283	The DOH was significantly late in submitting certain FSR-269 reports.						
	04-55	Implement procedures to ensure that Financial Status Reports (FSR-269) are submitted to the federal grantor on a timely basis, as required.				X		

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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04-56	93.558 93.778	TANF eligibility discrepancies resulting from IEVS data matches were not investigated and resolved in a timely manner.						
	04-56a	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 02-41a 03-41a		X			The Department provided written procedures to staff and continues to provide staff training. See Corrective Action Plan for Finding 2005-59
	04-56b	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 02-41b 03-41b		X			See Corrective Action Plan for Finding 2005 - 59
	04-57	93.558	The Department lacks adequate internal control procedures to ensure the reliability of data reported on federal report form ACF-204.					
04-57a		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.	03-42a		X			This recommendation was implemented October 1, 2004 in response to the 2003 Audit Report. See Corrective Action Plan for Finding 2005 - 60
04-57b		Maintain adequate detailed supporting documentation for amounts reported.	03-42b		X			See Corrective Action Plan for Finding 2005 - 60
04-57c		Correct and resubmit the Fiscal year 2003 ACF-204 report to the Federal Government.	03-42c		X			See Corrective Action Plan for Finding 2005 - 60
04-58	93.558 93.575 93.596	We noted variances between the PSC-272A (cumulative disbursement totals, ACF-196 (TANF expenditures), and ACF-696 (Child Care).						
	04-58	Strengthen internal procedures to ensure that cumulative disbursement totals as reported on the quarterly Federal Cash Transaction Report are supported by federal reports and the state accounting system.			X			This recommendation related to cash management was implemented October 1, 2004 in response to the 2003 audit report. Federal reports to be reviewed and properly reflected in FY 2006.

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04-59	93.558 93.596 93.575	No procedures are in place to obtain suspension and debarment certificates for real property rental contracts.						
	04-59	Strengthen internal controls to ensure that copies of all contracts are maintained and suspension and debarment verifications are performed for all contracts.				X		Implemented in FY 2006. As of November 2005 DHS requires that the certification be included in all agreements developed by DHS, including rental agreements. DHS will review all contracts and use the H.H.S. website as a source to ensure compliance.
04-60	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.						
	04-60a	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 02-42a 03-44a			X		The Department met with the State Controller's Office to discuss this long-standing issue. The IV-D Director agreed to have an ad-hoc report produced from the InRHODES system that will be compared to what is posted in RISAIL. The Department hopes to have the reconciliation completed before the end of fiscal 2006.
04-61	93.563	CSE personnel do not verify data supplied by the Division of Payment Management agrees to department records.						
	04-61	Reconcile the cash balance reported on the PSC-272 report with the State accounting system.	03-45			X		An accountant was recently hired to assist in reconciliations, as well as a multitude of other duties. Once this individual has been trained, the PSC-272 reconciliation will be performed on a quarterly basis.

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04-62	93.563	Control procedures are not adequate to ensure that medical support, once ordered by the court, is enforced.						
	04-62a	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 02-43a 03-46a			X		The Department has recently entered into a contractual agreement with a consortium that assists the members in enforcing medical support orders. In addition, the Department is reviewing cases to ensure that they are properly coded. Lastly, since June 2003, cash medical orders have been obtained for those individuals who do not have access to reasonably affordable health insurance.
	04-62b	Initiate appropriate enforcement action for medical support orders.	00-35b 01-39b 02-43b 03-46b			X		
04-63	93.563	Semi-annual certifications were not properly completed and improper charges were made to the CSE program.						
04-63a		Obtain semi-annual certifications for all employees who charge 100 percent of their time to the CSE program.				X		The Department is in the process of formalizing procedures to ensure that only employees who perform IV-D child support work are charged to the CSE payroll account. With respect to semi-annual certifications, the Department has always strived to comply with this requirement and will continue to do so in the future.
	04-63b	Compare total charges reported on the biweekly payroll registers to the payroll costs posted to the State accounting system and investigate any discrepancies.				X		
04-64	93.568	Charges for salaries and benefits are not supported by activity reports or time sheets. Management was unable to support \$585,000 in payroll charges to the LIHEAP program.						
	04-64	Allocate employee salaries and fringe benefits costs to the appropriate activities based on routine time sheets or random moment time-studies.	03-47		X			SEO uses a random moment sampling to allocate the payroll costs charged to the grant, however, questioned costs remain unresolved.
04-65	93.568	The State Energy Office (SEO) should improve procedures to ensure subrecipients comply with OMB-Circular A-133 subrecipient audit report requirements. The standard language for subrecipient contracts with the SEO do not include all necessary federal award information.						

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04-65	04-65a	Improve procedures to enforce subrecipients compliance with OMB A-133 subrecipient audit report requirements.		X				
	04-65b	Amend contracts with subrecipients to include all necessary federal award information and applicable compliance requirements.	03-49a	X				
04-66	93.568	The State Energy Office needs to improve monitoring controls to ensure compliance with LIHEAP's 15% weatherization earmarking requirement.						
04-66	04-66	Improve monitoring controls to ensure compliance with the LIHEAP weatherization earmarking requirement.		X				
04-67	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.						
04-67a		Restrict subrecipient funding to their immediate cash needs.	02-45 03-48	X				
04-67b		Enforce subrecipient compliance with established reporting requirements consistently.		X				
04-67c		Revise the subrecipient monthly weatherization reports to require separate identification of federal funded LIHEAP portion for all information reported.		X				
04-67d		Consult with the Federal government for guidance regarding how to properly handle the \$ 54,955 of prior year funds returned by subrecipients.		X				
04-68	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.						
	04-68	Strengthen internal controls to ensure adherence to internal procedures requiring agency personnel obtain and properly utilize required documentation to update electronic case file records prior to approving childcare eligibility and determining payment amounts.	01-46 02-47 03-50		X			DHS automated Child Care eligibility process established procedures as a result of the 2003 and 2004 audit reports, to ensure that proper documentation is maintained in the case file. See Corrective Action Plan for Finding 2005-63

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04-69	93.658	Controls over the Foster Care eligibility process need to be enhanced.						
	04-69	Enhance the quality assurance system as it relates to Title IV-E eligibility requirements. Adjust federal reports to reimburse the federal government for the remaining unallowable maintenance costs not yet returned to the federal government.		X				
04-70	93.658	For the quarter ending 9/30/03, the IVE-1 report contained an error, which overstated the federal share of claimed costs.						
	04-70	Adjust the overclaim on a subsequent federal expenditure report.		X				
04-71	93.558	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.						
	93.563							
	93.575							
	93.596							
	93.767							
	93.778							
	04-71a	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.	03-43a			X		See Corrective Action Plan for Finding 2005 - 64

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04-71b		Implement procedures to ensure that risk assessments are conducted for significant system changes that could affect overall information system security.	03-43b			X		See Corrective Action Plan for Finding 2005 – 64
04-71c		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.	03-43c			X		See Corrective Action Plan for Finding 2005 – 64
04-71d		Address all information system security weaknesses cited in the DHHS OIG's review of general controls for the MMIS.			X			
04-71d		Conduct biennial reviews of all installations involved in the administration of HHS programs including a complete evaluation of physical and data security operating procedures.				X		
04-72	93.767	Specific eligibility criteria for the SCHIP program have not been programmed into the INRHODES system. The Department must use queries to identify SCHIP eligible individuals and program costs. Controls over these queries were not adequate to ensure that only individuals meeting SCHIP eligibility requirements were claimed. In addition, the INRHODES system does not adequately consider other insurance when determining SCHIP eligibility.						
04-72a		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.	02-54a 03-53a			X		See Corrective Action Plan for Finding 2005 -68
04-72b		Credit federal reports for expenditures that do not comply with the terms and conditions of the SCHIP program.	02-54b 03-53b			X		See Corrective Action Plan for Finding 2005 - 68
04-72c		Implement procedures to fully consider the existence or availability of other insurance when determining eligibility for SCHIP.	02-54c 03-53c			X		See Corrective Action Plan for Finding 2005 – 68
04-72d		Maintain adequate supporting documentation for all capitation and fee-for-service claims identified as SCHIP eligible through ad-hoc queries.				X		See Corrective Action Plan for Finding 2005 – 68

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04-73	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.						
	04-73	Implement procedures to allow crediting the appropriate federal program for the collection of co-pay amounts under the State's Rlte Care Cost Share program.	02-55 03-54			X		See Corrective Action Plan for Finding 2005 – 69
04-74	93.767 93.778	Certain situation exist within the Medicaid Program that require eligibility technicians to manually assign aid categories to specific Medicaid cases, by-passing the automated determination by the INRHODES system. Incorrect assignment of aid category codes by eligibility technicians have resulted in SCHIP claiming for individuals that are not SCHIP eligible.						
	04-74	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.	03-56			X		See Corrective Action Plan for Finding 2005 – 70
04-75	93.778	Controls are not adequate to ensure that all payments for homemaker services are charged to the appropriate funding source.						
	04-75	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.	93.667 <u>93.778</u> 00-42 01-49 02-53 <u>93.778</u> 03-57			X		See Corrective Action Plan for Finding 2005 – 71
04-76	93.778	Adequate controls were not in place to ensure that claims were paid only for individuals eligible under the Medical Assistance Program.						

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04-76		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	X					
			98-44b						
			99-42b						
			00-46						
			01-53						
			02-57						
			03-58						
04-77	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.							
			04-77a	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			X	See Corrective Action Plan for Finding 2005 - 72
					98-45b				
					99-43a				
					00-47a				
					01-54a				
			04-77b	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.	02-58a				See Corrective Action Plan for Finding 2005 -72
					03-59a				
					97-43b			X	
					98-45a				
99-43b									
04-78	93.778	Delays in verifying TPL information contributed to lost TPL recovery. (Questioned cost \$ 1,921,062).							

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04-78a		Review existing procedures to ensure that third party liabilities are identified on a timely basis.	97-45		X			See Corrective Action Plan for Finding 2005 – 73
			98-47a 99-46a 00-49a 01-55a 02-59a 03-60a					
04-78b		Reimburse the federal government for its share of uncollected third party liability recoveries.	98-47b			X		See Corrective Action Plan for Finding 2005 – 73
			99-46b 00-49b 01-55b 02-59b 03-60b					
04-79	93.778	Over \$85 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.						
04-79a		Improve controls by requiring all benefit-type program expenditures to be processed through the MMIS	97-52 98-51 99-49a 00-51a 01-56a 02-60a 03-61a			X		See Corrective Action Plan for Finding 2005 – 74

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04-79	04-79b	Implement oversight procedures the determination of per-diem rates established for state operated facilities.	01-56c 02-60b 03-61b			X		See Corrective Action Plan for Finding 2005 – 74
	04-79c	Implement control procedures to ensure the allowability of administrative expenditures charged to the Medicaid program by other departments.	98-48b 99-49b 00-51c 01-56d 02-60c 03-61c			X		See Corrective Action Plan for Finding 2005 – 74
	04-79d	Implement monitoring procedures to ensure that other State agencies are complying with MOU and/or interagency agreements that mandate their allowable Medicaid claiming activity.	03-61d			X		See Corrective Action Plan for Finding 2005 – 74
	04-79e	Reimburse the federal government for its share of questioned costs identified.				X		See Corrective Action Plan for Finding 2005 – 74
04-80	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.						
	04-80a	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 02-61 03-62a			X		See Corrective Action Plan for Finding 2005 - 75
	04-80b	Implement procedures to ensure that individuals/entities participating in the Medical Assistance Program have not been excluded from participation by any federal organization.	03-62b			X		See Corrective Action Plan for Finding 2005 - 75
	04-80c	Revise Addendum I to the department's standard provider agreement to fully comply with 42 CFR 455.106.	03-62c			X		See Corrective Action Plan for Finding 2005 – 75
04-81	93.778	We noted instances of provider overpayments that were not reported timely on federal reports.						

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04-81a		Reimburse the federal government for program overpayments within 60 days of their discovery.	03-63			X		See Corrective Action Plan for Finding 2005 – 76
		Credit the federal government in a timely manner for all provider payments outstanding for more than 180 days.				X		See Corrective Action Plan for Finding 2005 – 76
04-82	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.						
04-82a		Align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS.	02-65b 03-65b			X		See Corrective Action Plan for Finding 2005 – 77a
04-82b		Completely reconcile administrative expenditures reported on the CMS-64 with those reported in the State's accounting system.	02-65a 03-65a			X		See Corrective Action Plan for Finding 2005 – 77b
04-82c		Report cumulative disbursements on the PMS-272 based on actual expenditures in accordance with report guidelines.	03-65f			X		See Corrective Action Plan for Finding 2005 – 77c
04-83	93.778	One hospital submitted overdue settlement reports for the years 1995 to 2001 DHS settlement reports indicate the hospital owes \$3.1 million for the period reported. The hospital disputes the amount owed.						
04-83		Recover identified hospital settlements from providers in a timely manner and credit the federal government for their share within 60 days.	03-66			X		See Corrective Action Plan for Finding 2005 – 78
04-84	93.778	According to a report from the OIG, Department of Health and Human Services, 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.						
04-84		Enhance oversight and monitoring procedures related to school-based medical services to address the findings in the report issued by the DHHS.	03-68		X			Incorporated into recommendations for Finding 2005-74, controls over program expenditures.
04-85	93.778	We found several cases where individuals were paid directly for health insurance coverage after they had terminated employment. The recipients did not return premium payments to DHS.						

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	04-85	Improve controls to ensure that Rite Share participants enroll and sustain valid health insurance coverage to prevent program overpayments.	03-70			X		See Corrective Action Plan for Finding 2005 – 79
04-86	93.959	The Division of Substance Abuse (DSA) does not identify the portion of the total grant that is funded from federal sources at the time of the award, but at the end of the fiscal year. Some contracts were not finalized until late in the year.						
	04-86a	Identify the amount and source of federal funds included in each grant award to subrecipients at the time of the award and identify all prohibited activities.	01-62a 03-71	X				
	04-86b	Finalize all contracts by the beginning of the fiscal year in which the services will be provided.			X			
	04-86c	No treatment programs were subjected to formal on-site program reviews during FY 2004 Perform adequate monitoring of all subrecipients to provide reasonable assurance that subrecipients used federal funds for authorized purposes, complied with laws, regulations and contract provisions and grant agreements and achieved applicable performance goals.			X			
04-87	97.004	We found inadequate controls to ensure compliance with federal cash management requirements. The RI EMA maintained cash in excess of their immediate needs.						
	04-87	Limit drawdowns of federal cash to immediate needs.				X		This recommendation was implemented in November 2005
04-88	97.004	The RI EMA had inadequate controls in place to limit federal cash disbursed to subrecipients to their immediate needs.						
	04-88	Establish subrecipient cash management procedures to provide reasonable assurance that subrecipient payments are limited to the entities' immediate cash needs.			X			During SFY 2005, cash was forwarded to subrecipients on a reimbursement basis.
04-89	97.004	We found various weaknesses in the EMA controls and procedures over subrecipient monitoring.						

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04-89		04-89a Establish appropriate policies and procedures to monitor subrecipients utilizing site visits, audits or other means as considered appropriate.				X		Employee hired February 2006 to implement this recommendation.
		04-89b Revise the <i>General Grant Conditions / Assurances</i> to reflect the appropriate audit requirements and requiring subrecipients submit audit reports.			X			Language revised August 2005, but it did not completely reflect appropriate audit requirement. Appropriate language adopted March 2006 for next round of awards.
		04-89c Obtain and review subrecipient audit reports, as applicable, ensuring that appropriate corrective action is taken on findings cited in the audit, and determining the effects of noncompliance, if any, on the EMA's records.					X	Employee hired Feb. 2006 to implement this recommendation.
04-90		97.004 The SF-269a report for the quarter ended 6/30/04 was materially misstated.						
		04-90a Prepare reports in accordance with applicable federal reporting instructions.				X		Implemented August 2005 for reporting period ending 6/30/05. Corrected reports submitted.
		04-90b Reconcile reported federal expenditures to the state accounting system.				X		
		04-90c Retain adequate documentation supporting reported data.				X		
	04-90d Require supervisory review of reports and supporting documentation prior to submission to the federal government.					X		
04-91		97.004 The EMA does not maintain inventory records of equipment purchased with grant funds						
		04-91 Establish and maintain equipment inventory records identifying all equipment purchased and recorded in State accounting records, and whether the equipment is State-owned, passed-through to another entity including another State agency, or held in inventory for future use by subrecipients.				X		Working on during State FY 2006.
04-92		R&D Cluster Monitoring subrecipient activity should be performed on a timely basis.						
		04-92 The University should review its current policies and procedures to ensure all aspects of monitoring subrecipient activity is performed in a timely manner.		X				