

**State of Rhode Island
and Providence Plantations**

SINGLE AUDIT REPORT

Fiscal Year Ended June 30, 2007



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STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS
GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

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

May 23, 2008

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, 2007. 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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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, 2007 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 2% of the assets and 1% of the revenues of the governmental activities and 1% of the assets and 2% of the revenues of the aggregate remaining fund information;
- the Convention Center Authority, a major fund, which also represents 48% of the assets and 1% 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 opinions, insofar as they relate to the amounts included for the governmental activities, the business-type activities, the aggregate discretely presented component units, the Convention Center Authority major fund, and the aggregate remaining fund information, are based on the reports of the other auditors.

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State, as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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-4 through A-19, the Budgetary Comparison Schedules on pages A-94 through A-115, and the Schedules of Funding Progress on page A-116 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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, 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

April 7, 2008

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, 2007. 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, 2007 by \$1,151.3 million. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government. Of this amount, (\$1,099.3) million was reported as unrestricted net assets, \$668.2 million was restricted net assets, and \$1,582.4 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 (\$40.8) million in fiscal year 2007. Net assets of governmental activities changed by (\$49.1) million, while net assets of the business-type activities changed by \$8.3 million.

Fund Financial Statements

- The State's governmental funds reported a combined ending fund balance of \$921.5 million, a change of \$4.9 million in comparison with the previous fiscal year.
- The General Fund ended the current fiscal year with an unreserved, undesignated balance of \$0.0, a change of (\$38.3) million in comparison with the previous fiscal year.
 - ◆ The Budget Reserve Account ended the fiscal year with a balance of \$78.7 million, a change of (\$16.7) million in comparison with the previous fiscal year. The State transferred \$19.4 million from the budget reserve to the undesignated balance to offset a budget deficit caused primarily by a general revenue shortfall.
- The Intermodal Surface Transportation Fund ended the fiscal year with an unreserved fund balance of \$2.9 million, which was a change of (\$19.8) million from the previous year. This change includes reclassification of approximately \$28.5 million from unreserved to reserved for transportation capital projects during fiscal 2007.
- The GARVEE Fund ended its fiscal year with a fund balance of \$220.0 million a change of (\$94.3) million in comparison with the previous fiscal year. Of the fund balance, \$9.9 million is reserved for debt.
- The Rhode Island State Lottery transferred \$321.0 million to the General Fund in support of general revenue expenditures during the fiscal year, a change of (\$3.0) 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

Management's Discussion and Analysis

3. Notes to the financial statements

This report also contains other supplementary information in addition to 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:

- **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 Rhode Island Lottery, Rhode Island 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. These entities are listed in Note 1. The financial information for these entities is presented separately from the financial information presented for the primary government.

Fund Financial Statements

Management's Discussion and Analysis

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 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 (RICCA) and the Employment Security Fund. These funds are each presented in separate columns on the basic proprietary fund financial statements. The

Management's Discussion and Analysis

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.

- 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.

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 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.

Management's Discussion and Analysis

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 \$1,151.3 million at the end of fiscal year 2007, compared to \$1,190.8 million at the end of the prior fiscal year. The primary reason for the (\$39.5) million change was that prior year resources were used to fund some of the current year expenses. Governmental activities have unrestricted net assets of (\$1,082.7) million.

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

State of Rhode Island's Net Assets as of June 30, 2007
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 1,618,791	\$ 1,581,097	\$ 320,999	\$ 329,272	\$ 1,939,790	\$ 1,910,369
Capital assets	2,604,474	2,405,706	168,763	151,591	2,773,237	2,557,297
Total assets	<u>4,223,265</u>	<u>3,986,803</u>	<u>489,762</u>	<u>480,863</u>	<u>4,713,027</u>	<u>4,467,666</u>
Long-term liabilities outstanding	2,459,742	2,219,442	279,650	286,281	2,739,392	2,505,723
Other liabilities	780,606	736,626	41,768	34,525	822,374	771,151
Total liabilities	<u>3,240,348</u>	<u>2,956,068</u>	<u>321,418</u>	<u>320,806</u>	<u>3,561,766</u>	<u>3,276,874</u>
Net assets:						
Invested in capital assets, net of related debt	1,691,793	1,591,074	(109,435)	(131,941)	1,582,358	1,459,133
Restricted	373,788	369,137	294,395	302,689	668,183	671,826
Unrestricted	(1,082,664)	(929,476)	(16,616)	(10,691)	(1,099,280)	(940,167)
Total net assets	<u>\$ 982,917</u>	<u>\$ 1,030,735</u>	<u>\$ 168,344</u>	<u>\$ 160,057</u>	<u>\$ 1,151,261</u>	<u>\$ 1,190,792</u>

As indicated above, the State reported a balance in unrestricted net assets of (\$1,099.3) million at June 30, 2007 in the Statement of Net Assets. This deficit results primarily from the State's use

Management's Discussion and Analysis

of general obligation bond proceeds (which are reported as debt of the primary government) for non-capital expenditures deemed to provide important benefits for the general public. In these instances, proceeds are transferred to municipalities, discretely presented component units, and non-profit organizations within the State to fund specific projects. Examples of these uses of general obligation bond proceeds include but are not limited to the following:

- Certain transportation projects funded with bond proceeds that do not meet the State's criteria for capitalization as infrastructure;
- Construction of facilities at the State's university and colleges which are reflected in discretely presented component units;
- Water resources projects including the acquisition of sites for future water supply resources, various water resources planning initiatives, and funding to upgrade local water treatment facilities;
- Environmental programs to acquire, develop, and rehabilitate local recreational facilities and insure that open space is preserved;
- Historical preservation initiatives designed to protect and preserve historical buildings as well as provide funding for cultural facilities and
- Capital improvements for privately-owned and operated group homes for developmentally disabled citizens of the State as well as children who are dependant on the State for care.

In the above instances, the primary government records a liability for the general obligation bonds but no related capitalized asset is recorded. A cumulative deficit in unrestricted net assets results from financing these types of projects through the years.

Changes in Net Assets

The State's net assets changed by (\$40.8) million during the current fiscal year. Total revenues of \$7,270.1 million were less than expenses of \$7,310.9 million. Approximately 39.1% of the State's total revenue came from taxes, while 25.8% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 32.7% of the total revenues. The State's expenses covered a range of services. The largest expenses were for human services, 34.5% and education, 18.1%. In fiscal year 2007, governmental activity expenses exceeded program revenues, which resulted in the use of \$2,997.0 million in general revenues (mostly taxes). On the other hand, net program revenues from business-type activities in fiscal year 2007 exceeded expenses by \$292.9 million.

During the year, the Tobacco Settlement Financing Corporation, a blended component unit, issued \$197,005,742 of additional Tobacco Settlement Asset Backed Bonds. The bond proceeds, amounting to \$195,000,000, were used to purchase the State's future rights to residual Tobacco Settlement Revenues which were not purchased under the 2002 purchase agreement.

The cumulative effect of the prior period adjustment is fully explained in Note 18 Section C.

Management's Discussion and Analysis

State of Rhode Island's Changes in Net Assets
For the Fiscal Year Ended June 30, 2007
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 351,861	\$ 360,728	\$ 2,028,470	\$ 1,947,732	\$ 2,380,331	\$ 2,308,460
Operating grants and contributions	1,716,318	1,821,134	4,607	2,342	1,720,925	1,823,476
Capital grants and contributions	151,528	156,828			151,528	156,828
General revenues:						
Taxes	2,842,828	2,794,230			2,842,828	2,794,230
Interest and investment earnings	37,539	25,644	12,137	8,826	49,676	34,470
Miscellaneous	106,543	114,362	8,137	6,752	114,680	121,114
Payments from component units	10,108	14,715			10,108	14,715
Total revenues	<u>5,216,725</u>	<u>5,287,641</u>	<u>2,053,351</u>	<u>1,965,652</u>	<u>7,270,076</u>	<u>7,253,293</u>
Program expenses:						
General government	858,729	527,841			858,729	527,841
Human services	2,519,745	2,622,935			2,519,745	2,622,935
Education	1,320,384	287,119			1,320,384	287,119
Public safety	391,354	370,706			391,354	370,706
Natural resources	91,758	74,695			91,758	74,695
Transportation	281,518	323,517			281,518	323,517
Intergovernmental		1,213,050				1,213,050
Interest	107,211	92,121			107,211	92,121
Lottery			1,487,239	1,409,134	1,487,239	1,409,134
Convention Center			42,859	37,862	42,859	37,862
Employment insurance			210,060	197,724	210,060	197,724
Total expenses	<u>5,570,699</u>	<u>5,511,984</u>	<u>1,740,158</u>	<u>1,644,720</u>	<u>7,310,857</u>	<u>7,156,704</u>
Change in net assets before transfers	(353,974)	(224,343)	313,193	320,932	(40,781)	96,589
Transfers	304,906	312,755	(304,906)	(312,755)		
Change in net assets	(49,068)	88,412	8,287	8,177	(40,781)	96,589
Net assets - Beginning	1,030,735	195,511	160,057	151,880	1,190,792	347,391
Cumulative effect of prior period adjustments	1,250	746,812			1,250	746,812
Net assets - Beginning, as restated	<u>1,031,985</u>	<u>942,323</u>	<u>160,057</u>	<u>151,880</u>	<u>1,192,042</u>	<u>1,094,203</u>
Net assets - Ending	<u>\$ 982,917</u>	<u>\$ 1,030,735</u>	<u>\$ 168,344</u>	<u>\$ 160,057</u>	<u>\$ 1,151,261</u>	<u>\$ 1,190,792</u>

Financial Analysis of the State's Funds

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

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the State's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the State's governmental funds reported a combined ending fund balance of \$921.5 million, a change of \$4.9 million. Reserved fund balances are not available for new spending because they have already been committed as follows: (1) \$78.7 million for a "rainy day" account, (2) \$65.5 million for continuing appropriations, (3) \$85.6 million principally for liquidating debt, (4) \$145.2 million for employment insurance programs and (5)

Management's Discussion and Analysis

\$29.9 million for other restricted purposes. Approximately 56.1% (\$516.7 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 \$0.0 , while total fund balance was \$144.2 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 represents 0.0% of total General Fund expenditures, while total fund balance represents 2.8% of the same amount. The General Fund's unreserved fund balance changed from \$38.3 million to \$0.0 , a change of (\$38.3) million during the current fiscal year. In addition to using all the beginning unreserved fund balance, \$19.4 million was transferred from the Budget Reserve Account to offset a budget deficit caused primarily by a general revenue shortfall.

Revenues and other sources of the General Fund totaled \$5,056.4 million in fiscal year 2007, a decrease of (\$13.4) million (-0.26%) from the previous year. Of the aforementioned special item \$42.5 million was transferred to the general fund and is included in other sources. The revenues from various sources and the change from the previous year are shown in the following tabulation (amounts in thousands):

	2007	2006	Increase (decrease) from 2006	
			Amount	Percent
Taxes:				
Personal income	\$ 1,065,367	\$ 996,792	\$ 68,575	6.88%
Sales and use	1,052,582	1,059,031	(6,449)	-0.61%
General business	360,949	366,444	(5,495)	-1.50%
Other	50,343	57,287	(6,944)	-12.12%
Subtotal	<u>2,529,241</u>	<u>2,479,554</u>	<u>49,687</u>	<u>2.00%</u>
Federal grants	1,629,715	1,713,287	(83,572)	-4.88%
Restricted revenues	109,184	105,765	3,419	3.23%
Licenses, fines, sales, and services	242,560	253,768	(11,208)	-4.42%
Other general revenues	35,337	33,546	1,791	5.34%
Subtotal	<u>2,016,796</u>	<u>2,106,366</u>	<u>(89,570)</u>	<u>-4.25%</u>
Total revenues	<u>4,546,037</u>	<u>4,585,920</u>	<u>(39,883)</u>	<u>-0.87%</u>
Other sources	<u>510,392</u>	<u>483,880</u>	<u>26,512</u>	<u>5.48%</u>
Total revenue and other sources	<u>\$ 5,056,429</u>	<u>\$ 5,069,800</u>	<u>\$ (13,371)</u>	<u>-0.26%</u>

Expenditures and other uses totaled \$5,115.5 million in fiscal year 2007, an increase of \$64.1 million (1.27%) from the previous year. Changes in expenditures and other uses by function from the previous year are shown in the following tabulation (amounts in thousands):

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	2007	2006	Increase (decrease) from 2006	
			Amount	Percent
General government	\$ 633,893	\$ 318,675	\$ 315,218	98.92%
Human services	2,512,286	2,614,712	(102,426)	-3.92%
Education	1,267,255	263,735	1,003,520	380.50%
Public safety	396,029	361,567	34,462	9.53%
Natural resources	81,518	69,538	11,980	17.23%
Capital outlay		35,479	(35,479)	-100.00%
Intergovernmental		1,186,887	(1,186,887)	-100.00%
Debt Service:				
Principal	79,954	73,700	6,254	8.49%
Interest	61,396	51,381	10,015	19.49%
Total expenditures	<u>5,032,331</u>	<u>4,975,674</u>	<u>56,657</u>	1.14%
Other uses	83,129	75,731	7,398	9.77%
Total expenditures and other uses	<u>\$ 5,115,460</u>	<u>\$ 5,051,405</u>	<u>\$ 64,055</u>	1.27%

Expenditures previously categorized as capital outlays and intergovernmental are now included in the applicable function.

Intermodal Surface Transportation Fund. The Intermodal Surface Transportation Fund (ISTEA) is a special revenue fund that 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 \$2.9 million, while the total fund balance was \$32.8 million. Total fund balance of the ISTEA fund changed by \$8.7 million during the current fiscal year. The primary reason for the increase was the collection of approximately \$8.0 million of the federal receivable that had not been previously recognized in the fund financial statements because it was a long-term receivable.

GARVEE Fund. The GARVEE Fund is a capital projects fund that 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 \$220.0 million, a change of (\$94.3) million. The reason for this change was that it is a capital projects fund and current year expenditures were funded out of the prior year balance.

General Fund Budgetary Highlights

According to the State's Constitution, in FY2007 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 revenue sources must be identified. Certain agencies have federal programs that are entitlements, which continue to

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require State funds to match the federal funds. Agencies may get additional appropriations provided a need is established. Adjustments to general revenue receipt estimates resulted in a change of (\$29.2) million, -0.9%, between the original budget and the final budget. General revenue appropriations changed from the original budget by \$3.3 million, 0.1%. Some significant changes between the preliminary and final estimated general revenues and the enacted and final general revenue appropriations are listed below.

General revenues	Original Budget vs. Final Budget Change	Percent
Taxes	(In thousands)	
Personal Income	\$ 4,611	0.4%
Business Corporations	44,709	36.6%
Financial Institutions	9,800	-158.1%
Sales and Use	(35,775)	-3.9%
Motor Vehicle	(4,700)	-9.4%
Cigarettes	(4,391)	-3.5%
Departmental Revenue	(7,972)	-2.7%
Other		
Other Miscellaneous	6,628	10.9%
Transfer from Lottery	(40,200)	-11.1%
Other General Revenue	(1,895)	
Total Change in Estimated Revenue	\$ (29,185)	-0.9%
General revenue appropriations		
Department		
Administration	\$ 26,280	5.9%
Children, Youth and Families	13,394	7.7%
Human Services	(19,942)	-2.8%
Corrections	(5,356)	-3.3%
Other	(11,072)	
Total Change in Appropriations	\$ 3,304	0.1%

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, 2007, amounts to \$2,773.2 million, net of accumulated depreciation of \$1,534.1 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 8.4% in terms of net book value, primarily caused by construction in progress for construction and repair of roads and other infrastructure.

Actual expenditures to purchase or construct capital assets were \$336.3 million for the year. Of this amount, \$217.0 million was used to construct or reconstruct roads. Depreciation charges for the year totaled \$115.6 million.

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State of Rhode Island's Capital Assets as of June 30, 2007
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Capital assets not being depreciated						
Land	\$ 338,987	\$ 332,092	\$ 45,558	\$ 45,558	\$ 384,545	\$ 377,650
Works of Art	135				135	
Intangibles	111,537	106,146			111,537	106,146
Construction in progress	597,005	* 413,619	25,142	3,272	622,147	416,891
Total capital assets not being depreciated	1,047,664	851,857	70,700	48,830	1,118,364	900,687
Capital assets being depreciated						
Land improvements	3,700	3,700			3,700	3,700
Buildings	520,733	438,954	161,266	161,258	681,999	600,212
Building improvements	208,342	208,343			208,342	208,343
Equipment	220,661	204,521	13,060	11,275	233,721	215,796
Intangibles	8,428	1,196			8,428	1,196
Infrastructure	2,052,745	* 2,051,013			2,052,745	2,051,013
	3,014,609	2,907,727	174,326	172,533	3,188,935	3,080,260
Less: Accumulated depreciation	1,457,799	* 1,352,629	76,263	69,772	1,534,062	1,422,401
Total capital assets being depreciated	1,556,810	1,555,098	98,063	102,761	1,654,873	1,657,859
Total capital assets (net)	\$ 2,604,474	\$ 2,406,955	\$ 168,763	\$ 151,591	\$ 2,773,237	\$ 2,558,546

* Certain June 30, 2006 balances have been restated; see Note 18 Section C for an explanation.

Significant capital projects include relocation of a major segment of interstate highway as well as construction of new 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 \$2,206.5 million of which \$913.5 million is general obligation debt, \$390.1 million is special obligation debt and \$902.9 million is debt of the blended component units. The State's total bonded debt increased by \$217.0 million during the current fiscal year. This increase is the net of a \$71.0 million increase in general obligation debt, a decrease of \$27.9 million in special obligation debt and an increase of \$173.9 million in the blended component units debt. 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 \$193.6 million of general obligation bonds of which \$74.8 million were refunding bonds used to refund \$72.9 million of outstanding 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 Tobacco

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Settlement Finance Corporation issued \$197.0 million of Tobacco Settlement Asset Backed Bonds.

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 \$408.6 million. Additional information on the State's long-term debt can be found in the notes to the financial statements of this report.

Conditions Expected to Affect Future Operations

In November 2006 the voters of the State approved an amendment to the Rhode Island Constitution that restricts, beginning July 1, 2007, the use of excess funds in the Rhode Island Capital Fund solely for capital projects. Also, the amendment will, beginning July 1, 2012, increase the budget reserve account by limiting annual appropriations to ninety seven (97%) percent of estimated revenues and increasing the cap on the budget reserve account to five (5%) percent of estimated revenue.

In anticipation of the implementation of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*, the State has obtained an actuarial valuation of the unfunded liability relating to retiree medical benefits. The unfunded liability was approximately \$696 million as of June 30, 2005. This calculation assumes an annual investment return rate of 5%. Legislation is pending that, if enacted, will modify the benefits provided to future retirees under the retiree medical benefit program. The State's policy has been to record as an expenditure current claims incurred and administrative costs for the retiree medical benefit program.

Additionally, during the 2007 Session of the General Assembly, a law was enacted which requires that general revenues received in excess of the amount estimated in the enacted budget, net of reserve fund contributions, be transferred to the State Retirement Fund upon completion of the post audit.

The November 2007 Revenue Estimating Conference revised the enacted FY 2008 estimate of general revenues downward by \$113.3 million. Nearly half of the general revenue sources were revised downward from enacted estimates including the three largest tax sources of general revenue; Personal Income Tax, Sales Tax, and Business Corporation Tax. The revised FY 2008 estimate of total general revenues is \$3.360 billion, a 3.3 percent decrease from the enacted FY 2008 estimate.

In addition, the first quarter report for FY 2008 prepared by the Budget Office and issued on November 15, 2007 projects that expenditures will exceed appropriations for a number of programs by \$46.7 Million.

In total the general revenue deficit for FY 2008 is projected to be \$151.5 million according to the first quarter report for FY 2008 prepared by the Budget Office.

On January 17, 2008 the Governor submitted a supplemental budget proposal for FY 2008 to the General Assembly. This proposal includes a number of measures designed to eliminate the FY 2008 budget deficit discussed above.

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Economic Factors

Rhode Island personal income has continued to increase over the past year, posting gains of 7.1 percent and 5.5 percent for the first two quarters of calendar year 2007, respectively. Annually, personal income grew by just 3.8 percent in fiscal year 2006 but is estimated to have accelerated to 5.1 percent in FY 2007. Despite this acceleration, Rhode Island continues to lag New England and the United States. In fiscal years 2006 and 2007, New England personal income grew at a rate of 5.5 percent and 5.8 percent, respectively. United States personal income grew at a more robust 6.2 percent for FY 2006 and 6.4 percent for FY 2007. The trend, however, in personal income per capita is very different.

Although Rhode Island's annual personal income per capita has, at times, grown more slowly than that of New England and the United States, it has also grown faster during other periods. From calendar years 1996 to 2000, Rhode Island personal income per capita lagged New England and the United States annually with the exception of 1997 when it surpassed the United States by 0.3 percentage points. From 2001 to 2003, Rhode Island personal income per capita grew at an average of 3.8 percent annually as compared to average annual growth of 1.6 percent for New England and 1.8 percent for the United States. Finally, personal income per capita growth in the 2004 to 2006 period averaged 4.5 percent annually for Rhode Island, lagging New England's average annual growth of 5.3 percent and the average annual growth of 5.2 percent for the United States. Despite these comparisons, Rhode Island has gained a higher level of per capita personal income as compared to the United States while increasingly falling behind New England's level of per capita personal income. From 2002 to 2006, Rhode Island's personal income per capita averaged \$920 higher than that of the United States in comparison to the \$52 per capita average a decade earlier, from 1992 to 1996. In comparison to New England, however, Rhode Island personal income has averaged \$5,087 lower per capita from 1992 through 2006, consistently widening every year. In 2006, Rhode Island per capita personal income was \$37,261 as compared to New England per capita personal income of \$44,252 and United States per capita personal income of \$36,629 as reported by the Bureau of Economic Analysis.

Rhode Island wages and salaries grew at lower rates than personal income as a whole for FY 2005 and FY 2006 before reversing in FY 2007. In FY 2005, the State's wages and salaries grew at 3.8 percent as compared to personal income growth of 4.8 percent. In FY 2006, wages and salaries grew at 3.6 percent as compared to 3.8 percent growth in personal income. In FY 2007, wages and salaries grew by 6.0 percent, exceeding personal income growth of 5.0 percent. According to Moody's Economy.com (11/2007), "[O]ver the very long term, payroll employment gains in Rhode Island will lag the U.S. average. However, this constraint will result more from population density than from declining per capita income, as future residents of the Ocean State can be expected to prosper from the focus on high-tech and innovation." Average annual pay is computed by dividing total annual payrolls of employees covered by unemployment insurance programs by the average monthly number of these employees. Although average annual pay has increased consistently for the last fifteen years, the ratio of pay levels in Rhode Island to the United States has been on a downward trend since 2003. In 1990, average annual pay in Rhode Island was 94.9 percent of the national average. By 2001, the ratio had fallen to 92.8 percent. For 2002, average annual pay in Rhode Island rebounded to 94.7 percent of U.S. average annual pay. This was followed by a further increase to 96.4 percent in

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2003, \$36,415 for Rhode Island versus \$37,765 for the United States as a whole. In 2004, 2005, and 2006 average annual pay in Rhode Island again fell as a percentage of average annual pay in the U.S.

According to midyear population estimates by the Bureau of Census, Rhode Island is the only state to have experienced loss of population in both 2005 and 2006. Only two other states and Washington, D.C., lost population in 2006: Louisiana and Michigan, which were hardly a surprise given the fallout of Hurricane Katrina and the contracting automobile industry. In 2005, North Dakota was the only other state to exhibit a decline in population size while the other 48 states and Washington, D.C. populations expanded. Regarding Rhode Island and Massachusetts, according to Moody's Economy.com (11/2007), "[A] narrowing in the housing affordability gap between the two states may also be lessening in-migration from Massachusetts. While U.S. population growth is expected to average about 0.9% over the next several decades, it will likely average just one-third of that pace in Rhode Island."

The State has implemented strategies to improve housing affordability. An upside risk to the forecast cited by Moody's Economy.com (11/2007) comes from the \$50 million bond referendum for affordable housing construction that passed on November 7, 2006. If the bond "actually leverages \$300 to \$400 million in private investment," it will result in a "spurring" of "the [S]tate's construction industry," as well as to "support the [S]tate's homeownership rate and increase the retention rate of young educated workers, a vital component to enhancing the economic well-being of the [St]ate's residents." Further, since FY 2002, the State's construction activity has been enhanced as a result of the provision of historic structure tax credits which have created economic incentives to stimulate the redevelopment and reuse of Rhode Island's historic structures. As of September 2007, qualified construction costs totaled \$575.0 million for completed projects utilizing the credits, and were estimated to be \$922.9 million for active and proposed projects that are expected to result in credits issued. This would result in an estimated \$172.5 million in tax credits for completed projects and \$276.9 million for active and proposed projects that may apply for credits.

The Rhode Island Department of Labor and Training reported at the November 2007 Revenue Estimating Conference that the unemployment rate increased slightly through the third quarter of CY 2007. Rhode Island's total unemployment has consistently been below last year's unemployment figures through the first three quarters of CY 2007. However, Rhode Island's unemployment rate remained above the national average for the fifth straight month in September 2007. According to the U.S. Bureau of Labor Statistics, Rhode Island experienced an increase in non-farm employment of 3,635 jobs, or 0.7 percent in FY 2007. In FY 2006, Rhode Island gained 1,708 jobs, an increase of 0.3 percent over FY 2005. On a calendar year basis, Rhode Island added 5,308 jobs in 2005 and 2006. The November 2007 Revenue Estimating Conference's Consensus Economic Forecast projects Rhode Island non-farm employment to total 501,200 in FY 2008, an increase of 1.0 percent over FY 2007, and 506,200 in FY 2009, an increase of 1.0 percent over projected FY 2008.

Although jobs in construction increased again in 2006, by 5.4 percent, the housing market in Rhode Island has begun to contract, with 23.2 percent fewer housing permits year-to-date through October 2007 from the prior fiscal year through October 2006. Although Rhode Island's "softening in house prices is good news for housing affordability," Moody's Economy.com states that "it is occurring at the expense of a marked increase in foreclosure rates for Rhode

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Island during the third quarter of 2007.” This decreased available mortgage equity for withdrawal has strained homeowners’ spending habits in Rhode Island most noticeably in the form of decreasing sales and use tax collections. FY 2007 sales and use tax collections have decreased by 2.4 percent through October 2007 as compared to the fiscal year period through October 2006.

The composition of Rhode Island’s economy reflects the prominence of industries that are reliant on housing activity. Finance, Insurance and Real Estate is the largest sector in the economy of Rhode Island in terms of number of dollars. F.I.R.E.’s contribution to total GDP has grown from 26.0 percent of GDP in 2000 to 26.7 percent of GDP in 2006. In 2006, F.I.R.E. accounted for \$12.2 billion of total gross domestic product of \$45.7 billion. For the period 2000 – 2006 this sector expanded by a respectable 26.8 percent. In 2006, Construction and Manufacturing was the second largest sector in Rhode Island at \$6.8 billion, or 14.9 percent of the total Gross Domestic Product. This sector increased by 20.3 percent from the 2000 level although it decreased in percent contribution to GDP. Services consists of professional and technical services, management services, administrative and waste services, educational, health care and social assistance, as well as other non-government services. Since 2000, Services have remained an integral sector accounting for 28.0 percent of Rhode Island’s GDP in 2006. From 2000 to 2006, Services have grown by 47.1 percent, indicating the continuing shift from Rhode Island’s traditional role as a manufacturing based economy to that of a service based economy. At 12.1 percent of GDP in 2006, the Government sector has grown slowly and steadily since 2000. Yet, due to the gains in other sectors, particularly F.I.R.E., Government contributes slightly less as a percentage of GDP in 2006 than it did in 2000. In 2000, the Government sector accounted for 12.3 percent of GDP. In 2006, the Government sector contributed \$5.5 billion to total gross state product.

One of the “main threats” to the State’s economic performance is the high tax burden imposed on Rhode Island businesses and households. 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. Additionally, Moody’s Economy.com (11/07) cites recent legislation to “eliminate REIT loopholes” as part of a policy that is “a hinder on prosperity.” However, “[T]he desire to keep biotech companies growing in the [S]tate and attracting new ones led to the recently legislated Biotechnology Jobs Growth Act, which extends the duration of the [S]tate’s investment tax credit from seven to 15 years for biotechnology companies.” The biotechnology industry cluster that has begun to emerge in Rhode Island should positively continue to impact the State’s long term economic performance. According to Moody’s Economy.com (11/2007), “[A] major upside risk for the long-term forecast is further expansion of high-tech companies in Rhode Island, such as information technology or biotech.” Further, “The [S]tate remains well-suited as an expansion corridor for the densely packed biotech community in eastern Massachusetts.” The fact that “Rhode Island has the highest concentration of college students relative to population in the nation” bodes well for the future of the biotech and high-tech industry development in the State. These students are among the State’s chief assets for the development of a viable biotechnology industry cluster and “[T]he development of a biotech industry would allow Rhode Island to retain more of its college science majors, who usually

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search elsewhere for employment upon graduation.," a compact geography, and responsive government at the state and local levels.

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.admin.ri.gov/index.php>. 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, 2007

(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business - Type Activities	Totals	
Assets				
Current assets:				
Cash and cash equivalents	\$ 582,245	\$ 19,854	\$ 602,099	\$ 260,591
Funds on deposit with fiscal agent	301,155	182,391	483,546	
Investments	327		327	69,905
Receivables (net)	377,918	59,780	437,698	191,143
Restricted assets:				
Cash and cash equivalents		14,514	14,514	497,660
Investments	72,545		72,545	423,713
Other assets				34,869
Due from primary government				3,720
Due from component units	1,025		1,025	
Internal balances	6,278	(6,278)		
Due from other governments and agencies	177,299	1,395	178,694	3,673
Inventories	2,242	970	3,212	2,787
Other assets	48,932	761	49,693	18,218
Total current assets	1,569,966	273,387	1,843,353	1,506,279
Noncurrent assets:				
Investments				150,533
Receivables (net)	18,882		18,882	1,414,425
Restricted assets:				
Cash and cash equivalents				145,667
Investments		43,791	43,791	199,636
Other assets				1,409,624
Due from component units	19,334		19,334	
Capital assets - nondepreciable	1,047,664	70,700	1,118,364	666,791
Capital assets - depreciable (net)	1,556,810	98,063	1,654,873	1,115,513
Other assets	10,609	3,821	14,430	81,250
Total noncurrent assets	2,653,299	216,375	2,869,674	5,183,439
Total assets	4,223,265	489,762	4,713,027	6,689,718
Liabilities				
Current Liabilities:				
Cash overdraft	4,778		4,778	2,208
Accounts payable	512,151	18,619	530,770	75,408
Due to primary government				1,978
Due to component units	3,720		3,720	
Due to other governments and agencies		1,668	1,668	748
Deferred revenue	8,500	1,717	10,217	23,272
Other current liabilities	77,553	4,630	82,183	285,373
Current portion of long-term debt	173,904	9,163	183,067	268,854
Obligation for unpaid prize awards		5,971	5,971	
Total current liabilities	780,606	41,768	822,374	657,841
Noncurrent Liabilities:				
Due to primary government				19,334
Due to other governments and agencies				4,292
Deferred revenue		9,556	9,556	1,059
Notes payable				3,801
Loans payable				255,674
Obligations under capital leases	242,297		242,297	30,609
Compensated absences	27,451		27,451	25,146
Bonds payable	2,136,857	269,035	2,405,892	3,532,803
Other liabilities	53,137	1,059	54,196	141,758
Total noncurrent liabilities	2,459,742	279,650	2,739,392	4,014,476
Total liabilities	3,240,348	321,418	3,561,766	4,672,317
Net Assets				
Invested in capital assets, net of related debt	1,691,793	(109,435)	1,582,358	899,576
Restricted for:				
Budget reserve	78,659		78,659	
Transportation	1,388		1,388	
Capital projects	10,090		10,090	
Debt	85,554	58,305	143,859	581,432
Employment insurance programs	145,176	236,090	381,266	
Other	51,735		51,735	153,429
Nonexpendable-education	1,186		1,186	85,349
Unrestricted	(1,082,664)	(16,616)	(1,099,280)	297,615
Total net assets	\$ 982,917	\$ 168,344	\$ 1,151,261	\$ 2,017,401

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, 2007
(Expressed in Thousands)

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating grants and contributions	Capital grants and contributions	Primary Government		Totals	
					Governmental activities	Business-type activities		
Primary government:								
Governmental activities:								
General government	\$ 858,729	\$ 132,152	\$ 79,857	\$ 139	\$ (646,581)	\$	\$ (646,581)	\$
Human services	2,519,745	125,901	1,300,039	2,343	(1,091,462)		(1,091,462)	
Education	1,320,384	11,180	178,271	178	(1,130,755)		(1,130,755)	
Public safety	391,354	49,821	36,140	9,706	(295,687)		(295,687)	
Natural resources	91,758	31,932	19,311	7,262	(33,253)		(33,253)	
Transportation	281,518	875	102,700	131,900	(46,043)		(46,043)	
Interest and other charges	107,211				(107,211)		(107,211)	
Total governmental activities	5,570,699	351,861	1,716,318	151,528	(3,350,992)		(3,350,992)	
Business-type activities:								
State lottery	1,487,239	1,806,218				318,979	318,979	
Convention center	42,859	19,251				(23,608)	(23,608)	
Employment security	210,060	203,001	4,607			(2,452)	(2,452)	
Total business-type activities	1,740,158	2,028,470	4,607			292,919	292,919	
Total primary government	\$ 7,310,857	\$ 2,380,331	\$ 1,720,925	\$ 151,528	(3,350,992)	292,919	(3,058,073)	
Component units:	\$ 1,179,807	\$ 838,815	\$ 34,391	\$ 61,239				(245,362)
General Revenues:								
Taxes					2,842,828		2,842,828	
Interest and investment earnings					37,539	12,137	49,676	72,932
Miscellaneous					106,543	8,137	114,680	30,570
Gain on sale of capital assets								1,144
Transfers					304,906	(304,906)		
Payments from component units					10,108		10,108	
Payments from primary government								282,831
Total general revenues and transfers					3,301,924	(284,632)	3,017,292	387,477
Change in net assets					(49,068)	8,287	(40,781)	142,115
Net assets - beginning as restated					1,031,985	160,057	1,192,042	1,875,286
Net assets - ending					\$ 982,917	\$ 168,344	\$ 1,151,261	\$ 2,017,401

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, 2007

(Expressed in Thousands)

	General	Intermodal Surface Transportation	GARVEE	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 144,827	\$ 18,851	\$	\$ 382,145	\$ 545,823
Funds on deposit with fiscal agent			227,099	74,056	301,155
Investments				327	327
Restricted investments				72,545	72,545
Receivables (net)	313,487	13,473	72	43,932	370,964
Due from other funds	11,651	2,056	4,101		17,808
Due from component units	359				359
Due from other governments and agencies	125,764	51,535			177,299
Loans to other funds	14,422				14,422
Other assets	42,941			68	43,009
Total assets	\$ 653,451	\$ 85,915	\$ 231,272	\$ 573,073	\$ 1,543,711
Liabilities and Fund Balances					
Liabilities					
Cash overdraft			469	1,617	2,086
Accounts payable	430,987	24,846	10,844	23,407	490,084
Due to other funds				14,800	14,800
Due to component units		3,720			3,720
Loans from other funds				8,422	8,422
Deferred revenue	22,962	24,206			47,168
Other liabilities	55,336	324		304	55,964
Total liabilities	509,285	53,096	11,313	48,550	622,244
Fund Balances					
Reserved for:					
Budget reserve	78,659				78,659
Appropriations carried forward	65,507				65,507
Debt			9,875	75,679	85,554
Transportation capital projects		29,877			29,877
Employment insurance programs				145,176	145,176
Unreserved, reported in:					
Special revenue funds		2,942		152,540	155,482
Capital projects funds			210,084	149,942	360,026
Permanent fund				1,186	1,186
Total fund balances	144,166	32,819	219,959	524,523	921,467
Total liabilities and fund balances	\$ 653,451	\$ 85,915	\$ 231,272	\$ 573,073	\$ 1,543,711

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, 2007
(Expressed in Thousands)

Fund balance - total governmental funds \$ 921,467

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.

Capital assets	4,055,948	
Accumulated depreciation	(1,454,884)	
	2,601,064	2,601,064

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.

Compensated absences	(77,175)	
Bonds payable	(2,209,512)	
Net premium/discount and deferred amount on refunding	(26,127)	
Cost of issuance	9,492	
Obligations under capital leases	(256,865)	
Premium	(6,167)	
Cost of issuance	1,117	
Interest payable	(21,589)	
Other Liabilities	(56,867)	
	(2,643,693)	(2,643,693)

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

Receivables	21,951	
Due from component units	20,000	
Deferred revenue	38,668	
	80,619	80,619

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.

	23,460	
Net assets - total governmental activities	\$ 982,917	

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, 2007
(Expressed in Thousands)

	General	Intermodal Surface Transportation	GARVEE	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 2,529,241	\$ 141,138	\$	\$ 177,905	\$ 2,848,284
Licenses, fines, sales, and services	242,560			183	242,743
Departmental restricted revenue	109,184	875			110,059
Federal grants	1,629,715	239,621			1,869,336
Income from investments	2,611	488	13,665	19,304	36,068
Other revenues	32,726	7,292		44,646	84,664
Total revenues	4,546,037	389,414	13,665	242,038	5,191,154
Expenditures:					
Current:					
General government	633,893			172,972	806,865
Human services	2,512,286				2,512,286
Education	1,267,255				1,267,255
Public safety	396,029				396,029
Natural resources	81,518				81,518
Transportation		310,019			310,019
Capital outlays			110,503	159,047	269,550
Debt service:					
Principal	79,954	1,388	28,190	6,220	115,752
Interest and other charges	61,396	311	22,950	43,870	128,527
Total expenditures	5,032,331	311,718	161,643	382,109	5,887,801
Excess (deficiency) of revenues over (under) expenditures	(486,294)	77,696	(147,978)	(140,071)	(696,647)
Other financing sources (uses):					
Bonds and notes issued				314,852	314,852
Refunding bonds issued				74,835	74,835
Proceeds from the sale of Certificates of Participation				45,325	45,325
Premium and accrued interest				9,930	9,930
Operating transfers in	481,915	35,397	53,591	257,982	828,885
Payments from component units	10,090	18			10,108
Other	18,387			48	18,435
Payment to refunded bonds escrow agent				(78,198)	(78,198)
Operating transfers out	(83,129)	(104,353)		(335,149)	(522,631)
Total other financing sources (uses)	427,263	(68,938)	53,591	289,625	701,541
Net change in fund balances	(59,031)	8,758	(94,387)	149,554	4,894
Fund balances - beginning	203,197	24,061	314,346	374,969	916,573
Fund balances - ending	\$ 144,166	\$ 32,819	\$ 219,959	\$ 524,523	\$ 921,467

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, 2007
 (Expressed in Thousands)

Net change in fund balances - total governmental funds \$ 4,894

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Current year acquisitions are therefore deducted from expenses on the Statement of Activities, less current year depreciation expense and revenue resulting from current year disposals.

Capital outlay	318,076
Depreciation expense	(106,819)
Loss on disposal of assets	(12,437)
	198,820

198,820

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.

Debt service	
Principal	115,752
Payment to escrow agent	72,930
Interest and other charges	9,288
Proceeds	(435,012)
Deferral of premium/discount	(7,128)
Amortization of premium/discount	14,654
Deferral of issuance costs	2,343
Amortization of issuance costs	(2,538)
	(229,711)

(229,711)

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.

Compensated absences	(5,754)
Program expenses	(2,330)
Program revenue	(914)
Capital grant revenue	(1,491)
General revenue - taxes	(5,456)
General revenue-misc	3,453
	(12,492)

(12,492)

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.

(10,579)

Change in net assets - total governmental activities

\$ (49,068)

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, 2007
(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	\$ 12,088	\$ 2,262	\$ 5,504	\$ 19,854	\$ 36,422
Restricted cash and cash equivalents		14,514		14,514	
Funds on deposit with fiscal agent			182,391	182,391	
Receivables (net)	8,577	947	50,256	59,780	3,886
Due from other funds					5,146
Due from other governments and agencies			1,395	1,395	
Inventories	970			970	2,242
Other assets	482	279		761	5,923
Total current assets	<u>22,117</u>	<u>18,002</u>	<u>239,546</u>	<u>279,665</u>	<u>53,619</u>
Noncurrent assets:					
Restricted investments		43,791		43,791	
Capital assets - nondepreciable		70,700		70,700	
Capital assets - depreciable (net)	1,139	96,924		98,063	3,410
Other assets		3,821		3,821	
Total noncurrent assets	<u>1,139</u>	<u>215,236</u>	<u></u>	<u>216,375</u>	<u>3,410</u>
Total assets	<u>23,256</u>	<u>233,238</u>	<u>239,546</u>	<u>496,040</u>	<u>57,029</u>
Liabilities					
Current Liabilities:					
Cash overdraft					2,692
Accounts payable	12,642	5,977		18,619	22,068
Due to other funds	2,990	1,500	1,788	6,278	1,876
Due to other governments and agencies			1,668	1,668	
Loans from other funds					6,000
Deferred revenue	182	1,535		1,717	
Other current liabilities	2,096	2,534		4,630	
Bonds payable		9,163		9,163	
Obligations under capital leases					933
Obligation for unpaid prize awards	5,971			5,971	
Total current liabilities	<u>23,881</u>	<u>20,709</u>	<u>3,456</u>	<u>48,046</u>	<u>33,569</u>
Noncurrent Liabilities:					
Deferred revenue	9,375	181		9,556	
Bonds payable		269,035		269,035	
Other liabilities		1,059		1,059	
Total noncurrent liabilities	<u>9,375</u>	<u>270,275</u>	<u></u>	<u>279,650</u>	<u></u>
Total liabilities	<u>33,256</u>	<u>290,984</u>	<u>3,456</u>	<u>327,696</u>	<u>33,569</u>
Net Assets					
Invested in capital assets, net of related debt	1,139	(110,574)		(109,435)	3,410
Restricted for:					
Debt		58,305		58,305	
Employment insurance programs			236,090	236,090	
Unrestricted	(11,139)	(5,477)		(16,616)	20,050
Total net assets	<u>\$ (10,000)</u>	<u>\$ (57,746)</u>	<u>\$ 236,090</u>	<u>\$ 168,344</u>	<u>\$ 23,460</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, 2007
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds			Totals	Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security		Internal Service Funds
Operating revenues:					
Charges for services	\$ 1,806,218	\$ 18,816	\$ 202,862	\$ 2,027,896	\$ 300,252
Grants			4,607	4,607	
Miscellaneous		435	139	574	
Total operating revenues	1,806,218	19,251	207,608	2,033,077	300,252
Operating expenses:					
Personal services	4,451	12,005		16,456	9,731
Supplies, materials, and services	194,316	8,906		203,222	300,794
Prize awards	1,288,210			1,288,210	
Depreciation and amortization	262	7,166		7,428	364
Benefits paid			203,624	203,624	
Total operating expenses	1,487,239	28,077	203,624	1,718,940	310,889
Operating income (loss)	318,979	(8,826)	3,984	314,137	(10,637)
Nonoperating revenues (expenses):					
Interest revenue		3,416	8,721	12,137	1,471
Other nonoperating revenue	2,636		5,501	8,137	
Interest expense		(14,782)		(14,782)	
Other nonoperating expenses			(6,436)	(6,436)	(65)
Total nonoperating revenue (expenses)	2,636	(11,366)	7,786	(944)	1,406
Income (loss) before transfers	321,615	(20,192)	11,770	313,193	(9,231)
Transfers in		20,147	1,297	21,444	
Transfers out	(320,990)		(5,360)	(326,350)	(1,348)
Change in net assets	625	(45)	7,707	8,287	(10,579)
Total net assets - beginning as restated	(10,625)	(57,701)	228,383	160,057	34,039
Total net assets - ending	\$ (10,000)	\$ (57,746)	\$ 236,090	\$ 168,344	\$ 23,460

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, 2007
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I.			Totals	Internal Service Funds
	R.I. State Lottery	Convention Center	Employment Security		
Cash flows from operating activities:					
Cash received from customers	\$ 1,812,858	\$ 18,555	\$ 201,838	\$ 2,033,251	\$ 301,762
Cash received from grants			4,607	4,607	
Cash payments to suppliers for goods and services	(5,057)	(8,671)		(13,728)	(301,844)
Cash payments to employees for services	(4,431)	(11,990)		(16,421)	(9,640)
Cash payments to prize winners	(1,296,403)			(1,296,403)	
Cash payments for commissions	(187,032)			(187,032)	
Cash payments for benefits			(203,624)	(203,624)	
Other operating revenue (expense)			864	864	1,501
Net cash provided by (used for) operating activities	319,935	(2,106)	3,685	321,514	(8,221)
Cash flows from noncapital financing activities:					
Loans from other funds					3,950
Repayment of loans to other funds					(3,500)
Operating transfers in		21,647	1,297	22,944	3,812
Operating transfers out	(319,099)		(5,296)	(324,395)	(5,160)
Net transfers from (to) fiscal agent			4,380	4,380	
Negative cash balance implicitly financed					2,691
Repayment of prior year negative cash balance implicitly financed					(2,779)
Net cash provided by (used for) noncapital financing activities	(319,099)	21,647	381	(297,071)	(986)
Cash flows from capital and related financing activities:					
Principal paid on capital obligations		(7,391)		(7,391)	(109)
Interest paid on capital obligations		(13,932)		(13,932)	
Acquisition of capital assets	(86)	(17,814)		(17,900)	(352)
Proceeds from bonds					
Net cash provided by (used for) capital and related financing activities	(86)	(39,137)		(39,223)	(461)
Cash flows from investing activities:					
Proceeds from sale and maturity of investments		13,942		13,942	
Interest on investments	1,412	3,420		4,832	
Net cash provided by (used for) investing activities	1,412	17,362		18,774	
Net increase (decrease) in cash and cash equivalents	2,162	(2,234)	4,066	3,994	(9,668)
Cash and cash equivalents, July 1	9,926	19,010	1,438	30,374	46,090
Cash and cash equivalents, June 30	\$ 12,088	\$ 16,776	\$ 5,504	\$ 34,368	\$ 36,422
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	318,979	(8,826)	3,984	314,137	(10,637)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	262	7,166		7,428	364
Other revenue (expense) and operating transfer in (out)	598		725	1,323	1,501
Net changes in assets and liabilities:					
Receivables, net	(842)	(472)	(1,024)	(2,338)	98
Inventory	51			51	634
Prepaid items		82		82	(169)
Other assets	(211)	9		(202)	
Accounts and other payables	1,936	499		2,435	(101)
Accrued expenses	353	(340)		13	89
Deferred revenue	(135)	(224)		(359)	
Prize awards payable	(1,056)			(1,056)	
Total adjustments	956	6,720	(299)	7,377	2,416
Net cash provided by (used for) operating activities	\$ 319,935	\$ (2,106)	\$ 3,685	\$ 321,514	\$ (8,221)

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

State of Rhode Island and Providence Plantations
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007
(Expressed in Thousands)

	Pension Trust	Private Purpose	
		Touro Jewish Synagogue	Agency
Assets			
Cash and cash equivalents	\$ 11,376	\$	\$ 19,300
Deposits held as security for entities doing business in the State			66,438
Receivables			
Contributions	29,163		
Due from state for teachers	29,259		
Miscellaneous	3,656		4,311
Total receivables	<u>62,078</u>		<u>4,311</u>
Investments, at fair value			
Equity in Short-Term Investment Fund	10,725		
Equity in Pooled Trust	8,422,155		
Other investments		2,476	
Total investments before lending activities	<u>8,432,880</u>	<u>2,476</u>	
Invested securities lending collateral	<u>1,329,239</u>		
Property and equipment, at cost, net of accumulated depreciation	<u>9,551</u>		
Total assets	<u>9,845,124</u>	<u>2,476</u>	<u>90,049</u>
Liabilities			
Securities lending liability	1,329,239		
Accounts payable	7,086		4,311
Deposits held for others			85,738
Total liabilities	<u>1,336,325</u>		<u>90,049</u>
Net assets held in trust for pension and other benefits	<u>\$ 8,508,799</u>	<u>\$ 2,476</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 Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2007
(Expressed in Thousands)

	Pension Trust	Private Purpose Touro Jewish Synagogue
Additions		
Contributions		
Member contributions	\$ 176,599	\$
Employer contributions	262,646	
State contributions for teachers	70,531	
Interest on service credits purchased	3,994	
Total contributions	<u>513,770</u>	
Investment income		
Net appreciation in fair value of investments	1,129,009	205
Interest	111,126	
Dividends	86,541	48
Other investment income	27,702	118
	<u>1,354,378</u>	<u>371</u>
Less investment expense	25,271	
Net income from investing activities	<u>1,329,107</u>	<u>371</u>
Securities Lending		
Securities lending income	69,407	
Less securities lending expense	66,835	
Net securities lending income	<u>2,572</u>	
Total net investment income	<u>1,331,679</u>	<u>371</u>
Total additions	<u>1,845,449</u>	<u>371</u>
Deductions		
Benefits		
Retirement benefits	490,100	
Cost of living adjustment	124,353	
SRA Plus Option	28,943	
Supplemental benefits	1,106	
Death benefits	3,177	
Total benefits	<u>647,679</u>	
Refund of contributions	10,557	
Administrative expense	7,590	
Distribution		50
Total deductions	<u>665,826</u>	<u>50</u>
Change in net assets	1,179,623	321
Net assets held in trust for pension benefits		
Net assets - beginning	7,329,176	2,155
Net assets - ending	<u>\$ 8,508,799</u>	<u>\$ 2,476</u>

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, 2007

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State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2007

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. The entities that were deemed to be component units were included because the State appoints a voting majority of the entity's governing body and the potential for the entity to provide specific financial benefits to, or impose specific financial burdens on the State.

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.

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. RICCA is also responsible for the management and operations of the Dunkin' Donuts Center located 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, 2007

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, 17 Gordon Avenue, Suite 104, Providence, RI 02905.

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 the 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 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.

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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, 315 Iron Horse Way, Suite 101, Providence, RI 02903.

Narragansett Bay Commission (NBC) - This Commission was created for the purposes of acquiring, planning, constructing, extending, improving, operating and maintaining publicly owned wastewater treatment facilities. NBC receives contributed capital from the State to upgrade its facilities. For more detailed information, a copy of the financial statements can be obtained by writing to the Narragansett Bay Commission, 1 Service Road, Providence, RI 02905.

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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 by writing to the Director of Finance and Administration, R.I. Industrial Facilities Corporation, 315 Iron Horse Way, Suite 101, 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

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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, 315 Iron Horse Way, Suite 101, 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, One Capitol Hill, Providence, RI 02908.

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.

The College Crusade of Rhode Island (TCCRI) - This is a Rhode Island nonprofit corporation, formerly named the Rhode Island Children's Crusade for Higher Education, 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 The College Crusade of Rhode Island, The 134 Center, Suite 111, 134 Thurbers Avenue, Providence, RI 02905.

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:

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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 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.

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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 **Intermodal Surface Transportation Fund** (ISTEA) 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:

State Lottery Fund. The State Lottery Fund operates games of chance for the purpose of generating resources for the State's General Fund. For more detailed information, a copy of the financial statements can be obtained by writing to the Office of The Financial Administrator, State Lottery, 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 on behalf of the State. RICCA is also responsible for the management and operations of the Dunkin' Donuts Center located within the City of Providence.

Employment Security Fund. This fund accounts for the State's unemployment compensation benefits. Revenues consist of taxes assessed on employers to pay benefits to

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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, 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.

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

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

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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.

The State's enacted budget designates the source of funds for expenditures. When a type of expenditure is allocable to multiple funding sources, federal and restricted funds are generally utilized first.

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.

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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. Within governmental funds, an allowance for unavailable amounts is also reflected.

I. Due From Other Governments and Agencies

Due from other governments and agencies is primarily comprised of amounts due from the federal government for reimbursement-type grant programs.

J. Interfund Activity

In general, eliminations have been made to minimize the double counting of internal activity, including internal service fund type activity on the government-wide financial statements. However, 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.

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L. Capital Assets

Capital assets, which include land, non-depreciable intangibles, construction in progress, land improvements, buildings, building improvements, furniture and equipment (which also includes subcategories for vehicles and computer systems), depreciable intangibles (computer software), and infrastructure (e.g., roads, bridges, dams, piers) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. Non-depreciable intangibles consist mostly of perpetual land rights such as conservation, recreational, and agricultural easements.

Applicable capital assets are depreciated using the straight-line method (using a half-year convention). Capitalization thresholds and estimated useful lives for depreciable capital asset categories of the primary government are as follows:

Asset Category	Capitalization Thresholds	Estimated Useful Lives
Capital Assets (Depreciable)		
Land improvements	\$1 million	20 years
Buildings	\$1 million	20 - 50 years
Building Improvements	\$1 million	10 - 20 years
Furniture and equipment	\$5,000	3 - 10 years
Intangibles	\$1 million	5 years
Infrastructure	\$1 million	7 - 75 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction of capital facilities is not capitalized.

Capital assets acquired in the governmental funds are recorded as capital outlay expenditures in capital projects funds and current expenditures by function in other governmental fund financial statements.

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

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 outstanding principal method.

For Proprietary fund types and component unit's bond discounts, premiums, discounts, and issuance costs are generally deferred and amortized over the term of the bonds using the straight-

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line method for issuance costs and the interest method for premiums and discounts. Bond premiums and discounts are presented as adjustments to the face amount of the bonds payable. Deferred bond issuance costs are included in other assets.

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 6(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 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, landfill 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. Recently Issued Accounting Standards

The State considered the impact of the following GASB statement in fiscal year 2007:

GASB Statement No. 43- Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.

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

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GASB Statement No. 45 – *Accounting and Financial Reporting by Employees for Post-employment Benefits Other Than Pensions*, effective for the State’s fiscal year ending June 30, 2008.

GASB Statement No. 48 - *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* effective for the State’s fiscal year ending June 30, 2008.

GASB Statement No. 50 – *Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27*, effective for the State’s fiscal year ending June 30, 2008.

The impact of these pronouncements on the State’s financial statements has not been determined.

Note 2. Cash, Cash Equivalents, Investments and Funds in Trust

Cash

Primary Government

At June 30, 2007, the carrying amount of the State's cash deposits was \$172,996,000 and the bank balance was \$208,587,000. 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, \$950,000 was covered by federal depository insurance and \$137,499,000 was collateralized with securities held by the pledging financial institution, or its agent but not in the State’s name. The remaining amount, \$70,138,000 was uninsured and uncollateralized. The carrying amount and bank balance includes \$34,285,000 of certificates of deposit.

During the year, the State issued \$120,000,000 in General Obligation Tax Anticipation Notes for working capital. The notes were repaid in full as of June 30, 2007.

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, 2007.

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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.

Of the State's investments equaling \$116,663,000, the Tobacco Settlement Financing Corporation, a non-major governmental fund, has restricted investments totaling \$72,545,000. Investment 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 bodies.

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, 2007, the State's investments in Citigroup, Morgan Stanley and GE Capital Corporation commercial paper were rated A1+ by Standard and Poors and P1 by Moody's. The State's investments in J. P. Morgan Chase, Korean Development and Merrill Lynch commercial paper were 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. The State's Investment Agreements are not rated.

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.

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

Type	Issuer	Amount	Percentage
Commercial Paper	Morgan Stanley CP	51,555	6.0%
US Government Agency Securities	Federal Home Loan Bank	44,494	5.2%
Investment Agreements	AIG Matched Funding Corp	164,936	19.1%
Repurchase Agreements	Bank of New York Trust Co.	43,791	5.1%

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

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The State's investments (expressed in thousands) at June 30, 2007 are as follows.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. Government Agency Securities	\$ 58,292	\$ 58,292	\$ 0	\$ 0	\$ 0
Money Market	286,778	286,778	0	0	0
Commercial Paper	135,391	135,391	0	0	0
Repurchase Agreements	79,820	36,029	43,791	0	0
	560,281	\$ 516,490	\$ 43,791	\$ 0	\$ 0
Less amounts classified as cash equivalents	443,616				
Investments	\$ 116,665				

The State's funds on deposit with fiscal agent reported in the governmental funds (expressed in thousands) at June 30, 2007 are as follows:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
Money Market	\$ 93,761	93,761	0	0	0
Investment Agreements	207,395	0	203,305	0	4,090
Funds on deposit with fiscal agent	\$ 301,155	\$ 93,761	\$ 203,305	\$ 0	\$ 4,090

The State's investments in money market mutual funds as part of funds on deposit with fiscal agent included the following: Federated Government Obligation Tax Managed Fund rated AAAM by Standard & Poors and with an average maturity of 30 days; First American Treasury Obligations Fund rated AAAM by Standard & Poors and with an average maturity of 3 days; and JPMorgan 100% US Treasury Securities Money Market Fund rated AAAM-G by Standard and Poors with an average maturity of 38 days.

Investment agreements are not rated investments. Purchase of investment agreements is generally governed by a trust agreement in connection with a debt issuance where debt proceeds are held in trust until used for their intended purpose. The trust agreement specifies a minimum credit quality rating of the corporate issuer of the investment agreement.

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 (JRTB).

Cash

At June 30, 2007, the carrying amounts of the ERS cash deposits was \$11,376,000 and the bank balance was \$11,946,000. The bank and book balances represent the ERS deposits in short-term trust accounts which include demand deposit accounts, bank money market accounts, overnight

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repurchase agreements and certificates of deposit (ERS \$1,000,000). Of the bank balance, \$4,782,000 is covered by federal depository insurance. The remaining bank balance of \$7,164,000 is 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, 2007.

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 ERS 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.

Investment expense is allocated to each plan based on the plan's units in the Short-term Investment Fund and the Pooled Trust at the end of each month.

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The following table presents the fair value (expressed in thousands) of investments by type at June 30, 2007:

Investment Type	Fair Value
U.S. Government Securities	\$ 560,391
U.S. Government Agency Securities	495,087
Collateralized Mortgage Obligations	51,930
Corporate Bonds	576,196
Domestic Equity Securities	1,195,689
International Equity Securities	1,496,936
Foreign Currencies	32,485
Private Equity	538,178
Real Estate	315,197
Money Market Mutual Fund	560,214
Commingled Funds-Fixed Income	120,122
Commingled Funds - Domestic Equity	2,313,258
Commingled Funds - International Equity	177,197
Investments at Fair Value	8,432,880
Securities Lending Collateral Pool	1,329,239
Total	\$ 9,762,119

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 fixed income manager portfolio's effective duration against a predetermined benchmark index based on that manager's mandate. The fixed income indices currently used by the ERS are:

- Salomon Brothers Broad Investment Grade Bond Index
- Lehman Brothers MBS Fixed Rate Index
- Lehman Corporate Index

At June 30, 2007, no fixed income manager was outside of the policy guidelines.

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The following table shows the ERS's fixed income investments by type, fair value (expressed in thousands) and the effective duration (in years) at June 30, 2007:

Investment Type	Fair Value	Effective Duration
U.S. Government Securities	\$ 560,391	5.94
U.S. Government Agency Securities	495,087	5.57
Collateralized Mortgage Obligations	51,930	2.71
Corporate Bonds	576,196	4.88
Total Fixed Income	<u>\$ 1,683,604</u>	5.40

The ERS also invested in a short-term money market mutual fund that held investments with an average maturity of 32 days. The duration of investments held in a fixed income commingled fund was .17 years.

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 U.S. Government Agency Securities and Collateralized Mortgage Obligations in the table above. CMO's are bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes or tranches in accordance with the CMO's established payment order. Some CMO tranches have more stable cash flows relative to changes in interest rates while others are significantly sensitive to interest rate fluctuations. The ERS may invest in interest-only (IO) and principal-only (PO) strips in part to hedge against a rise in interest rates. Interest-only strips are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to pre-payments by mortgagees, which may result from a decline in interest rates. Principal-only strips receive principal cash flows from the underlying mortgages. In periods of rising interest rates, homeowners tend to make fewer mortgage prepayments.

Credit Risk

The ERS directs its investment managers to maintain well diversified portfolios by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds.

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's guidelines 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 thousands) as of June 30, 2007 is as follows:

Quality Rating *	Collateralized Mortgage Obligations	U.S. Government Agency Obligations	Corporate Bonds
Aaa	\$ 21,690	\$ 495,087	\$ 59,534
Aa	106		76,750
A	2,053		155,794
Baa	10,907		103,763
Ba	846		39,571
B			57,741
Not rated	16,328		83,043
Fair Value	<u>\$ 51,930</u>	<u>\$ 495,087</u>	<u>\$ 576,196</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. The ERS's investment in a fixed income commingled fund was unrated but held investments with an average quality rating of AA-.

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, 2007 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.

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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.

The ERS's exposure to foreign currency risk (expressed in thousands) at June 30, 2007, was as follows:

Currency	Currency	Equities	Fixed Income	Total
Australian Dollar	\$ 539	\$ 95,301	\$	\$ 95,840
Brazilian Real		6,535		6,535
Canadian Dollar	853	68,101	5,674	74,628
Danish Krone	6	2,794		2,800
Euro Currency	7,975	529,436	59,697	597,108
Hong Kong Dollar	1,111	36,386		37,497
Hungarian Forint	11	1,891		1,902
Indonesian Rupiah	333	1,623		1,956
Israeli Shekel		3,464		3,464
Japanese Yen	1,970	273,187		275,157
Malaysian Ringitt		3,736		3,736
Mexican Peso	15	4,493		4,508
New Zealand Dollar	21	5,993		6,014
Norwegian Krone	2	4,735		4,737
Pound Sterling	2,403	296,929		299,332
Russian Ruble		2,519		2,519
Singapore Dollar	242	19,939		20,181
South African Rand	163	4,463		4,626
South Korean Won	2,201	22,768		24,969
Swedish Krona	14,363	15,453	6,084	35,900
Swiss Franc	277	74,380		74,657
Thailand Dollar		18,680		18,680
Thailand Baht		4,129		4,129
Total	<u>\$ 32,485</u>	<u>\$ 1,496,935</u>	<u>\$ 71,455</u>	<u>\$ 1,600,875</u>

The ERS also had exposure to foreign currency risk through its investment in international commingled equity funds which totaled \$177,197,000.

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 and futures contracts. 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 enters 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

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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 uses futures to manage its exposure to the stock, money market, and bond markets and the fluctuations in interest rates and currency values. Buying futures tends to increase the 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 credit default 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, securities on loan are collateralized at 102%. 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. At June 30, 2007 the investment pool had a weighted average maturity of 48 days and an average final maturity of 168 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, 2007, 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

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the ERS. The securities on loan at year-end were \$1,364,492,149 (fair value), and the collateral received for those securities on loan was \$1,399,810,228 (fair value).

Private Purpose Trusts

The private purpose trusts had investments of \$2,476,000 in a mutual fund. The average maturity of the fund was not available.

Note 3. Receivables

Receivables at June 30, 2007 (expressed in thousands) consist of the following:

	Taxes	Accounts	Accrued Interest	Notes and Loans	Allowance for Uncollectibles	Total Receivables
Governmental Activities:						
General	\$ 279,410	\$ 143,137	\$	\$	\$ (87,110)	\$ 335,437
Intermodal Surface Transportation	12,473			1,000		13,473
Other governmental	44,676	944			(1,616)	44,004
Internal Service		3,886				3,886
Total - governmental activities	\$ 336,559	\$ 147,967	\$	\$ 1,000	\$ (88,726)	\$ 396,800
Amounts not expected to be collected in the subsequent year and recorded as deferred revenue						
General	\$ 7,355	\$ 7,107				
Business-type activities:						
State Lottery	\$	\$ 8,889	\$	\$	\$ (312)	\$ 8,577
Convention Center		1,354			(407)	947
Employment Security	50,004	10,560			(10,308)	50,256
Total - business-type activities	\$ 50,004	\$ 20,803	\$	\$	\$ (11,027)	\$ 59,780
Component Units	\$	\$ 90,610	\$ 32,227	\$ 1,548,818	\$ (66,087)	\$ 1,605,568

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 4. Intra-Entity Receivables and Payables

Intra-entity receivables and payables, as of June 30, 2007, 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	\$ 11,651	\$
Intermodal Surface Transportation Fund	2,056	
GARVEE	4,101	
Other		
Bond Capital		11,013
RI Temporary Disability Insurance		1,482
COPS		2,305
Total Other		<u>14,800</u>
Total Governmental	<u>17,808</u>	<u>14,800</u>
Proprietary Funds		
Enterprise		
RI Lottery		2,990
RI Convention Center Authority		1,500
Employment Security Trust Fund		1,788
Total Enterprise		<u>6,278</u>
Internal Service		
Assessed Fringe Benefits		443
Central Utilities	528	
Central Mail		15
State Telecommunications		79
Central Pharmacy	766	
Central Laundry	71	
Automotive Maintenance		317
Central Warehouse		301
Correctional Industries	528	
Health Insurance Active		715
Records Center		6
Health Insurance Retiree	3,253	
Total Internal Service	<u>5,146</u>	<u>1,876</u>
Totals	<u>\$ 22,954</u>	<u>\$ 22,954</u>

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Note 5. 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	\$ 332,092	\$ 21,045	\$ (14,150)	\$ 338,987
Works of Art		135		135
Intangibles	106,146	5,391		111,537
Construction in progress	* 413,619	270,970	(87,584)	597,005
Total capital assets not being depreciated	<u>851,857</u>	<u>297,541</u>	<u>(101,734)</u>	<u>1,047,664</u>
Capital assets being depreciated:				
Land improvements	3,700			3,700
Buildings	438,954	84,260	(2,481)	520,733
Building Improvements	208,343		(1)	208,342
Furniture and equipment	204,521	18,778	(2,638)	220,661
Intangibles	1,196	7,232		8,428
Infrastructure	* 2,051,013	1,732		2,052,745
Total capital assets being depreciated	<u>2,907,727</u>	<u>112,002</u>	<u>(5,120)</u>	<u>3,014,609</u>
Less accumulated depreciation for:				
Land improvements	2,522	185		2,707
Buildings	* 153,717	18,897	(1,631)	170,983
Building Improvements	126,361			126,361
Furniture and equipment	* 141,606	18,523	(1,644)	158,485
Intangibles	654	936	13	1,603
Infrastructure	* 927,769	69,891		997,660
Total accumulated depreciation	<u>1,352,629</u>	<u>108,432</u>	<u>(3,262)</u>	<u>1,457,799</u>
Total capital assets being depreciated, net	<u>1,555,098</u>	<u>3,570</u>	<u>(1,858)</u>	<u>1,556,810</u>
Governmental activities capital assets, net	<u>\$ 2,406,955</u>	<u>\$ 301,111</u>	<u>\$ (103,592)</u>	<u>\$ 2,604,474</u>

* Certain beginning balances have been restated; see Note 18 Section C.

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

General government	\$ 8,017
Human services	8,393
Education	2,942
Public safety	10,961
Natural resources	3,858
Transportation	74,261
Total depreciation expense - governmental activities	<u>\$ 108,432</u>

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Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 45,558	\$	\$	\$ 45,558
Construction in progress	3,273	22,022	(153)	25,142
Total capital assets not being depreciated	48,831	22,022	(153)	70,700
Capital assets being depreciated:				
Buildings	161,258	8		161,266
Machinery and equipment	11,275	2,435	(650)	13,060
Total capital assets being depreciated	172,533	2,443	(650)	174,326
Less accumulated depreciation	69,772	7,132	(640)	76,263
Total capital assets being depreciated, net	102,761	(4,689)	(10)	98,063
Business-type activities capital assets, net	<u>\$ 151,592</u>	<u>\$ 17,333</u>	<u>\$ (163)</u>	<u>\$ 168,763</u>

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 83,881	\$ 5,903	\$ (2,560)	\$ 87,224
Construction in progress	446,032	266,051	(132,516)	579,567
Total capital assets not being depreciated	529,913	271,954	(135,076)	666,791
Capital assets being depreciated:				
Buildings	1,026,032	114,032	(1,310)	1,138,754
Land improvements	144,756	11,183	(284)	155,655
Machinery and equipment	266,284	15,371	(2,532)	279,123
Infrastructure	325,167	15,332	(593)	339,906
Total capital assets being depreciated	1,762,239	155,918	(4,719)	1,913,438
Less accumulated depreciation for:				
Buildings	398,643	39,401	(840)	437,204
Land improvements	76,512	10,418	(256)	86,674
Machinery and equipment	152,250	20,160	(2,100)	170,310
Infrastructure	97,809	6,153	(225)	103,737
Total accumulated depreciation	725,214	76,132	(3,421)	797,925
Total capital assets being depreciated, net	1,037,025	79,786	(1,298)	1,115,513
Total capital assets, net	<u>\$ 1,566,938</u>	<u>\$ 351,740</u>	<u>\$ (136,374)</u>	<u>\$ 1,782,304</u>

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Note 6. 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, 2007, 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		
2008	\$ 95,736	\$ 108,073	\$ 8,975	\$ 14,286	\$ 189,847	\$ 163,984
2009	100,709	100,569	9,285	13,853	137,245	158,356
2010	88,709	95,533	9,740	13,408	94,210	153,367
2011	83,295	91,298	10,205	12,938	93,187	149,474
2012	110,350	87,055	10,720	12,431	94,289	142,904
2013 - 2017	492,965	356,273	61,585	53,565	567,896	650,288
2018 - 2022	283,080	255,123	77,345	36,993	576,058	520,139
2023 - 2027	214,655	184,097	49,295	19,353	504,200	388,829
2028 - 2032	168,260	167,686	24,345	10,185	533,405	271,527
2033 - 2037		116,156	18,440	2,279	525,515	152,181
2038 - 2042	371,700	116,156			359,285	38,512
2043 - 2047					39,415	6,009
2048 - 2052	197,006	2,637,174			4,050	153
	<u>\$ 2,206,465</u>	<u>\$ 4,315,193</u>	<u>\$ 279,935</u>	<u>\$ 189,291</u>	<u>\$ 3,718,602</u>	<u>\$ 2,795,723</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 through 2009 with interest payable with each principal payment.

In September 2006, the State issued \$74,835,000 Consolidated Capital Development Loan of 2006, Refunding Series A, with interest rates ranging from 4.00% to 5.00%, maturing from 2007 through 2023. The proceeds were used to advance refund portions of the 1996 Refunding Series, 1998A, 2000A, 2001C, and 2002B, totaling \$72,930,000. 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 decreases total debt service payments over the next 15 years by \$3,638,050 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2,745,687.

Included in the current interest bonds is \$16,365,000 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

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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 December 15, 2015. The State is required to pay the bank at an interest rate based on its prime lending rate or the federal funds rate plus 1/2 of 1 percent, whichever is higher. The standby bond purchase agreement remains in effect until the payment in full of the principal and interest on all bonds purchased by the bank.

The R.I. Economic Development Corporation (RIEDC), on behalf of the State, issues special obligation debt. Grant Anticipation Revenue Bonds are payable solely from future federal aid revenues to be received by the State in reimbursement of federally eligible costs of specific transportation construction projects. Rhode Island Motor Fuel Tax Revenue Bonds are payable solely from certain pledged revenues derived from two cents (\$.02) per gallon of the thirty 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 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 and future pledged motor fuel taxes is subject to annual appropriation by the General Assembly.

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 affect 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, 2007, TSFC utilized \$6,220,000 of excess collections to early redeem an equal amount of outstanding bonds.

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In June of 2007, TSFC issued \$197,005,742 of additional Tobacco Settlement Asset-Backed Bonds (2007 Series). The bond proceeds were used to purchase the State's future rights to residual Tobacco Settlement Revenues which were not purchased under the 2002 purchase agreement. The bonds are Capital Appreciation Bonds, on which no periodic interest payments are made, but which are issued at a deep discount from par and accrete to full value at maturity in the year 2052. At maturity, the bond redemption values represent accreted yields ranging from 6.00% to 6.75%. The bonds are subject to early redemption provisions, in whole or in part, at the redemption price of 100% of the issue amount plus accreted interest, without premium. The bond indenture contains "Turbo Maturity" provisions, whereby the Corporation is required to apply 100% of all collections that are in excess of the then current funding requirements of the indenture to the early redemption of the 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, (f) pay costs of issuance and (g) acquire and renovate the Civic Center. The revenue bonds are secured by all rents receivable, if any, under a lease and agreement between the RICCA and the State covering all property purchased by the RICCA. It also covers a mortgage on facilities and land financed by the proceeds of the revenue bonds and amounts held in various accounts into which bond proceeds were deposited. Minimum annual lease payments by the State are equal to the gross debt service of RICCA. In the event of an operating deficit (excluding depreciation), annual lease payments may be increased by the amount of the deficit. The obligation of the State to pay such rentals is subject to and dependent upon annual appropriations of such payments being made by the Rhode Island General Assembly for such purpose. Those appropriations are made in connection with the State's annual budgetary process and are therefore dependent upon the State's general financial resources and factors affecting such resources.

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, 2007 was \$2,299,533. The bonds mature in varying installments through May 15, 2027; \$61,245,000 of these bonds remain outstanding at June 30, 2007.

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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 year ended June 30, 2007 under the Swap Agreement was \$2,480,164. Total interest received by the RICCA from UBSAG for the years ended June 30, 2007 under the Swap Agreement was \$2,267,347. By entering into the Swap Agreement, the RICCA converted variable rate bonds to fixed rate bonds to minimize interest rate fluctuation risk. At June 30, 2007, the fair value of RICCA's liability for the interest rate swap was approximately \$2,876,000.

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.

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 full. During FY 07, the standby bond purchase agreement was extended through November 1, 2011. 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 year ended June 30, 2007 totaled \$106,526.

During August 2005, RICCA issued Refunding Revenue Bonds, 2005 Series A, in an aggregate principal amount of \$34,610,000 for the purpose of refunding certain of the RICCA's outstanding 1993 Series C Refunding Revenue Bonds and to pay the costs of issuance. The 2005 Series A Bonds mature between 2006 and 2023 and bear interest at rates ranging from 3.5% to 5%. Proceeds from this refunding were used to acquire direct obligations guaranteed by the United States of America (the "Escrow Securities") the principal of and interest on which, when due, provided money sufficient to pay on August 31, 2005, the redemption price of the 1993 Series C Refunding bonds maturing in years 2008 through 2023, inclusive of interest on the 1993 Series C Refunding Bonds on and prior to such redemption date. As a result of this in-substance defeasance, total debt service requirements were reduced by approximately \$2,300,000.

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During June 2006, RICCA issued Civic Center Revenue Bonds, 2006 Series A, (federally taxable) (2006 Series A Bonds) in an aggregate principal amount of \$92,500,000 for the purpose of (i) financing or refinancing the acquisition, renovation, equipping, improvement and redevelopment of the Center, (ii) redeeming the \$33,000,000 Civic Center Revenue Bonds, 2005 Series A previously issued by RICCA, (iii) paying the costs of issuance, and (iv) paying capitalized interest on the 2006 Series A Bonds. The bonds mature between 2008 and 2035 and bear interest at rates ranging from 5.38% to 6.06%.

All outstanding indebtedness is subject to optional and mandatory redemption provisions. Mandatory redemption is required for certain bonds over various years beginning in 2009 through 2027 at the principal amount of the bonds. Certain bonds may be redeemed early, at the option of RICCA at amounts ranging from 100% to 102% of the principal balance.

RICCA is limited to the issuance of bonds or notes in an aggregate principal amount of \$305,000,000. At June 30, 2007, total outstanding bond and note indebtedness equals \$281,300,000.

Each of the RICCA's Bond Resolutions contains certain restrictive covenants. The RICCA was unable to fund the Renewal and Replacement component to the restrictive covenants pursuant to certain indentures. During the annual budget process, the RICCA requests Renewal and Replacement funding from the State. Such appropriations were not received during FY07.

At June 30, 2007 general obligation bonds authorized by the voters and unissued amounted to \$408,580,000. 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 12 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) 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).

In June 2006, the R.I. Airport Corporation (RIAC), RIEDC and the R.I. Department of Transportation (RIDOT) executed a Secured Loan Agreement (Agreement) which provides for borrowings of up to \$42,000,000 with the United States Department of Transportation under the Transportation Infrastructure Finance and Innovation Act of 1998. The purpose of the Agreement is to reimburse RIEDC and RIDOT and to provide funding to RIAC for a portion of eligible project costs related to the Intermodal Facility Project. RIAC is permitted under the agreement to make requisitions of funds for eligible project costs and it is anticipated that such requisitions will occur in fiscal years 2007-2010. Upon completion of the project, RIAC will begin making monthly payments of principal and interest, with interest at a rate of 5.26%. Payments will be made on behalf of RIEDC (the borrower per the Agreement) and it is anticipated that repayments will commence in fiscal year 2010 with a final maturity of January 2042. Such repayments are payable solely from the net revenues derived from the Intermodal Facility. As of June 30, 2007, RIAC had \$83,232 in borrowings under this agreement.

In April 2004, the Narragansett Bay Commission (NBC) issued Multi-Modal Revenue Bonds, 2004 Series A in the principal amount of \$70,000,000 maturing September 2034. These bonds have been issued in weekly rate mode but can be changed by NBC to a daily, commercial paper or term rate mode. The interest rate is determined weekly or daily based on the mode and interest is paid monthly. The interest rate for the bonds outstanding during fiscal year 2007 ranged from 3.2% to 4.0%. The owners of the bonds in weekly mode can require NBC (acting through its remarketing and lender agents) to repurchase the bonds. The remarketing agent has agreed to use its best efforts to remarket any purchased bonds.

NBC has entered into a standby bond purchase agreement (liquidity facility) with the tender agent and a European 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

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from time to time in an amount not to exceed the principal amount plus accrued interest up to 183 days at an interest rate not to exceed 12% per annum, subject to the terms and provisions of the liquidity facility. NBC is required to pay the bank at an interest rate based on its prime lending rate or the federal funds rate plus $\frac{1}{2}$ of 1 percent, whichever is higher. The standby bond purchase agreement remains in effect until the payment in full of the principal and interest on all bonds purchased by the bank. The standby bond purchase agreement terminates on April 29, 2009 and carries a fee of 0.18% per annum on the amount available.

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, \$12,840,000 at June 30, 2007 (See Note 18B). The insured mortgages are guaranteed by the State.

URI entered into an interest rate swap for its currently outstanding Auxiliary Enterprise Revenue Issue, Series 2004B. The purpose of the swap was to lower the cost of funds.

URI pays the bondholders a variable rate set weekly. Based on the swap agreement, URI pays interest at a variable rate based on the bonds and I) a fixed rate on the swap equal to 3.691% and II) in return URI receives the of (i) 67.0% of the one month USD-LIBOR-BBA plus (ii) 0.12%. The one month USD-LIBOR-BBA plus 0.12% is a variable rate designed to offset the variable rate paid to the bondholders, thereby establishing a synthetic fixed rate for the bonds.

All payments under the swap agreement are netted and paid on a monthly basis each on the fifteenth (15th), commencing on January 15, 2005. As further defined in the Confirmation to the swap agreement, the Board of Governors of Higher Education is acting for URI. Subject to cash settlement, URI has the right to terminate the agreement, in whole or in part, on the effective date and on any business day thereafter. The swap is scheduled to terminate on September 15, 2034.

Because interest rates have declined and tax-exempt and taxable ratios have remained high since execution of the swap, the swap, if it were to be terminated, had a fair market value \$1,162,670. Swaps are not normally valued through exchange-type markets with easily accessible quotation systems and procedures. The fair market value was calculated using the zero coupon method. Information was obtained from generally recognized sources with respect to quotations, reporting specific transactions and market conditions and based on accepted industry standards and methodology.

As the variable rate that URI pays on its bonds, which approximates the Bond Market Association Municipal Swap Index, differs from the variable percent of LIBOR rate received from MLCS, the

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swap exposes URI to basis risk. As of June 30, 2007, the Bond Market Municipal Swap Index was 3.73% whereas 67.0% of 1 month LIBOR plus 0.12% was 3.56%.

As of June 30, 2007, URI was exposed to credit risk because the swap had a negative fair value. MLCS is unconditionally guaranteed by Merrill Lynch & Co. and has maintained its ratings since inception of AA3, A+ and AA- by Moody's Investors Service, Standard & Poor's and Fitch Ratings, respectively. Additionally URI has obtained swap insurance on this transaction from Ambac Assurance Corporation. To mitigate credit risk, if the counterparty's credit quality falls below a threshold level, the counterparty is obligated, on demand of URI, to provide and maintain collateral (cash or U.S. Government and Agency Securities) having certain values required by the swap in order to provide security for payment of the positive value of the swap, if any, to URI.

B. Notes Payable

Notes payable (expressed in thousands) at June 30, 2007 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.	\$ 1,920
R.I. Housing and Mortgage Finance Corporation bank notes, 4.21% to 5.54% interest, payable through 2007.	52,015
R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 4.15% interest, payable through 2015	775
R.I. Resource Recovery Corporation notes due in installments through 2010, 5 % interest.	1,875
	<hr style="width: 100%;"/>
	56,585
Less: current payable	(52,784)
	<hr style="width: 100%;"/>
	<u>\$ 3,801</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 \$269,691,000.

D. Obligations Under Capital Leases

Primary Government

The State has entered into capital lease agreements, Certificates of Participation, (COPS) with financial institutions. These financing arrangements have been used by the State to acquire, construct or renovate facilities and acquire other capital assets.

The State's obligation under capital leases at June 30, 2007 consists of the present value of future minimum lease payments less any funds available in debt service reserve funds.

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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, 2007.

Fiscal Year Ending June 30	COPS
2008	\$ 32,198
2009	32,826
2010	31,357
2011	26,194
2012	24,901
2013 - 2017	109,221
2018 - 2022	67,062
2023 - 2027	27,654
Total future minimum lease payments	351,413
Amount representing interest	(94,548)
Present value of future minimum lease payments	\$ 256,865

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 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 are 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 R.I. Housing and Mortgage Finance Corporation.

G. Changes in Long-Term Debt

During the fiscal year ended June 30, 2007, the following changes (expressed in thousands) occurred in long-term debt:

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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	\$ 842,243	\$ 193,620	\$ (122,496)	\$ 913,367	\$ 45,107	\$ 868,260
Capital appreciation bonds	304		(186)	118	109	9
Accreted interest on capital appreciation bonds	6,119		(3,073)	3,046	3,046	
Premium and deferred amount on refunding	32,550	5,964	(6,714)	31,800		31,800
	<u>881,216</u>	<u>199,584</u>	<u>(132,469)</u>	<u>948,331</u>	<u>48,262</u>	<u>900,069</u>
RIEDC Grant Anticipation Bonds	338,380		(24,560)	313,820	28,315	285,505
Premium	27,857		(7,058)	20,799		20,799
RIEDC Rhode Island Motor Fuel Tax Revenue Bonds	79,920		(3,630)	76,290	3,730	72,560
Premium	1,635		(133)	1,502		1,502
Revenue bonds - RIRBA	60,320		(17,610)	42,710	18,475	24,235
Net premium/discount and deferred amount on refunding	591		(842)	(251)		(251)
Tobacco Settlement Asset-Backed Bonds	669,375	197,006	(6,220)	860,161		860,161
Net premium/discount	(28,160)		437	(27,723)		(27,723)
Bonds payable	<u>2,031,134</u>	<u>396,590</u>	<u>(192,085)</u>	<u>2,235,639</u>	<u>98,782</u>	<u>2,136,857</u>
Certificates of Participation (COP)	226,755	45,325	(15,215)	256,865	20,735	236,130
Premium	5,347	1,164	(344)	6,167		6,167
Obligations under capital leases	232,102	46,489	(15,559)	263,032	20,735	242,297
Compensated absences	71,421	65,491	(58,804)	78,108	50,657	27,451
Other long-term liabilities	49,352	11,729	(4,214)	56,867	3,730	53,137
	<u>\$ 2,384,009</u>	<u>\$ 520,299</u>	<u>\$ (270,662)</u>	<u>\$ 2,633,646</u>	<u>\$ 173,904</u>	<u>\$ 2,459,742</u>
Business type activities						
Revenue bonds	\$ 287,185	\$	\$ (7,250)	\$ 279,935	\$ 8,975	\$ 270,960
Add: bond premium	4,558		(334)	4,224		4,224
Less: issuance discounts	(852)	118		(734)		(734)
Deferred amounts on refunding	(7,360)	774		(6,586)		(6,586)
Bonds payable	283,531	892	(7,584)	276,839	8,975	267,864
Other long-term liabilities		1,500	(141)	1,359	188	1,171
	<u>\$ 283,531</u>	<u>\$ 2,392</u>	<u>\$ (7,725)</u>	<u>\$ 278,198</u>	<u>\$ 9,163</u>	<u>\$ 269,035</u>

H. Defeased Debt

In prior years, the State and its component units defeased certain general obligation bonds and revenue bonds by placing the proceeds of the new bonds or other sources, in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the basic financial statements. On June 30, 2007, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	\$ 314,609
R.I. Convention Center Authority	37,840
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	295,970
R.I. Economic Development Corporation	64,300
R.I. Turnpike and Bridge Authority	29,000

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

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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, 2007 was \$118,000,000, \$2,108,268,690 and \$938,651,000 respectively. Certain issues of conduit debt are moral obligations of the State and the current amounts outstanding are disclosed in Note 12.

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Note 7. Net Assets/Fund Balances

Governmental Activities Unrestricted Net Assets

The detail of the unrestricted net assets of the governmental activities (expressed in thousands), is listed below.

	Governmental Activities	
Deficit	\$ (1,106,354)	
General Revenue		
Appropriations carried forward	3,640	General revenues carried forward for original purpose
Internal Service Funds	20,050	Unrestricted balance of all Internal Service Funds
Unrestricted Net Assets	<u>\$ (1,082,664)</u>	

The State issues debt for various purposes that does not result in the acquisition of capital assets. Included in the liabilities of the governmental activities on the Statement of Net Assets is \$1,276,735,000 of such debt, which causes the above deficit.

Changes in General Fund Reserved Fund Balances

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

	Reserved Fund Balance July 1	Additions	Reductions	Reserved Fund Balance June 30
State Budget Reserve Account	\$ 95,376	\$ 65,388	\$ (82,105)	\$ 78,659
Appropriations carried forward				
General revenue	17,381	3,640	(17,381)	3,640
Departmental restricted revenue	42,994	51,777	(42,994)	51,777
Other	9,115	10,090	(9,115)	10,090
Total	<u>\$ 164,866</u>	<u>\$ 130,895</u>	<u>\$ (151,595)</u>	<u>\$ 144,166</u>

The State maintains a State Budget Reserve and Cash Stabilization Account in the general fund. Annually, 2% of general revenues and opening surplus are set aside in this 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. 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.

The State transferred \$19,423,000 from the budget reserve to the undesignated balance to offset a budget deficit caused primarily by a general revenue shortfall. Appropriations carried forward, as authorized by the Governor, 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 8. 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 estimated refunds, uncollectible amounts 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 Statement of Revenues, Expenditures and Changes in Fund Balances is presented below (expressed in thousands):

	Governmental Funds	Statement of Activities
General Fund		
Personal Income Tax	\$ 1,065,367	\$ 1,067,426
General Business Taxes:		
Business Corporation Tax	148,053	148,038
Non-resident Contractor Tax	96	96
Gross Earnings Tax-Public Utilities	102,109	102,106
Income Tax-Financial Institutions	4,423	(2,777)
Tax on Insurance Companies	56,624	56,619
Tax on Deposits-Banking Institutions	1,674	1,663
Health Care Provider Assessment	11,787	11,791
Nursing Facilities Provider Assessments	36,183	36,235
Sub-total - General Business Taxes	360,949	353,771
Sales and Use Taxes:		
Sales and Use Tax	860,466	860,341
Providence Place Sales Tax	12,738	12,738
Motor Vehicle Tax	43,740	43,740
Rental Vehicle Surcharge	3,139	3,140
Fuel Use Tax on Motor Carriers	1,312	1,329
Cigarette Tax	117,949	117,383
Smokeless Tobacco Tax	2,532	2,595
Alcoholic Beverage Import Fees	10,680	10,680
Tax on Mfg. of Beers, Liquors, etc.	26	26
Sub-total - Sales and Use Taxes	1,052,582	1,051,972
Other Taxes:		
Inheritance Tax	34,683	34,956
Simulcast Wagering	1,918	1,918
Dog Racing - Pari-mutuel Betting	989	989
Dog Racing - Tax on Breakage	15	15
Realty Transfer Tax	12,721	12,721
Mobile Home Conveyance Tax	17	17
Sub-total - Other Taxes	50,343	50,616
Total - General Fund	2,529,241	2,523,785
Intermodal Surface Transportation Fund		
Gasoline	141,138	141,138
Other Governmental Funds	177,905	177,905
Total Taxes	\$ 2,848,284	\$ 2,842,828

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Note 9. Operating Transfers

Operating transfers for the fiscal year ended June 30, 2007 are presented below (expressed in thousands):

Fund Financial Statements

	Transfers	Description
Governmental activities		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	\$ 50,762	Debt service and operating assistance
Nonmajor Funds		
Tobacco Settlement Trust	42,500	Operating assistance
Bond Capital	60,099	Debt service and capital projects
RI Temporary Disability Insurance	2,105	Operating assistance
COPS	48	Art Projects
Business-Type Activities		
Lottery	320,990	Net income
Employment Security	5,360	Operating assistance
Internal Service		
Assessed Fringe Benefits	51	Charges for Information Technology Services
ISTEA		
Bond Capital	35,397	Infrastructure
GARVEE		
Intermodal Surface Transportation	53,591	Debt Service
Nonmajor Fund		
Bond Capital		
General Fund	62,682	Debt service and capital projects
Economic Policy Council		
General	300	Operating assistance
Tobacco Settlement Trust		
Tobacco Settlement Financing Corporation	195,000	Proceeds from purchase of future revenue stream
Total Governmental Activities	828,885	
Business-Type Activities		
Employment Security		
Assessed Fringe Benefits	1,297	Reimbursement for State employee's unemployment compensation
Convention Center		
General	20,147	Debt service
Total operating transfers	\$ 850,329	

Note 10. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately \$12,006,000 for the fiscal year ended June 30, 2007.

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.

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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, 2007:

Fiscal Year Ending June 30		
2008	\$	11,437
2009		10,405
2010		9,389
2011		6,923
2012		5,127
2013 - 2017		18,568
2018 - 2022		3,941
Total	\$	65,790

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

Note 11. Commitments

Primary Government

Commitments arising from encumbrances outstanding as of June 30, 2007 are listed below (expressed in thousands).

Major funds		
General	\$	13,989
ISTEA		234,742
GARVEE		108,370
Total major funds		357,101
Other governmental funds		
		37,187
Total encumbrances outstanding	\$	394,288

The primary government is committed at June 30, 2007 under various contractual obligations for infrastructure construction and other capital projects, which will be principally financed with bond proceeds and federal grants. Encumbrances within the general fund will be principally financed through appropriations of general revenue and federal and restricted revenue in succeeding fiscal years. The primary government is also committed at June 30, 2007 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

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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 several active construction projects as of June 30, 2007, the most significant of which is the renovation of the Dunkin' Donuts Center. The Authority's construction related commitments at year-end are \$45,904,000. Also, 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.

In 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.

During fiscal year 2006, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with UTGR, Inc., the owners of Twin River, to operate one of the State's licensed video lottery facilities. The agreement entitles UTGR, Inc. to compensation ranging from 26% to 28.85% of video lottery net terminal income at the facility. At the time of the agreement, the Lottery authorized an additional 1,750 video lottery terminals to be installed at Twin River and UTGR, Inc. has agreed to invest no less than \$125 million in the construction and development of its gaming facility during the first three (3) years of the agreement. UTGR, Inc. has the right and option to extend the term of the agreement for two (2) successive five (5) year periods by giving notice to the Lottery at least ninety (90) days prior to the expiration of the agreement. The option can be exercised if UTGR, Inc. is not in default of any major term or condition of the agreement and the full-time employee requirement at Twin River has been met.

During fiscal year 2006, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with Newport Grand, to continue to operate one of the State's licensed video lottery facilities. The agreement entitles Newport Grand to 26% of video lottery net terminal income at the facility. At the time of the agreement, the Lottery authorized an additional 800 video lottery terminals to be installed at Newport Grand, which has agreed to invest no less than \$20 million in the construction and development of its gaming facility during the first three (3) years of the agreement. Newport Grand has the right and option to extend the term of the agreement for one (1) additional five (5) year period by giving notice to the Lottery at least ninety (90) days prior to the expiration of the agreement. The option can be exercised if Newport Grand is not in default of any major term or condition and the full-time employee requirement at Newport Grand has been met.

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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 \$26,553,000 which is expected to be funded from current available resources and future operations. As of June 30, 2007, RIAC was also obligated for completion of the Intermodal Facility under commitments of approximately \$5,325,000.

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 \$37,577,000 at June 30, 2007.

A portion of the R.I. 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 \$5,303,000 for remediation expenses through June 30, 2007. Additionally, trust fund earnings, net of changes in market value have totaled approximately \$13,417,000.

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 outside 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. In 2006, RIRRC reviewed and revised its estimates relating to closure costs, leachate pretreatment and gas collection system and maintenance costs as required by RIDEM. The total estimate of future landfill closure and postclosure care costs was increased to approximately \$100,500,000 at June 30, 2007.

The liability for closure and postclosure care costs at June 30, 2007 of \$65,755,000 is recorded in the statements of net assets, as noted below, with \$34,700,000 remaining to be recognized at June 30, 2007. The detail of the recorded liability (expressed in thousands) is listed below.

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Phase V	\$	24,574
Phase IV		14,104
Phases II and III		3,677
Phase I		23,400
	\$	<u>65,755</u>

Based on the estimates of RIRRC engineers, approximately 98% and 55% 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 2008 for Phase IV and fiscal 2011 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 statement of net assets is \$79,371,584 at June 30, 2007, consisting of amounts placed in trust to meet the financial requirements of closure and postclosure care costs related to Phases I, II, III, IV, and V and the Superfund remediation liability. RIRRC plans to make additional trust fund contributions each year to enable it to satisfy these costs.

In 2004, RIRRC began the capping project for the Superfund site and continued to revise its estimates for leachate pretreatment costs and flows. The present value of the estimated remaining total expenditures at June 30, 2007 relating to remediation that will be required as a result of the Consent Decree is approximately \$13,089,000.

In October, 2006, RIRRC entered into a construction contract for the development of a portion of its land held for development into an industrial park. The adjusted contract price including approved change orders totaled \$8,009,494. The total contract work completed and capitalized as of June 30, 2007 was \$4,808,779.

The R.I. Housing and Mortgage Finance Corporation had loan commitments of \$32,413,567 under various loan programs at June 30, 2007.

The R.I. Turnpike and Bridge Authority has entered into various contracts for maintenance of its bridges. At June 30, 2007 remaining commitments on these contracts approximated \$10,790,000, primarily due in one year or less.

The R.I. Public Transit Authority is committed under construction contracts in the amount of \$5,935,161 at June 30, 2007

The R.I. Higher Education Assistance Authority is required to return to the federal government \$1,116,117 as its 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

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installments. As of June 30, 2007, the remaining amount outstanding and recorded in the Federal Fund is \$368,318, which was paid on August 30, 2007.

The College Crusade of R.I. has committed \$1,293,242 toward scholarships for tuition during the 2007/2008 school year. This represents approximately 339 students for an average award of approximately \$3,815 per student. As of June 30, 2007, the estimated value of the potential future scholarship costs through the year 2020 is estimated to be between \$2,000,000 and \$7,400,000.

The Quonset Development Corporation was obligated for the completion of certain construction contracts under commitments totaling \$9,371,131 at June 30, 2007 which are expected to be funded from the receipt of State bond proceeds and internal funding.

Note 12. 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.

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.

Tobacco Settlement Financing Corporation

Litigation has been filed alleging, 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.

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In April 2005, 2006 and 2007 some of the tobacco manufacturers participating in the MSA either withheld all or portions of their payments due, or remitted their payments to a disputed escrow account alleging, that the calculations of amounts due under the agreement were erroneous. These manufacturers assert that the calculations of the amounts due failed to recognize a prescribed non-participating manufacturers adjustment. The corporation's share of these disputed payments is approximately \$12,100,000. Due to uncertainties regarding the ultimate realization of the remaining amount of these disputed payments, they have not been recognized as revenue in the accompanying financial statements. The State and the other affected parties are taking actions consistent with the MSA to arrive at a resolution of these matters.

Lottery

The Lottery's master contracts with its video lottery facility operators contain revenue protection provisions in the event that existing video lottery facility operators incur revenue losses caused by new gaming ventures within the State.

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, 2007 the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had \$292,475,181 and \$43,312,462 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 \$3,019,000 of the debt on the related economic development revenue bonds in fiscal year 2008.

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

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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, 2012, 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.

R.I. Higher Education Assistance Authority

Under an agreement with Alliance Bernstein L.P., the Administrative Fund receives account maintenance, direct commission and other fees from the Program Fund. All the Administrative Fund's operating revenues, totaling \$6,066,750, are derived from the Program Fund. In addition, the R.I. 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 2007, \$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 accounts established for the benefit of income-qualifying individuals.

During 2007, the Board of Directors authorized the transfer of \$6,900,000 to supplement amounts available for need-based scholarships under the State's grant program.

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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, 2007.

The College Crusade of R.I.

The College Crusade of R.I has a \$1,200,000 line of credit agreement. Interest is payable monthly at the prime rate less one quarter per cent, which was 8.00 % at June 30, 2007. There was an outstanding balance of \$530,000 as of June 30, 2007. Total interest expense for the fiscal year ended June 30, 2007 was \$33,299.

R.I. Housing and Mortgage Finance Corporation

On March 27, 2006, the Corporation executed a revolving loan agreement with Citizens Bank of Rhode Island, expiring in March 2009, whereby the Corporation may borrow up to a maximum outstanding principal sum of \$20,000,000. On July 31, 2006, the Corporation executed a revolving loan agreement with Bank of America N.A., expiring in July 2007, whereby the Corporation may borrow up to a maximum outstanding principal sum of \$50,000,000. Borrowings outstanding under the revolving loans are unsecured. At June 30, 2007, \$7,000,000 is outstanding under these revolving loans.

Note 13. Employer Pension Plans

Plan Descriptions

The State, through the Employees' Retirement System (ERS), 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 ERS 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 and teachers, which is subject to amendment by the general assembly, is established by the General Laws as listed below. As a result of an amendment to the General Laws effective July 1, 2005, the ERS implemented a two-tiered benefit structure for members of the ERS. Members with 10 years of service as of July 1, 2005 follow the Schedule A benefit structure and all other members follow the Schedule B benefit structure. In addition to the State, there are 48 local public school entities that are members of the ERS. The ERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans and a description of the Schedule A and Schedule B benefit structures. The report may

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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 ERS are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the contributions are withheld from payroll. 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. Investment transactions are recorded on a trade date basis. 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.

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. Other investments, which are not traded on a national security exchange, are generally valued based on audited December 31 net asset values adjusted for cash flows for the period January 1 through June 30 (which principally include additional investments and partnership distributions). Commingled funds consist primarily of institutional domestic and international equity index funds and a short duration fixed income fund. The fair value of the commingled funds is based on the reported share value of the respective fund. Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded. Short-term investments are stated at cost, which approximates fair value.

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.

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	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust
Contribution rates:			
State	18.40%	31.78%	36.07%
Plan members - state employees	8.75%	8.75%	8.75%
State contribution for teachers	7.57% and 8.02%		
Annual pension cost	\$188,832	\$4,039	\$2,363
Contributions made - state employees	\$118,301	\$4,039	\$2,363
Contributions made - teachers	\$70,531		
Actuarial valuation date	June 30, 2004	June 30, 2004	June 30, 2004
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	25 years	25 years	25 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	4.50% to 8.25%	5% to 15.00%	5.25%
Inflation	3.00%	3.00%	3.00%
Cost-of-living adjustments	Schd. A 3% compounded Schd. B 2.5% compounded	\$1,500 per annum	3%
Level of benefits established by:			
General Law(s)	36-8 to 10 16-15 to 17	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	6/30/05	\$ 114,923	100%	\$ 0
	6/30/06	145,792	100%	0
	6/30/07	188,832	100%	0
State Police Retirement Benefits Trust	6/30/05	2,615	100%	0
	6/30/06	3,175	100%	0
	6/30/07	4,039	100%	0
Judicial Retirement Benefits Trust	6/30/05	2,057	100%	0
	6/30/06	2,292	100%	0
	6/30/07	2,363	100%	0

Other

Certain employees of the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts under a defined contribution retirement plan. Eligible employees who have reached the age of 30, and who have two (2) years of service are required to participate in either the Teachers Insurance and Annuity Association, the Metropolitan Life Insurance Company, or Variable Annuity Life Insurance Company retirement plan. Eligible employees must contribute at least 5% of their gross biweekly earnings. The University and Colleges contribute 9% of the employee's gross biweekly earnings. Total expenses by the institutions for such annuity contracts amounted to \$13,864,560 during the year ended June 30, 2007.

The Rhode Island Public Transit Authority has a funded pension plan for all employees, for which eligibility to participate begins immediately upon employment. Benefits vest upon completion of ten years of service. Authority employees are eligible to retire upon attainment of age 62 and 10 years of continuous service. Retired employees are entitled to a monthly benefit for life as stipulated in the plan provisions. The plan also provides death and disability benefits. Employees are required to contribute 3% of their base salary to the plan. The remaining contributions to the plan are made by the Authority. Employer contributions paid in fiscal year 2007 totaled \$5,042,462. At January 1, 2007, the most recent valuation date, the total actuarial accrued liability was \$64,592,000 and the actuarial value of assets was \$41,625,367. The

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Authority contributed 44.32% of its annual pension cost for fiscal year 2007 and had a net pension obligation of \$1,799,084 at June 30, 2007.

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 14. Other Post-Employment Benefits

Plan Description. The State administers one defined benefit post-employment health care plan—the Rhode Island Retiree Health Care Benefit Plan (RIRHCBP).

All members of the Employees' Retirement System, including State employees, legislators and certified public school teachers are eligible to receive some form of State sponsored retiree health care benefits. In addition, State judges may purchase the active health care benefit at the active rate and State Police Officers receive the active health care benefits at no cost to the retiree until they reach age 65.

Membership in the RIRHCBP consisted of the following at June 30, 2005, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits*	9,857
Terminated plan members entitled to receive future benefits but not yet qualifying for benefits	881
Active ERSRI plan members	<u>27,628</u>
Total	38,366

*-Includes retired teachers for whom the State pays the Tier I benefit.

The State provides two types of subsidies for health care benefits. The Tier I subsidy only applies to non-Medicare eligible plans and provides that the State will pay the portion of the cost of post-retirement health care for the retiree and any dependents above the active group rate. The retiree pays the active monthly rate and the State pays the difference between the active group rate and the early retiree rate. This subsidy is not based on years of service and ends at age 65. In addition to the Tier I benefits, the State pays a portion of the cost of post-retirement health care above the Tier I costs for certain retirees meeting eligibility requirements based upon the age and service of the retiree, which is referred to as the Tier II benefit.

RIGL Section 36-12-4 governs the provisions of the RIRHCBP.

The RIRHCBP is included as an internal service fund of the State using the accrual basis of accounting. The fund reports all employer and retiree (plan member) contributions to the plan. Contributions are recognized when due. Benefits (health care claims) and refunds are

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recognized when due and payable in accordance with the terms of the plan. A liability for incurred but not reported claims is determined based on past claims payment trends and is included in the financial statements. Working premium rates are determined by the State each fiscal year after consultation with an employee benefits consultant and are designed to fund current claims incurred during the fiscal year as well as the costs of administering the plan. No provision has been made to fund future benefits to be provided to RIRHCBP members.

As mentioned above, non-Medicare retirees pay the active monthly premium rate and the State pays the difference between the active group rate and the more costly, early retiree rate (The Tier I benefit). Pursuant to RIGL Section 36-12-4 the State pays a portion of the cost of post-retirement health care above the Tier I costs for certain retirees meeting eligibility requirements based upon the age and years of service of the retiree, which is referred to as the Tier II benefit. The retirees' fiscal 2007 contributions are as follows:

Retiree Age Below 60

<u>Years of Service</u>	<u>Amount of Cost Paid by Retiree</u>
28-34	10%
35+	0%

The monthly premium rate is \$708.94 for the individual plan. The retiree's cost is then calculated based on a maximum of \$427.64 (the active plan rate).

Retiree Age from 60 to 65

<u>Years of Service</u>	<u>Amount of Cost Paid by Retiree</u>
10 – 15	50%
16 – 22	30%
23 – 27	20%
28+	0%

The monthly premium rate is \$708.94 for the individual plan. The retiree's cost is then calculated based on a maximum of \$427.64 (the active plan rate).

Retiree Age Greater than 65

<u>Years of Service</u>	<u>Amount of Cost Paid by Retiree</u>
10 – 15	50%
16 – 19	30%
20 – 27	10%
28+	0%

The monthly premium rate for the Medicare Supplemental plan is \$171.52 for the individual plan, and the monthly premium for the Medicare HMO plan is \$100. Retiree's can choose

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between the two plans. The retiree's cost is then calculated based on their years-of-service subsidy above.

Note 15. Deferred Compensation

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The Department of Administration pursuant to Chapter 36-13 of the General Laws administers the plan. The Department of Administration contracts with private corporations to provide investment products related to the management of the deferred compensation plan. Benefit payments are not available to employees earlier than the calendar year in which the participant attains age 70½, termination, retirement, death or "unforeseeable emergency".

Current Internal Revenue Service regulations require that amounts deferred under a Section 457 plan be held in trust for the exclusive benefit of participating employees and not be accessible by the government or its creditors. The plan assets also may be held in annuity contracts or custodial accounts, which are treated as trusts.

The State does not serve in a trustee capacity. Accordingly, the plan assets are not included in the State's financial statements.

Note 16. 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 active and retired 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 at June 30, 2007 was calculated based on historical claims data. The change in claims liability (expressed in thousands) is as follows:

	<u>Liability at July 1</u>	<u>Current Year Claims and IBNR Estimate</u>	<u>Claim Payments</u>	<u>Liability at June 30</u>
Health Insurance Funds				
Liability for				
unpaid claims	\$ 18,388	\$ 214,578	\$ 213,130	\$ 19,836

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

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

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Notes to the Basic Financial Statements
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Note 17. Condensed Financial Statement Information

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

	<u>RIHMFC</u>	<u>RISLA</u>	<u>RITBA</u>	<u>RIEDC</u>	<u>NBC</u>
Other assets	\$ 2,048,305	\$ 1,004,096	\$ 37,150	\$ 272,530	\$ 109,343
Capital assets - nondepreciable			15,101	195,978	381,302
Capital assets - depreciable (net)		8	63,568	236,968	222,674
Due from primary government					
Long term debt	1,532,020	889,558	27,838	364,410	429,347
Other liabilities	225,821	38,536	4,569	41,351	14,356
Due to primary government					
Net assets:					
Invested in capital assets, net of related debt	10,132	8	47,828	166,756	214,974
Restricted					
Debt service	179,281	75,839	6,089		
Other				87,588	127
Other nonexpendable					
Unrestricted	101,051	163	29,495	45,371	54,515
Operating expenses	87,567	63,203	6,350	72,139	41,845
Depreciation, depletion, and amortization	2,944	346	2,044	16,823	6,803
Program revenue					
Charges for services	77,538	54,932	12,095	56,187	58,657
Operating grants and contributions		1,778		(499)	49
Capital grants and contributions				19,851	6
Net program (expense) revenue	(12,973)	(6,839)	3,701	(13,423)	10,064
Interest and investment earnings	24,644	13,908	2,274	10,132	2,849
Miscellaneous		(3,000)	(26)	9,156	75
Payments from primary government				19,030	
Change in net assets	11,671	4,069	5,949	26,743	12,988
Beginning net assets as restated	278,793	71,941	77,463	272,972	256,628
Ending net assets	290,464	76,010	83,412	299,715	269,616

	<u>RIHEBC</u>	<u>RIRRC</u>	<u>RIHEAA</u>	<u>RIPTA</u>	<u>RIIFC</u>
Other assets	\$ 9,496	\$ 130,845	\$ 26,501	\$ 16,495	\$ 1,216
Capital assets - nondepreciable		7,042	307	6,536	
Capital assets - depreciable (net)	32	55,649	1,061	82,948	
Due from primary government				3,720	
Long term debt		18,033	372		
Other liabilities	294	92,246	1,947	21,920	773
Due to primary government					
Net assets:					
Invested in capital assets, net of related debt	32	75,814	1,369	89,484	
Restricted					
Debt service		1,796			
Other			24,181		
Other nonexpendable					
Unrestricted	9,202	5,647		(1,705)	443
Operating expenses	1,799	53,656	24,077	83,675	33
Depreciation, depletion, and amortization	33	13,814	241	10,537	
Program revenue					
Charges for services	2,118	69,783	16,541	31,646	119
Operating grants and contributions			359	16,069	
Capital grants and contributions				5,783	
Net program (expense) revenue	286	2,313	(7,418)	(40,714)	86
Interest and investment earnings	210	7,472	1,218	423	28
Miscellaneous		(3,300)		3,020	(150)
Payments from primary government			6,708	34,108	
Change in net assets	490	5,779	508	(3,155)	(36)
Beginning net assets as restated	8,744	77,478	25,042	90,934	479
Ending net assets	9,234	83,257	25,550	87,779	443

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	RICWFA	RIIRBA	RIWRBC	RIPTCA	TCCRI
Other assets	\$ 938,915	\$ 2,235	\$ 6,817	\$ 1,446	\$ 6,968
Capital assets - nondepreciable		181		821	
Capital assets - depreciable (net)	35	368	1	6,345	38
Due from primary government					
Long term debt	592,708		11,092	2,356	
Other liabilities	9,666	80	749	376	2,556
Due to primary government				1,011	
Net assets:					
Invested in capital assets, net of related debt	35	549		5,030	38
Restricted					
Debt service	318,427				
Other			(5,241)	102	337
Other nonexpendable					
Unrestricted	18,114	2,155	218	(263)	4,075
Operating expenses	27,799	80	508	4,396	7,102
Depreciation, depletion, and amortization	351	14	107	947	25
Program revenue					
Charges for services	31,522	726	1,211	2,785	5,156
Operating grants and contributions	15,015		(2,384)		
Capital grants and contributions					
Net program (expense) revenue	18,387	632	(1,788)	(2,558)	(1,971)
Interest and investment earnings		17	193	150	175
Miscellaneous			6	287	
Payments from primary government				2,179	1,409
Change in net assets	18,387	649	(1,589)	58	(387)
Beginning net assets as restated	318,189	2,055	(3,434)	4,811	4,837
Ending net assets	336,576	2,704	(5,023)	4,869	4,450

	URI	RIC	CCRI	CFSD	Totals
Other assets	\$ 217,097	\$ 50,260	\$ 17,300	\$ 6,679	\$ 4,903,694
Capital assets - nondepreciable	28,349	29,618	1,556		666,791
Capital assets - depreciable (net)	344,024	52,829	45,506	3,459	1,115,513
Due from primary government					3,720
Long term debt	216,670	19,834	10,602	2,047	4,116,887
Other liabilities	50,669	16,622	6,609	4,978	534,118
Due to primary government		20,000	301		21,312
Net assets:					
Invested in capital assets, net of related debt	194,220	47,807	42,372	3,128	899,576
Restricted					
Debt service					581,432
Other	32,220	10,479	3,583	53	153,429
Other nonexpendable	70,475	14,874			85,349
Unrestricted	25,216	3,091	895	(68)	297,615
Operating expenses	365,151	111,824	94,306	53,292	1,098,802
Depreciation, depletion, and amortization	18,725	4,272	2,705	274	81,005
Program revenue					
Charges for services	290,803	67,632	49,372	9,992	838,815
Operating grants and contributions		3,786	218		34,391
Capital grants and contributions	24,158	9,637	1,804		61,239
Net program (expense) revenue	(68,915)	(35,041)	(45,617)	(43,574)	(245,362)
Interest and investment earnings	4,969	3,567	678	25	72,932
Miscellaneous	24,441	1		60	30,570
Payments from primary government	83,359	45,024	47,113	43,901	282,831
Change in net assets	43,854	13,551	2,174	412	142,115
Beginning net assets as restated	278,277	62,700	44,676	2,701	1,875,286
Ending net assets	322,131	76,251	46,850	3,113	2,017,401

State of Rhode Island and Providence Plantations
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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	\$ 6,708	Operating assistance
R.I. Economic Development Corporation	11,584	Operating and capital assistance
University of Rhode Island	85,901	Educational assistance
Rhode Island College	47,338	Educational assistance
Community College of Rhode Island	48,519	Educational assistance
Central Falls School District	43,795	Educational assistance
ISTEA Fund		
R.I. Public Transit Corporation	31,649	Operating assistance
Capital Projects		
University of Rhode Island	30,801	Construction, improvement or purchase of assets
Rhode Island College	20,514	Construction, improvement or purchase of assets
Total Governmental Activities	<u>\$ 326,809</u>	

Note 18. Other Information

A. Elimination Entries

When the governmental fund statements and the internal service funds statements are combined into one column for governmental activity on the government-wide financial statements interfund balances and activity should be eliminated. The following are the eliminations (expressed in thousands) that were made.

	Total Governmental Funds	Internal Service Funds	Total	Eliminations	Internal Balances
Assets					
Due from other funds	\$ 17,808	\$ 5,146	\$ 22,954	\$ (16,676)	\$ 6,278
Loans to other funds	14,422		14,422	(14,422)	
Total assets	<u>\$ 32,230</u>	<u>\$ 5,146</u>	<u>\$ 37,376</u>	<u>\$ (31,098)</u>	<u>\$ 6,278</u>
Liabilities					
Due to other funds	\$ 14,800	\$ 1,876	\$ 16,676	\$ (16,676)	\$
Loans from other funds	8,422	6,000	14,422	(14,422)	
Total liabilities	<u>\$ 23,222</u>	<u>\$ 7,876</u>	<u>\$ 31,098</u>	<u>\$ (31,098)</u>	<u>\$</u>
Other financing sources (uses):					
Operating transfers in	\$ 828,885	\$	\$ 828,885	\$ (523,979)	\$ 304,906
Operating transfers out	(522,631)	(1,348)	(523,979)	523,979	
Total other financing sources (uses):	<u>\$ 306,254</u>	<u>\$ (1,348)</u>	<u>\$ 304,906</u>	<u>\$</u>	<u>\$ 304,906</u>
Total Business-type Activities					
			Total	Eliminations	Internal Balances
Liabilities					
Due to other funds	\$ 6,278	\$	\$ 6,278	\$	\$ 6,278
	<u>\$ 6,278</u>	<u>\$</u>	<u>\$ 6,278</u>	<u>\$</u>	<u>\$ 6,278</u>
Nonoperating revenues (expenses):					
Operating transfers in	\$ 21,444	\$	\$ 21,444	\$ (21,444)	\$
Operating transfers out	(326,350)		(326,350)	21,444	(304,906)
Total nonoperating revenues (expenses):	<u>\$ (292,350)</u>	<u>\$</u>	<u>\$ (292,350)</u>	<u>\$</u>	<u>\$ (304,906)</u>

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B. 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 R.I. Student Loan Authority (RISLA) and the R.I. 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, 2007 were as follows:

Guaranteed loans outstanding at June 30, 2007	\$392,980,000
Loans guaranteed during the year	202,581,000
Guarantee claims paid during the year	15,849,000

The R.I. Housing and Mortgage Finance Corporation (RIHMFC) and the State have entered into a contractual relationship whereby RIHMFC assumed the responsibility for the State Rental Subsidy Program for the period July 1, 1994 through June 30, 1997. In addition, RIHMFC 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 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 made, nor have any payments for advances totaling \$35,935,000 made during the years ended June 30, 1998 through 2007 been made.

In November 2004, the voters of Rhode Island authorized the issuance of \$30 million in general obligation debt for the construction of a new residence hall at Rhode Island College. Of this amount, \$20 million will be repaid to the State.

As of June 30, 2007, the State had issued all of the \$30 million authorized debt. The College has recognized \$20 million as a liability to the State for its obligation to pay two-thirds of the debt service as a result of these issuances. Additionally, the College recorded an appropriation of \$8,104,033 as of June 30, 2007 to record the \$10 million of contributed capital by the State.

C. Restatements, Reclassifications and Other Changes in Presentation

State of Rhode Island and Providence Plantations
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June 30, 2007

Restatements	Governmental Activities	Discretely Presented Component Units	Internal Service Funds
	<u> </u>	<u> </u>	<u> </u>
June 30, 2006 net assets as previously reported	\$ 1,030,735	\$ 1,877,527	\$ 31,767
Correction of errors	1,250	(587)	1,025
Reclassifications		(1,654)	1,247
June 30, 2006 net assets as restated	<u>\$ 1,031,985</u>	<u>\$ 1,875,286</u>	<u>\$ 34,039</u>

The beginning net assets of the Governmental Activities within the government-wide financial statements were increased by \$1,250,000 for the correction of errors relating to depreciation of capital assets recognized in prior years. Certain assets were included in infrastructure assets during fiscal 2006 rather than construction in progress. During fiscal 2007 those assets were reclassified to construction in progress and the related depreciation expense recognized during fiscal 2006 (\$225,000) was reversed. Beginning net assets were increased by \$1,025,000 to reflect the correction of errors relating to accumulated depreciation on certain capital assets utilized within the internal service funds.

Beginning net assets of the internal service funds were increased by a net amount of \$2,272,000 relating to the adjustment of accumulated depreciation on certain capital assets utilized within the internal service funds and the transfer of functions previously recorded in an internal service fund to the General fund.

The beginning net assets of certain discretely presented component units decreased by an aggregate amount of \$587,000 to correct errors in prior periods. Additionally, the operations of the Rhode Island Underground Storage Tank Responsibility Fund, a discretely presented component unit in fiscal 2006, are presented within the State's General Fund in fiscal 2007. Accordingly, beginning net assets of the aggregate discretely presented component units were decreased by \$1,654,000.

During fiscal 2007, one internal service fund (Information Processing) was eliminated; two others were combined into one fund (Pastore Communications and Centrex); and one other internal service fund (Retiree Health) was split into two internal service funds – Health Insurance Active and Health Insurance Retirees. Other activity included in the Retiree Health internal service fund in fiscal 2006 is now reflected in two agency funds.

The State changed its amortization method for premiums, discounts and deferred amounts on refunding related to the issuance of debt from straight-line to the bonds outstanding method. The change resulted in a net decrease of \$2,500,000 in current year interest expense resulting from the adjustment of amortization recognized in prior years.

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The State changed its classification of expenditures/expenses by function by eliminating the intergovernmental category and classifying those expenditures/expenses within the remaining functional categories. In addition, the State changed its classification of capital outlay expenditures within the Governmental Funds.

Note 19. Subsequent Events

Primary Government

In July 2007, the State of Rhode Island entered into a payment agreement with the R.I. Economic Development Corporation relating to \$14,280,000 of financing obtained to provide funds to extinguish historic structure tax credits for the Masonic Temple project through a long-term loan to the developer.

On August 29, 2007 the State of Rhode Island issued \$131,755,000 in General Obligation Bonds with interest rates ranging from 4.50% to 5.50% with maturity dates of August 2008 through August 2027. This issuance included a \$123,255,000 Consolidated Capital Development Loan of 2007, Series A and a \$8,500,000 Capital Development Loan of 2007, Series B.

On December 13, 2007 the State of Rhode Island issued \$220,000,000 in General Obligation Tax Anticipation Notes that mature on June 30, 2008.

On November 30, 2007 the State of Rhode Island issued \$59,185,000 in Lease Participation Certificates with interest rates ranging from 3.30% to 5.00% to refund \$60,435,000 of existing Certificates of Participation.

The State plans to issue, in April 2008, approximately \$46.5 Million of General Obligation Bonds to advance refund approximately \$47.3 Million of existing general obligation bonds.

Component Units

On August 17, 2007 the R.I. Resource Recovery Corporation received proceeds of \$2,666,740 on the sale of an 18 acre parcel lot from its industrial park development project.

Subsequent to June 30, 2007 the R.I. Housing and Mortgage Finance Corporation instructed its trustee to redeem the Homeownership Opportunity Bonds in the amount of \$2,470,000 and the Multifamily Bond Program in the amount of \$2,000,000.

On September 13, 2007 the R.I. Housing and Mortgage Finance Corporation issued \$70,000,000 of Homeownership Opportunity Bonds, Series 57.

On November 7, 2007 the R.I. Housing and Mortgage Finance Corporation issued \$72,620,000 of Homeownership Opportunity Bonds, Series 58.

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On December 14, 2007 the R.I. Housing and Mortgage Finance Corporation issued \$45,560,000 of Housing Bonds, Series B-1.

On March 20, 2008 the R.I. Housing and Mortgage Finance Corporation issued \$72,610,000 of Homeownership Opportunity Bonds, Series 59.

On April 1, 2008 the R.I. Housing and Mortgage Finance Corporation issued \$23,040,000 of Homeownership Opportunity Bonds, Series 60.

On November 16, 2006, the R.I. Clean Water Finance Agency issued \$39,740,000 of Water Pollution Control Revolving Fund Revenue Bonds, Series 2007A.

On December 12, 2007, the Narragansett Bay Commission executed a \$25,000,000 borrowing from Rhode Island Clean Water Finance Agency.

On September 17, 2007 the R.I. Board of Governors for Higher Education voted to discontinue the Retirement Incentive Programs at the University of Rhode Island, Rhode Island College and the Community College of Rhode Island effective June 30, 2008. The program provides for an incentive payment for all eligible employees. The number of employees who will elect to retire and receive the retirement incentive is unknown at this time.

Effective September 27, 2007, the agreement between the R.I. Student Loan Authority (RISLA) and the National Education Loan Network, Inc. (Nelnet) to sell and assign certain assets and rights was terminated. RISLA has agreed to reimburse Nelnet \$4,100,000 which represents 51.3% of the \$8,000,000 paid to RISLA by Nelnet in 2004.

In November 2007, the R.I. Board of Governors for Higher Education and the Community College of RI were ordered by an arbitrator to pay a contractor approximately \$3,300,000 in damages relating to the construction of a new facility. This decision has been appealed to the Superior Court.

Subsequent to June 30, 2007 the R.I. Health & Educational Building Corporation, the R.I. Economic Development Corporation and the R.I. Industrial Facilities Corporation have issued various conduit debt obligations. These are not obligations of the respective corporations or the State.

In March 2008, UTGR, Inc., the owners of Twin River, a licensed video lottery facility of the Rhode Island Lottery, defaulted on loan payments to its lenders, and is in the process of working out agreements with its lenders and other creditors. The Rhode Island Lottery and the Department of Business Regulation are monitoring the situation on a daily basis. The Lottery has collected all revenues due to the State each day without interruption, and the facility is current. UTGR, Inc. has advised the Lottery that a 150-day extension (August 2008) has been reached with its lenders.

In the event of default, the lenders could force bankruptcy proceedings; a master could be appointed and require current personnel to oversee the operation until all accounts with the lenders are settled. In the event the facility is to be sold, the Rhode Island Lottery with the Department of

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Business Regulation would perform necessary procedures to approve the buyer and meet licensing requirements.

A preliminary forensic audit of the R.I. Resource Recovery Corporation highlighted various matters involving land transactions, the development of an industrial park adjacent to the landfill, and environmental issues. The results of the preliminary forensic audit have been referred to law enforcement to determine if there is evidence of criminal activity that warrants further investigation. Management has not determined the impact of the preliminary forensic audit or other pending investigations on the corporation, including the carrying value of certain of its assets held for development.

**State of Rhode Island
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**REQUIRED SUPPLEMENTARY
INFORMATION**

June 30, 2007

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, 2007
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Revenues:				
General Revenues:				
Personal Income Tax	\$ 1,051,789	\$ 1,056,400	\$ 1,065,367	\$ 8,967
General Business Taxes:				
Business Corporations	122,291	167,000	148,149	(18,851)
Public Utilities Gross Earnings	99,300	104,000	102,109	(1,891)
Financial Institutions	(6,200)	3,600	4,423	823
Insurance Companies	52,700	52,400	56,624	4,224
Bank Deposits	1,600	1,600	1,674	74
Health Care Provider Assessment	49,864	47,800	47,970	170
Sales and Use Taxes:				
Sales and Use	920,775	885,000	873,204	(11,796)
Motor Vehicle	50,000	45,300	46,879	1,579
Motor Fuel	1,106	1,100	1,312	212
Cigarettes	123,791	119,400	120,481	1,081
Alcohol	11,000	10,900	10,706	(194)
Other Taxes:				
Inheritance and Gift	32,074	29,600	34,684	5,084
Racing and Athletics	3,300	2,900	2,921	21
Realty Transfer Tax	15,000	13,800	12,737	(1,063)
Total Taxes	<u>2,528,390</u>	<u>2,540,800</u>	<u>2,529,240</u>	<u>(11,560)</u>
Departmental Revenue	<u>296,432</u>	<u>288,460</u>	<u>277,790</u>	<u>(10,670)</u>
Total Taxes and Departmental Revenue	<u>2,824,822</u>	<u>2,829,260</u>	<u>2,807,030</u>	<u>(22,230)</u>
Other Sources				
Gas Tax Transfer	4,927	4,676	4,705	29
Other Miscellaneous	60,779	67,407	67,471	64
Lottery	362,500	322,300	320,990	(1,310)
Unclaimed Property	10,800	11,000	11,457	457
Total Other Sources	<u>439,006</u>	<u>405,383</u>	<u>404,623</u>	<u>(760)</u>
Total General Revenues	<u>3,263,828</u>	<u>3,234,643</u>	<u>3,211,653</u>	<u>(22,990)</u>
Federal Revenues	1,697,574	1,730,406	1,629,715	(100,691)
Restricted Revenues	124,302	135,119	109,184	(25,935)
Other Revenues	114,192	115,536	105,877	(9,659)
Total Revenues	<u>5,199,896</u>	<u>5,215,704</u>	<u>5,056,429</u>	<u>(159,275)</u>
Expenditures:				
Department of Administration				
Central Management				
General Revenue Total	1,545	1,404	1,338	66
Federal Fund Total	346	278	234	44
** Restricted Receipts Total	70	125	120	5
Total-Central Management	1,962	1,807	1,693	114
Legal Services				
Legal Support/DOT	109	115	31	84
General Revenue Total	2,562	2,648	2,498	150
Total-Legal Services	2,671	2,762	2,529	233
Accounts & Control				
General Revenue Total	3,429	3,391	3,357	34
Federal Fund Total				
Total-Accounts & Control	3,429	3,391	3,357	34

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Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2007
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Budgeting				
General Revenue Total	2,456	2,250	2,192	58
Municipal Affairs				
Federal Fund Total			(355)	355
Purchasing				
General Revenue Total	2,417	2,319	2,213	106
Auditing				
General Revenue Total	2,058	1,735	1,707	28
Human Resources				
Other Fund Total	1,120	763	463	300
General Revenue Total	12,314	9,935	9,717	218
Federal Fund Total	815	1,961	1,697	264
Restricted Receipts Total	647	548	532	16
Total-Human Resources	14,897	13,207	12,409	798
Personnel Appeal Board				
General Revenue Total	103	111	94	17
Child Support				
Federal Fund Total			(221)	221
Facilities Management				
General Revenue Total	41,144	39,165	39,655	(490)
Federal Fund Total	21,551	30,110	29,205	905
Restricted Receipts Total	1,374	1,285	1,230	55
Other Fund Total	1,542	510	471	39
Total-Facilities Management	65,610	71,071	70,561	510
Capital Projects & Property Management				
General Revenue Total	3,316	3,092	3,073	19
Information Technology				
General Revenue Total	17,585	20,889	21,042	(153)
Federal Fund Total	7,076	7,489	6,190	1,299
Restricted Receipts Total	1,441	1,461	1,869	(408)
Other Fund Total	1,242	1,272	2,453	(1,181)
Total-Information Technology	27,344	31,111	31,554	(443)

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, 2007
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Library and Information Services				
General Revenue Total	1,078	1,096	1,096	
Federal Fund Total	1,356	1,082	1,008	74
Restricted Receipts Total	2	5	1	4
Total-Library and Information Services	2,435	2,182	2,105	77
Statewide Planning				
General Revenue Total	5,306	4,611	4,597	14
Federal Fund Total	8,107	10,203	7,448	2,755
Other Fund Total	1,474	1,829	1,425	404
Total-Statewide Planning	14,887	16,642	13,469	3,173
Security Services				
General Revenue Total	19,855	19,686	19,535	151
General				
RICAP-State House Terrace/South Stairs		24		24
RICAP-Pastore Center Sewer Improvements		43	43	
RICAP-Chapin Health Laboratory	100			
RICAP-Cranston Street Armory		781	479	302
RICAP-Cannon Building	150	179		179
Zambarano Building		151		151
RICAP-Veterans' Auditorium		794	770	24
RICAP-Old State House	100	39	9	30
RICAP-State Office Building		417	230	187
RICAP-Old Colony House		99	51	48
RICAP-Washington County Government Center		239	151	88
RICAP-State House Renovations-Phase II			(7)	7
RICAP-William Powers Building	500	642	597	45
RICAP-State House Renovations-Phase III	830	949	863	86
RICAP-Environmental Compliance	250	242	179	63
RICAP-Fox Point Hurricane Barrier	50			
Bio-Tech Training Lab Planning		86	85	1
RICAP-Varley Building	100			
RICAP-Fire Code Compliance State Building	500	237	215	22
Eisenhower House		17	16	1
RICAP-Elderly Affairs One Stop	200			
McCoy Stadium Repair	1,280	1,280	1,043	237
RICAP-Lead Mitigation-Group Homes	200			
Miscellaneous Grants and Payments	627	627	617	10
Torts-Court Awards	400	518	471	47
EDC-RI Airport Corporation Impact Aid	1,754	1,754	2,754	(1,000)
State Employees/Teachers Retiree Health	9,475			
EDC-Urban Revitalization Fund Capital Reserve	50	50		50
Governor's Contingency Fund	1,050	1,324	936	388
Economic Development Corporation Grant	7,455	7,235	6,230	1,005
Slater Centers of Excellence	3,000	3,000	3,000	
Economic Policy Council	300	300	300	
Motor Vehicle Excise Tax Payment	136,005	136,229	136,230	(1)
Property Valuation	1,500	2,000	2,186	(186)
General Revenue Sharing Program	65,160	65,112	65,112	
Payment in Lieu of Tax Exempt Properties	27,767	27,767	27,767	
Distressed Communities Relief Program	10,921	10,154	9,930	224
Resource Sharing and State Library Aid	8,713	8,713	8,712	1

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, 2007
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Library Construction Aid	2,705	2,849	2,752	97
EPScore-EDC	1,500	1,500	1,500	
Police/Fire Incentive Pay		675	671	4
Domestic Partners IRS Penalty		20	19	1
Federal Fund Total	35	35	203	(168)
Restricted Receipts Total	1,283	1,496	1,266	230
Total-General	283,960	277,580	275,381	2,199
Debt Service Payments				
RICAP-DEM-Narragansett Bay Commission	1,528	1,528	1,528	
RICAP-DEM-Clean Water Finance Agency	3,254	3,351	3,351	
RICAP-DEM-Wastewater Treatment	4,203	4,256	4,256	
RICAP-DEM-Debt Service-Recreation	8,341	6,027	6,027	
RIPTA Debt Service	703	684	684	
RICAP-MHRH Comm Services	5,375	5,375	5,375	
RICAP-MHRH Comm. Mental Health	1,827	1,863	1,863	
Transportation Debt Service	36,696	35,907	35,907	
RIRBA-DLT Temporary Disability Insurance	46	46	62	(16)
COPS-DLT Building-TDI	382	382	354	28
Investment Receipts-Bond Funds			32	(32)
RICAP-DEM Hazardous Waste	2,340	2,340	2,340	
RICAP-Water Resources Board	2,220	2,247	2,247	
Airport Debt Service		2,500	2,500	
RICAP-Third Rail/Quonset Point Debt Service	2,464	2,065	2,065	
Debt Service Payments	89,129	86,601	86,817	(216)
Federal Fund Total	1,178	1,178	1,155	23
Restricted Receipts Total	1,028	2,078	1,766	312
Total-Debt Service Payments	160,715	158,428	158,329	99
Retirement Alternative				
Pay Plan Reserve General Revenue	(3,710)			
Other Fund Total	(1,513)			
Federal Fund Total	(1,298)			
Restricted Receipts Total	(265)			
State Employee Turnover 5.2%	(36,491)			
Total-Retirement Alternative	(6,786)			
General Revenue Total-Department of Administration	442,478	468,758	468,121	637
Federal Fund Total-Department of Administration	39,166	52,334	46,563	5,771
Restricted Receipts Total-Department of Administration	5,580	6,998	6,785	213
Other Fund Total-Department of Administration	77,613	79,282	78,160	1,122
Total-Department of Administration	564,837	607,372	599,627	7,745
Department of Business Regulations				
Central Management				
General Revenue Total	1,456	1,225	1,202	23
Banking Regulation				
General Revenue Total	2,822	2,775	2,840	(65)
Commercial Licensing and Regulation				
General Revenue Total	1,815	1,553	1,541	12
Restricted Receipts Total	100	100	(25)	125

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, 2007
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Total-Commercial Licensing and Regulation	1,915	1,653	1,516	137
Insurance Regulation				
Federal Funds		43	43	
General Revenue Total	4,685	5,033	4,759	274
Restricted Receipts Total	704	828	741	87
Total-Insurance Regulation	5,389	5,905	5,543	362
Board of Accountancy				
General Revenue Total	156	146	143	3
General Revenue Total-DBR	10,935	10,733	10,485	248
Federal Fund Total-DBR		43	43	
Restricted Receipts Total-DBR	804	928	716	212
Total-Department of Business Regulation	11,739	11,704	11,245	459
Department of Labor and Training				
Central Management				
General Revenue Total	143	146	139	7
Director of Workers' Compensation	385	528	478	50
Total-Central Management	528	674	617	57
Workforce Development Services				
Reed Act-Woonsocket Network Office Renovations	55	145	103	42
Reed Act-Rapid Job Development	931	950	798	152
Reed Act-Workforce Development	6,203	4,531	4,088	443
General Revenue Total	259	36		36
Federal Fund Total	15,789	17,917	13,471	4,446
Restricted Receipts Total	10,379	6,631	3,656	2,975
Total-Workforce Development Services	33,616	30,209	22,116	8,093
Workforce Regulation and Safety				
General Revenue Total	2,861	3,382	3,383	(1)
Income Support				
General Revenue Total	3,138	3,259	3,270	(11)
Federal Fund Total	12,821	16,506	16,460	46
Restricted Receipts Total	1,616	1,761	1,596	165
Total-Income Support	17,575	21,526	21,327	199
Injured Workers Services				
Restricted Receipts Total	10,509	11,163	9,822	1,341

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, 2007
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Labor Relations Board				
General Revenue Total	442	354	354	
General Revenue Total-DLT	6,842	7,177	7,147	30
Federal Fund Total-DLT	28,610	34,423	29,931	4,492
Restricted Receipts Total-DLT	22,889	20,083	15,552	4,531
Other Fund Total-DLT	7,190	5,626	4,989	637
Total-Department of Labor and Training	65,531	67,309	57,619	9,690
General Assembly				
General Revenue Total				
General Revenue Total	32,220	33,473	30,942	2,531
Restricted Receipts Total	1,452	1,409	1,409	
Total-General Assembly	33,672	34,882	32,351	2,531
Office of the Lietenant Governor				
General Revenue Total	963	881	875	6
Department of State Administration				
General Revenue Total	1,741	1,661	1,691	(30)
Corporations				
General Revenue Total	1,802	1,839	1,807	32
State Archives				
General Revenue Total	105	207	194	13
Federal Fund Total	85	85	87	(2)
Restricted Receipts Total	486	217	270	(53)
Total-State Archives	676	509	552	(43)
Elections				
General Revenue Total	1,278	1,570	1,559	11
Federal Fund Total	1,932	858	889	(31)
Total-Elections	3,210	2,428	2,448	(20)
State Library				
General Revenue Total	700	698	698	
Office of Public Information				
General Revenue Total	314	204	201	3
General Revenue Total-Secretary of State	5,941	6,180	6,150	30
Federal Fund Total-Secretary of State	2,017	943	976	(33)
Restricted Fund Total-Secretary of State	486	217	270	(53)
Total-Department of State	8,444	7,339	7,397	(58)

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, 2007
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Treasury Department				
Treasury				
General Revenue Total	2,686	2,425	2,408	17
Federal Fund Total	291	305	264	41
Restricted Receipts Total	10	10		10
Total-Treasury	2,987	2,741	2,672	69
State Retirement System				
Administrative Expenses-State Retirement System	5,661	6,391	4,959	1,432
Retirement-Treasury Investment Operations	772	933	867	66
Total-State Retirement System	6,433	7,324	5,826	1,498
Unclaimed Property				
Restricted Receipts Total	16,658	19,473	14,481	4,992
RI Refunding Bond Authority				
General Revenue Total	56	41	32	9
Crime Victim Compensation Program				
General Revenue Total	212	197	197	
Federal Fund Total	731	1,654	212	1,442
Restricted Receipts Total	1,716	1,627	1,154	473
Total-Crime Victim Compensation Program	2,659	3,479	1,563	1,916
General Revenue Total-Treasury	2,953	2,663	2,637	26
Federal Fund Total-Treasury	1,022	1,960	476	1,484
Restricted Receipts Total-Treasury	24,817	28,434	21,461	6,973
Total-Treasury Department	28,792	33,057	24,573	8,484
Board for Professional Design				
General Revenue Total	390	374	374	
Board of Elections				
General Revenue Total	2,516	3,685	3,626	59
Federal Fund Total	819	822	766	56
Total-Board of Elections	3,335	4,507	4,392	115
Rhode Island Ethics Commission				
General Revenue Total	1,297	1,228	1,222	6
Office of Governor				
General Revenue Total	4,952	4,682	4,672	10
Restricted Receipts Total			(4)	4
Other Fund Total	92	89	69	20
Total-Office of Governor	5,044	4,770	4,738	32

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
Public Utilities Commission				
General Revenue Total	744	509	499	10
Federal Fund Total	89	100	93	7
Restricted Receipts Total	6,080	6,209	4,882	1,327
Total-Public Utilities Commission	6,913	6,817	5,474	1,343
Rhode Island Commission on Women				
General Revenue Total	100	99	99	
Department of Revenue				
Director of Revenue				
General Revenue Total		251	203	48
Office of Revenue Analysis				
General Revenue Total	877		177	(177)
Property Valuation				
General Revenue Total	670	652	641	11
Taxation				
General Revenue Total	18,374	17,189	16,646	543
Federal Fund Total	1,188	1,157	1,002	155
Restricted Receipts Total	813	776	690	86
Other Fund Total	918	937	771	166
Total Taxation	21,294	20,059	19,109	950
Registry of Motor Vehicles				
General Revenue Total	17,537	17,023	16,860	163
Federal Fund Total	396	975	146	829
Restricted Receipts Total	16	16	15	1
Total Registry of Motor Vehicles	17,949	18,015	17,021	994
General Revenue Total-Department of Revenue	37,458	35,115	34,527	588
Federal Fund Total-Department of Revenue	1,584	2,133	1,148	985
Restricted Receipts Total-Department of Revenue	829	792	705	87
Other Fund Total-Department of Revenue	918	937	771	166
Total-Department of Revenue	40,789	38,976	37,151	1,825
Office of Health and Human Services				
General Revenue Total	313	297	250	47
Federal Fund Total	245	2,591	94	2,497
Restricted Revenues Total	212	416	297	119
Total-Office of Health and Human Services	770	3,304	641	2,663

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, 2007
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Department of Children, Youth, and Families				
Central Management				
General Revenue Total	6,861	7,126	6,906	220
Federal Fund Total	3,477	3,135	3,338	(203)
Total-Central Management	10,338	10,260	10,244	16
Children's Behavioral Health Services				
RICAP-Groden Center-Mt. Hope		63	63	
General Revenue Total	36,982	39,865	38,167	1,698
Federal Fund Total	37,112	38,884	37,511	1,373
Total-Children's Behavioral Health Services	74,094	78,813	75,741	3,072
Juvenile Correctional Services				
RICAP-RI Training School-Girls Facilities	800	100	100	
RICAP-Community Facilities-Training	500			
General Revenue Total	32,579	31,626	31,969	(343)
Federal Fund Total	3,379	3,060	2,663	397
Restricted Receipts Total	6	504	202	302
Total-Juvenile Correctional Services	37,264	35,289	34,934	355
Child Welfare				
General Revenue Total	96,569	107,768	112,150	(4,382)
Federal Fund Total	72,496	79,357	76,913	2,444
Restricted Receipts Total	1,655	1,715	1,565	150
RICAP-Fire Codes Upgrade	500	100	25	75
Total-Child Welfare	171,220	188,940	190,652	(1,712)
Higher Education Incentive Grant				
General Revenue Total	200	200	200	
General Revenue Total-DCYF	173,191	186,585	189,391	(2,806)
Federal Fund Total-DCYF	116,465	124,435	120,425	4,010
Restricted Receipts Total-DCYF	1,661	2,219	1,767	452
Other Fund Total-DCYF	1,800	263	188	75
Total-Department of Children, Youth, and Families	293,117	313,502	311,771	1,731
Department of Elderly Affairs				
Intermodel Surface Transportation Fund	4,800	4,685	4,344	341
General Revenue Total	16,683	17,418	17,672	(254)
Safety and Care of the Elderly	1	1		1
RIPAE	3,412	1,465	1,137	328
Federal Fund Total	12,624	14,777	12,058	2,719
Restricted Receipts Total	1,250	1,200	741	459
General Revenue Total-Department of Elderly Affairs	20,096	18,884	18,810	74
Federal Fund Total-Department of Elderly Affairs	12,624	14,777	12,058	2,719
Restricted Receipts Total-Department of Elderly Affairs	1,250	1,200	741	459
Other Fund Total-Department of Elderly Affairs	4,800	4,685	4,344	341
Total-Department of Elderly Affairs	38,769	39,546	35,952	3,594

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, 2007
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Department of Health				
Central Management				
General Revenue Total	4,815	4,968	4,384	584
Federal Fund Total	4,850	5,268	3,076	2,192
Trauma Registry		8		8
Restricted Receipts Total	1,851	3,553	3,329	224
Total-Central Management	11,515	13,798	10,789	3,009
State Medical Examiner				
General Revenue Total	1,965	2,158	1,984	174
Federal Fund Total	141	150	144	6
Total-State Medical Examiner	2,105	2,309	2,128	181
Family Health				
General Revenue Total	3,039	2,934	2,952	(18)
Federal Fund Total	28,930	30,573	30,036	537
Restricted Receipts Total	6,876	12,800	6,753	6,047
Total-Family Health	38,845	46,306	39,740	6,566
Health Services Regulation				
General Revenue Total	5,085	5,974	5,632	342
Federal Fund Total	5,350	5,882	4,789	1,093
Restricted Receipts Total	400	404	365	39
Total-Health Services Regulation	10,836	12,260	10,787	1,473
Environmental Health				
General Revenue Total	4,617	4,301	4,125	176
Federal Fund Total	4,815	6,029	4,304	1,725
Restricted Receipts Total	1,554	2,469	1,758	711
Total-Environmental Health	10,986	12,799	10,186	2,613
Health Laboratories				
General Revenue Total	6,366	6,575	6,546	29
Federal Fund Total	2,185	2,572	2,004	568
Total-Health Laboratories	8,551	9,147	8,550	597
Disease Prevention and Control				
General Revenue Total	7,367	6,201	5,818	383
Smoking Cessation	50	50	50	
Federal Fund Total	19,893	18,076	16,560	1,516
Walkable Communities Initiative	30	27	30	(3)
Total-Disease Prevention and Control	27,340	24,354	22,457	1,897
General Revenue Total-Health	33,303	33,161	31,491	1,670
Federal Fund Total-Health	66,163	68,550	60,912	7,638
Restricted Receipts Total-Health	10,681	19,226	12,205	7,021
Other Fund Total-Health	30	35	29	6
Total-Department of Health	110,177	120,972	104,637	16,335

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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	Original Budget	Final Budget	Actual	Variance
Department of Human Services				
Central Management				
General Revenue Total	8,778	11,342	11,074	268
Federal Fund Total	6,666	6,595	4,803	1,792
Restricted Receipts Total	2,240	1,699	1,688	11
Total-Central Management	17,684	19,636	17,566	2,070
Child Support Enforcement				
General Revenue Total	3,649	3,656	3,411	245
Federal Fund Total	7,400	7,186	6,960	226
Restricted Receipts Total		50	49	1
Total-Child Support Enforcement	11,049	10,891	10,420	471
Individual and Family Support				
General Revenue Total	25,166	23,140	23,254	(114)
Federal Fund Total	54,778	53,060	49,740	3,320
Restricted Receipts Total	92	134	136	(2)
Total-Individual and Family Support	80,036	76,334	73,130	3,204
Veterans' Affairs				
General Revenue Total	17,300	16,844	17,206	(362)
Federal Fund Total	7,588	6,616	6,662	(46)
Restricted Receipts Total	1,219	2,804	866	1,938
Total-Veterans' Affairs	26,108	26,264	24,735	1,529
Health Care Quality, Financing and Purchases				
General Revenue Total	21,179	21,439	19,755	1,684
Federal Fund Total	45,341	44,955	37,333	7,622
Restricted Receipts Total	567	287	181	106
Total-Health Care Quality, Financing and Purchases	67,086	66,680	57,269	9,411
Medical Benefits				
General Revenue Total				
Managed Care	202,050	205,647	196,813	8,834
Hospital	84,254	70,211	76,939	(6,728)
Other	113,479	50,255	75,948	(25,693)
Pharmacy	23,485	61,178	59,788	1,390
Nursing Facilities	146,058	164,813	140,386	24,427
General Revenue Total	569,326	552,104	549,874	2,230
Federal Fund Total				
Managed Care	246,229	239,353	239,468	(115)
Hospital	82,339	70,227	64,979	5,248
Nursing Facilities	163,775	185,164	156,281	28,883
Other	80,234	56,498	86,025	(29,527)
Pharmacy	25,887	24,433	23,218	1,215
Special Education	20,733	20,733	19,122	1,611
Federal Fund Total	619,197	596,408	589,093	7,315
Restricted Receipts Total	4,490	3,900	20	3,880
Total-Medical Benefits	1,193,013	1,152,412	1,138,987	13,425
Supplemental Security Income Program				
General Revenue Total	28,201	27,659	27,574	85

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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	Original Budget	Final Budget	Actual	Variance
Family Independence Program				
TANF/Families Independence Program	7,724	16,125	16,124	1
Child Care	39,871	28,905	31,798	(2,893)
Federal Fund Total	84,438	86,613	86,064	549
Total-Family Independence Program	132,033	131,644	133,986	(2,342)
State Funded Programs				
General Public Assistance	3,860	3,898	3,681	217
Federal Fund Total	83,691	83,333	86,907	(3,574)
Total-State Funded Programs	87,551	87,231	90,588	(3,357)
General Revenue Total-Human Services	725,054	705,112	703,753	1,359
Federal Fund Total-Human Services	909,099	884,766	867,561	17,205
Restricted Receipts Total-Human Services	8,609	8,873	2,941	5,932
Other Fund Total-Human Services				
Total-Department of Human Services	1,642,762	1,598,751	1,574,256	24,495
Department of Mental Health, Retardation, and Hospital Central Management				
Federal Fund Total		131		131
General Revenue Total	2,251	2,148	2,169	(21)
Total-Central Management	2,251	2,278	2,169	109
Hospital & Community System Support				
RICAP-Utilities Upgrade	500	623	119	504
RICAP-Medical Center Rehabilitation	400	115	94	21
RICAP-Utilities Systems Water tanks and Pipes	250	522	452	70
RICAP-DD Private Community Firecode	188	71	34	37
RICAP-Central Power Plant Rehabilitation	400	117	81	36
RICAP-Community Fire Code Compliance	500	544	415	129
Pastore Fire Code Compliance	250	133	128	5
General Revenue Total	4,575	3,562	3,553	9
Federal Fund Total	229	87	37	50
Total-Hospital & Community System Support	7,292	5,775	4,913	862
Service for the Developmentally Disabled				
RICAP-Dev. Disability Group Homes	1,000	959	893	66
RICAP-Regional Center Repair/Rehabilitation	200	160	141	19
General Revenue Total	119,315	118,007	118,047	(40)
Federal Fund Total	135,138	137,008	134,605	2,403
Total-Service for the Developmentally Disabled	255,654	256,134	253,686	2,448
Integrated Mental Health Services				
General Revenue Total	43,580	43,453	44,544	(1,091)
Federal Fund Total	37,670	37,527	36,127	1,400
Total-Integrated Mental Health Services	81,250	80,980	80,671	309
Hospital & Community Rehabilitation Svcs				
RICAP-Zambarano Building and Utilities	200	79	26	53
General Revenue Total	52,577	58,311	54,536	3,775
Federal Fund Total	56,766	61,872	55,482	6,390
Hospital Consolidation		150		150
Total-Hospital & Community Rehabilitation Svcs	109,543	120,412	110,044	10,368

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Budget and Actual
General Fund
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(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Substance Abuse				
RICAP-Asset Protection	100	199	165	34
General Revenue Total	16,158	15,474	15,467	7
Federal Fund Total	14,849	14,819	14,195	624
Restricted Receipts Total	90	190	183	7
Eastman House		200		200
Total-Substance Abuse	31,197	30,882	30,011	871
General Revenue Total-MHRH	238,456	240,956	238,316	2,640
Federal Fund Total-MHRH	244,653	251,443	240,446	10,997
Restricted Receipts Total-MHRH	90	190	183	7
Other Fund Total-MHRH	3,988	3,873	2,548	1,325
Total-Department of Mental Health, Retardation, and Hospital	487,186	496,462	481,494	14,968
Office of Child Advocate				
General Revenue Total	558	521	514	7
Federal Fund Total	40	38	38	
General Revenue Total-Office of Child Advocate	558	521	514	7
Federal Fund Total-Office of Child Advocate	40	38	38	
Restricted Receipts Total-Office of Child Advocate				
Total-Office of Child Advocate	598	559	551	8
Rhode Island Commission of the Deaf and Hard of Hearing				
Commission on Deaf and Hard of Hearing				
General Revenue Total	355	310	302	8
Federal Fund Total	15	18	5	13
Total-Rhode Island Commission of the Deaf and Hard of Hearin	370	327	306	21
State Council on Developmental Disabilities				
Federal Fund Total	461	461	422	39
Governor's Commission on Disabilities				
General Revenue Total	602	553	519	34
Federal Fund Total	196	176	162	14
Restricted Receipts Total	25	26	2	24
RICAP-Handicapped Accessibility Facility Renovation	200	200	163	37
Total-Governor's Commission on Disabilities	1,023	955	846	109

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, 2007
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Rhode Island Commission for Human Rights				
General Revenue Total	1,075	990	988	2
Federal Fund Total	323	324	259	65
General Revenue Total-RI Comm for Human Rights	1,075	990	988	2
Federal Fund Total-RI Comm for Human Rights	323	324	259	65
Total-Rhode Island Commission for Human Rights	1,399	1,313	1,247	66
Office of Mental Health Advocate				
General Revenue Total	409	385	385	
Department of Elementary and Secondary Education				
Education Aid				
State Support Local School Operations	675,530	676,885	676,878	7
Federal Fund Total	2,222	1,119	727	392
Restricted Receipts Total	1,735	1,454	980	474
Total-Education Aid	679,487	679,458	678,585	873
School Construction				
General Revenue Total	49,672	46,815	46,815	
Teachers' Retirement				
General Revenue Total	69,200	67,260	70,287	(3,027)
RI School for the Deaf				
General Revenue Total	6,476	6,441	6,423	18
Federal Fund Total	376	402	328	74
Total-RI School for the Deaf	6,852	6,844	6,751	93
Central Falls School District				
General Revenue Total	43,235	43,795	43,795	
Davies Career and Technical School				
RICAP-Davies Elevators/HVAC	52	124	124	
General Revenue Total	13,753	13,621	13,599	22
Federal Fund Total	1,200	1,335	1,160	175
Restricted Receipts Total		2	2	
Total-Davies Career and Technical School	15,005	15,082	14,885	197
Metropolitan Career and Technical School				
General Revenue Total	10,407	10,407	10,407	

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, 2007
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Administration of the Comprehensive Education Strategy				
RICAP-Chariho Wells		46	46	
General Revenue Total	21,103	20,287	20,244	43
Federal Fund Total	178,926	178,389	172,099	6,290
Restricted Receipts Total	2,793	3,779	3,451	328
Total-Administration of the Comprehensive Education Strategy	202,822	202,501	195,840	6,661
General Revenue Total-Dept of Elem & Sec Education	889,376	885,511	888,448	(2,937)
Federal Fund Total-Dept of Elem & Sec Education	182,724	181,246	174,314	6,932
Restricted Receipts Total-Dept of Elem & Sec Education	4,527	5,235	4,432	803
Other Fund Total-Dept of Elem & Sec Education	52	170	170	
Total-Department of Elementary & Secondary Education	1,076,679	1,072,162	1,067,364	4,798
Board of Governors for Higher Education				
Board of Governors/Office				
General Revenue Total	7,859	7,734	7,732	2
Federal Fund Total	3,147	3,147	2,871	276
General Revenue Total-URI	88,692	85,901	85,901	
General Revenue Total-RIC	49,239	47,338	47,338	
General Revenue Total-CCRI	50,942	48,519	48,519	
General Revenue Total-BOG Higher Education	196,731	189,492	189,490	2
Federal Fund Total-BOG Higher Education	3,147	3,147	2,871	276
Restricted Receipts Total-BOG Higher Education	486	692	439	253
Total-Board of Governors for Higher Education	200,365	193,330	192,799	531
Rhode Island State Council on the Arts				
Operating Support	1,575	709	657	52
Grants	1,267	2,048	1,455	593
Federal Fund Total	732	695	654	41
Art of Public Facilities Fund	1,008	800	156	644
General Revenue Total-RI State Council on the Arts	2,841	2,757	2,112	645
Federal Fund Total-RI State Council on the Arts	732	695	654	41
Other Funds-RI State Council on the Arts	1,008	800	156	644
Total-Rhode Island Council on the Arts	4,581	4,252	2,922	1,330
Rhode Island Atomic Energy Commission				
URI Sponsored Research	171	174	158	16
General Revenue Total	837	829	828	1
Federal Fund Total	375	341	102	239
Total-Rhode Island Atomic Energy Council	1,383	1,343	1,087	256
R I Higher Education Assistance Authority				
General Revenue Total	6,747	6,708	6,708	
Federal Fund Total	12,852	11,601	8,846	2,755
Tuition Savings Program-Administration	10,058	9,537	8,385	1,152
Total-R I Higher Education Assistance Authority	29,658	27,846	23,939	3,907
Historical Preservation and Heritage Commission				
General Revenue Total	1,706	1,658	1,616	42

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, 2007
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Federal Fund Total	487	605	509	96
Restricted Receipts Total	267	491	85	406
Total-Historical Preservation and Heritage Commission	2,460	2,754	2,210	544
R I Public Telecommunication Authority				
General Revenue Total	1,389	1,318	1,312	6
Corporation for Public Broadcasting	828	739	699	40
RICAP-Digital TV Conversion		384	384	
General Revenue Total-RIPTCA	1,389	1,318	1,312	6
Other Fund Total-RIPTCA	828	1,123	1,083	40
Total-R I Public Telecommunication Authority	2,217	2,440	2,395	45
Department of Attorney General				
Criminal				
General Revenue Total	13,078	12,486	12,468	18
Federal Fund Total	1,055	1,246	1,216	30
Restricted Receipts Total	521	355	165	190
Total-Criminal	14,654	14,087	13,850	237
Civil				
General Revenue Total	4,525	4,219	4,117	102
Restricted Receipts Total	553	585	513	72
Total-Civil	5,077	4,804	4,630	174
Bureau of Criminal Identification				
General Revenue Total	992	949	956	(7)
Federal Fund Total		64	58	6
Total-Bureau of Criminal Identification	992	1,013	1,014	(1)
General				
General Revenue Total	2,250	2,260	2,258	2
RICAP-Building Renovations & Repairs	165	352	162	190
Total-General	2,415	2,611	2,420	191
General Revenue Total-Department of Attorney General	20,844	19,914	19,800	114
Federal Fund Total-Department of Attorney General	1,055	1,310	1,274	36
Restricted Receipts Total-Department of Attorney General	1,073	940	678	262
Other Fund Total-Department of Attorney General	165	352	162	190
Total-Department of Attorney General	23,137	22,515	21,915	600
Department of Corrections				
Central Management				
General Revenue Total	8,557	9,121	8,432	689
Federal Fund Total	260	395	294	101
Total-Central Management	8,817	9,517	8,725	792
Parole Board				
General Revenue Total	1,248	1,231	1,189	42
Federal Fund Total	33	33	38	(5)
Total-Parole Board	1,281	1,264	1,226	38

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, 2007
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Institutional Corrections				
RICAP-Bernadette Guay Bldg. Roof	623	679	194	485
RICAP-Reintegration Center State Match	3,247	3,787	2,663	1,124
RICAP-General Renovations-Maximum	250	9	6	3
RICAP-Roof/Masonry Renovations-Women's	700	1,077	1,051	26
RICAP-Women's Bath Renovations	506			
RICAP-Asset Protection	2,154	1,876	1,154	722
RICAP-MIS/Admin Units Relocation	151			
General Revenue Total	139,084	134,363	133,883	480
Federal Fund Total	7,225	9,637	7,922	1,715
Total-Institutional Corrections	153,940	151,428	146,874	4,554
Community Corrections				
General Revenue Total	13,553	12,371	12,293	78
Federal Fund Total	820	1,375	999	376
Total-Community Corrections	14,373	13,746	13,292	454
General Revenue Total-Corrections	162,442	157,086	155,796	1,290
Federal Fund Total-Corrections	8,338	11,440	9,253	2,187
Other Fund Total-Corrections	7,631	7,428	5,068	2,360
Total-Department of Corrections	178,412	175,954	170,117	5,837
Judicial Department				
Supreme Court				
RICAP-McGrath Judicial Complex Interior	200	302	202	100
RICAP-Blackstone Valley Courthouse Study	145	146	63	83
RICAP-Judicial HVAC	500	590	590	
RICAP-Asset Protection	100	100	99	1
General Revenue Total	25,834	26,616	26,025	591
Defense of Indigents	2,968	2,968	2,870	98
Federal Fund Total	122	290	92	198
Restricted Receipts Total	1,042	1,206	289	917
Total-Supreme Court	30,911	32,219	30,231	1,988
Superior Court				
Federal Fund Total	465	643	370	273
General Revenue Total	20,659	19,363	19,081	282
Total-Superior Court	21,124	20,006	19,450	556
Family Court				
General Revenue Total	17,271	17,048	17,251	(203)
Federal Fund Total	1,609	1,996	952	1,044
Total-Family Court	18,880	19,044	18,203	841

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, 2007
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
District Court				
General Revenue Total	9,924	10,006	9,873	133
Traffic Tribunal				
General Revenue Total	7,318	7,073	6,845	228
Worker's Compensation Court				
Restricted Receipts Total	7,286	7,140	6,984	156
General Revenue Total-Judicial Department	83,974	83,073	81,946	1,127
Federal Fund Total-Judicial Department	2,196	2,930	1,413	1,517
Restricted Receipts Total-Judicial Department	8,328	8,347	7,273	1,074
Other Fund Total-Judicial Department	945	1,138	955	183
Total-Judicial Department	95,442	95,488	91,586	3,902
Militia of the State				
National Guard				
Quonset Hangar/Armory		3,025	1,945	1,080
RICAP-Schofield Rehabilitation	140	316	145	171
RICAP-Emergency Operations Center				
RICAP-Asset Protection	200	200	144	56
General Revenue Total	2,335	2,053	1,836	217
Federal Fund Total	8,955	8,607	6,755	1,852
Restricted Receipts Total	145	145	63	82
Total-National Guard	12,544	14,346	10,889	3,457
Emergency Management				
General Revenue Total	829	733	698	35
Federal Fund Total	23,695	30,773	20,807	9,966
Restricted Receipts Total	285	219	179	40
Total-Emergency Management	24,810	31,725	21,684	10,041
General Revenue Total-Militia of the State	3,165	2,786	2,534	252
Federal Fund Total-Militia of the State	32,650	39,380	27,562	11,818
Restricted Receipts Total-Militia of the State	430	364	242	122
Other Fund Total-Militia of the State	1,109	3,541	2,235	1,306
Total-Militia of the State	37,354	46,071	32,573	13,498
E-911 Uniform Emergency Telephone System				
General Revenue Total	4,486	4,098	4,116	(18)
Federal Fund Total	71	171	100	71
Restricted Receipts Total	2,312	1,259	1,619	(360)
General Revenue Total-E-911 Uniform Emer Telephone System	4,486	4,098	4,116	(18)
Federal Fund Total-E-911 Uniform Emer Telephone System	71	171	100	71
Restricted Receipts Total-E-911 Uniform Emer Telephone System	2,312	1,259	1,619	(360)
Total- E-911 Uniform Emergency Telephone System	6,869	5,529	5,835	(306)
Fire Safety Code Board of Appeal and Review				
Fire Code Commission				
General Revenue Total	289	285	285	

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, 2007
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Division of Fire Safety				
Fire Safety & Training Academy				
General Revenue Total	2,838	2,357	2,285	72
Federal Fund Total	191	475	155	320
Other Fund Total		13	13	
General Revenue Total-Div. of Fire Safety	2,838	2,357	2,285	72
Federal Fund Total-Div of Fire Safety	191	475	155	320
Other Fund Total-Div of Fire Safety		13	13	
Total-Division of Fire Safety	3,029	2,844	2,453	391
Commission on Judicial Tenure & Discipline				
General Revenue Total	115	94	94	
Rhode Island Justice Commission				
General Revenue Total	164	203	203	
Federal Fund Total	4,708	4,269	4,131	138
Restricted Receipts Total	30	30		30
Total-Rhode Island Justice Commission	4,902	4,502	4,334	168
Municipal Police Training School				
General Revenue Total	426	395	400	(5)
Federal Fund Total	45	80	22	58
Total-Municipal Police Training School	471	475	422	53
Rhode Island State Police				
Airport Corporation		137	137	
RICAP-Headquarters Repair/Renovation	340	342	208	134
Traffic Enforcement-Municipal Training	455	666	582	84
Lottery Commission Assistance	155	139	131	8
Road Construction Reimbursement	2,367	2,615	2,219	396
General Revenue Total	49,047	53,870	53,332	538
Federal Fund Total	1,744	2,078	1,721	357
Restricted Receipts Total	235	614	287	327
General Revenue Total-State Police	49,047	53,870	53,332	538
Federal Fund Total-State Police	1,744	2,078	1,721	357
Restricted Receipts Total-State Police	235	614	287	327
Other Fund Total-State Police	3,316	3,901	3,277	624
Total-Rhode Island State Police	54,343	60,463	58,618	1,845
Office of Public Defenders				
General Revenue Total	9,327	8,549	8,565	(16)
Federal Fund Total	136	261	214	47
Total-Office of Public Defenders	9,462	8,810	8,778	32
Department of Environmental Management				
Office of Director				
General Revenue Total	6,476	6,361	7,292	(931)
Federal Fund Total	1,495	1,587	468	1,119
Restricted Receipts Total	1,895	1,881	2,091	(210)

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, 2007
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Total-Office of Director	9,866	9,828	9,850	(22)
Natural Resources				
RICAP-Recreational Facilities Improvement	500	441	297	144
RICAP-Fort Adams Rehabilitation	250	250	250	
RICAP-Wickford Marine Facility	223	733	223	510
Blackstone Bikepath Design	1,285	1,284	490	794
RICAP-Galilee Piers	200	75	15	60
RICAP-Dam Repair	300	26	26	
DOT Recreational Projects	73	125	77	48
General Revenue Total	18,708	18,407	18,607	(200)
Federal Fund Total	19,130	19,828	10,436	9,392
Restricted Receipts Total	4,155	4,375	2,959	1,416
Total-Natural Resources	45,074	45,543	33,380	12,163
Environmental Protection				
General Revenue Total	12,347	11,795	12,173	(378)
Federal Fund Total	13,161	18,103	10,416	7,687
Restricted Receipts Total	11,502	12,637	10,208	2,429
Total-Environmental Protection	37,010	42,536	32,797	9,739
General Revenue Total-DEM	37,530	36,562	38,072	(1,510)
Federal Fund Total-DEM	33,786	39,518	21,320	18,198
Restricted Receipts Total-DEM	17,552	18,893	15,257	3,636
Other Fund Total-DEM	3,082	2,934	1,378	1,556
Total-Department of Environmental Management	91,951	97,907	76,027	21,880
Coastal Resources Management Council				
RICAP-South Coast Restoration Project				
RICAP-Allins Cove		6		6
General Revenue Total	2,113	2,131	2,076	55
Federal Fund Total	1,599	2,060	1,659	401
Restricted Receipts Total	3,195	989	163	826
General Revenue Total-Coastal Resources	2,113	2,131	2,076	55
Federal Fund Total-Coastal Resources	1,599	2,060	1,659	401
Restricted Receipts Total-Coastal Resources	3,195	989	163	826
Other Fund Total-Coastal Resources		6		6
Total-Coastal Resources Management Council	6,907	5,185	3,898	1,287
Water Resource Board				
RICAP-Big River Management Area	81	90	81	9
General Revenue Total	1,937	1,737	1,648	89
Federal Fund Total		64	64	
Restricted Receipts Total	400	46		46
General Revenue Total-Water Resources Board	1,937	1,737	1,648	89
Federal Fund Total-Water Resources Board		64	64	
Restricted Receipts Total-Water Resources Board	400	46		46
Other Fund Total-Water Resources Board	81	90	81	9
Total-Water Resources Board	2,418	1,937	1,793	144

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, 2007
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Total Departmental Expenditures	5,149,459	5,197,756	5,052,778	144,978
Transfer of Excess Budget Reserve to Bond Capital Fund			62,682	(62,682)
Total Expenditures	<u>5,149,459</u>	<u>5,197,756</u>	<u>5,115,460</u>	<u>82,296</u>
Change in Fund Balance	<u>\$ 50,437</u>	<u>\$ 17,948</u>	<u>(59,031)</u>	<u>\$ (76,979)</u>
Fund balance - beginning			<u>203,197</u>	
Fund balance - ending			<u>\$ 144,166</u>	
General Revenue Total	3,213,391	3,216,695	3,217,761	(1,066)
Federal Fund Total	1,697,574	1,730,406	1,629,715	100,691
Restricted Receipts Total	124,302	135,119	100,401	34,718
Other Fund Total	114,192	115,536	104,901	10,635
Total Expenditures	<u>\$ 5,149,459</u>	<u>\$ 5,197,756</u>	<u>\$ 5,052,778</u>	<u>\$ 144,978</u>

** 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, 2007
(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	\$ 144,000	\$ 140,550	\$ 141,138	\$ 588
Departmental restricted revenue	3,067	645	875	230
Federal grants	237,747	272,660	239,621	(33,039)
Other revenues	3,100	10,894	7,779	(3,115)
Total revenues	<u>387,914</u>	<u>424,749</u>	<u>389,413</u>	<u>(35,336)</u>
Other financing sources:				
Operating transfers in			35,397	35,397
Payments from component units			18	18
Total revenues and other financing sources	<u>387,914</u>	<u>424,749</u>	<u>424,828</u>	<u>79</u>
Expenditures:				
Central Management				
Gasoline Tax	3,098	3,472	3,602	(130)
Federal Funds	5,162	17,148	5,835	11,313
Total - Central Management	<u>8,260</u>	<u>20,620</u>	<u>9,437</u>	<u>11,183</u>
Management and Budget				
Gasoline Tax	1,709	4,528	3,428	1,100
Total - Management and Budget	<u>1,709</u>	<u>4,528</u>	<u>3,428</u>	<u>1,100</u>
Infrastructure - Engineering				
Gasoline Tax	49,053	47,512	47,234	278
RICAP - RIPTA Land and Buildings		101	101	
Train Station	25	60	60	
State Infrastructure Bank	1,000	1,344		1,344
Land Sale Revenue	2,000	9,186	6,689	2,497
Federal Funds	232,585	255,512	225,508	30,004
Restricted Receipts	3,067	645	1,452	(807)
Subtotal - Infrastructure - Engineering	<u>287,730</u>	<u>314,360</u>	<u>281,044</u>	<u>33,316</u>
State Match - FHWA			40,194	(40,194)
Total - Infrastructure - Engineering	<u>287,730</u>	<u>314,360</u>	<u>321,238</u>	<u>(6,878)</u>
Infrastructure - Maintenance				
Gasoline Tax	41,065	36,791	34,584	2,207
Outdoor Advertising	75	203		203
Nonland Surplus		373		373
Total - Infrastructure - Maintenance	<u>41,140</u>	<u>37,367</u>	<u>34,584</u>	<u>2,783</u>
Total Expenditures	<u>338,839</u>	<u>376,875</u>	<u>368,687</u>	<u>8,188</u>
Other financing uses:				
Transfers to other funds				
Gas tax			46,938	
Other			445	
Total expenditures and other financing uses			<u>416,070</u>	
Net change in fund balance			8,758	
Fund balance - beginning			24,061	
Fund balance - ending			<u>\$ 32,819</u>	

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
June 30, 2007
(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)
06/30/2006	5,651,066	10,575,851	4,924,786	53.4%	1,559,966	315.7%
06/30/2005	5,444,369	9,762,675	4,318,306	55.8%	1,504,526	287.0%
06/30/2004	5,543,427	9,328,983	3,785,556	59.4%	1,472,620	257.1%

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)
06/30/2006	36,315	42,216	5,901	86.0%	13,475	43.8%
06/30/2005	29,617	37,511	7,894	79.0%	13,225	59.7%
06/30/2004	24,767	32,689	7,922	75.8%	11,422	69.4%

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)
06/30/2006	23,873	27,504	3,631	86.8%	6,313	57.4%
06/30/2005	19,347	22,251	2,904	86.9%	5,685	51.0%
06/30/2004	16,019	21,846	5,827	73.3%	5,638	103.3%

State of Rhode Island and Providence Plantations
Notes to Required Supplementary Information
June 30, 2007

For the fiscal year ended June 30, 2007 expenditures exceeded appropriations in the following department and agency programs, (expressed in thousands):

Fund/Agency/Program	Budgeted Expenditures	Actual Expenditures	Variance
	\$	\$	\$
General Fund			
Department of Administration			
Facilities Management			
General Revenue Total	39,165	39,655	(490)
Information Technology			
General Revenue Total	20,889	21,042	(153)
Restricted Receipts Total	1,461	1,869	(408)
Other Fund Total	1,272	2,453	(1,181)
General			
EDC-RI Airport Corporation Impact Aid	1,754	2,754	(1,000)
Motor Vehicle Excise Tax Payment	136,229	136,230	(1)
Property Valuation	2,000	2,186	(186)
Federal Fund Total	35	203	(168)
Debt Service Payments			
RIRBA-DLT Temporary Disability Insurance	46	62	(16)
Investment Receipts-Bond Funds		32	(32)
Debt Service Payments	86,601	86,817	(216)
Department of Business Regulations			
Banking Regulation			
General Revenue Total	2,775	2,840	(65)
Department of Labor and Training			
Workforce Regulation and Safety			
General Revenue Total	3,382	3,383	(1)
Income Support			
General Revenue Total	3,259	3,270	(11)
Department of State			
Administration			
General Revenue Total	1,661	1,691	(30)
State Archives			
Federal Fund Total	85	87	(2)
Restricted Receipts Total	217	270	(53)
Elections			
Federal Fund Total	858	889	(31)
Department of Revenue			
Office of Revenue Analysis			
General Revenue Total		177	(177)
Department of Children, Youth, and Families			
Central Management			
Federal Fund Total	3,135	3,338	(203)
Juvenile Correctional Services			
General Revenue Total	31,626	31,969	(343)
Child Welfare			
General Revenue Total	107,768	112,150	(4,382)
Department of Elderly Affairs			
General Revenue Total	17,418	17,672	(254)

State of Rhode Island and Providence Plantations
Notes to Required Supplementary Information
June 30, 2007

Fund/Agency/Program	Budgeted Expenditures	Actual Expenditures	Variance
	\$	\$	\$
General Fund			
Department of Health			
Family Health			
General Revenue Total	2,934	2,952	(18)
Disease Prevention and Control			
Walkable Communities Initiative	27	30	(3)
Department of Human Services			
Individual and Family Support			
General Revenue Total	23,140	23,254	(114)
Restricted Receipts Total	134	136	(2)
Veterans' Affairs			
General Revenue Total	16,844	17,206	(362)
Federal Fund Total	6,616	6,662	(46)
Medical Benefits			
General Revenue Total			
Hospital	70,211	76,939	(6,728)
Other	50,255	75,948	(25,693)
Federal Fund Total			
Managed Care	239,353	239,468	(115)
Other	56,498	86,025	(29,527)
Family Independence Program			
Child Care	28,905	31,798	(2,893)
State Funded Programs			
Federal Fund Total	83,333	86,907	(3,574)
Department of Mental Health, Retardation, and Hospital Central Management			
General Revenue Total	2,148	2,169	(21)
Service for the Developmentally Disabled			
General Revenue Total	118,007	118,047	(40)
Integrated Mental Health Services			
General Revenue Total	43,453	44,544	(1,091)
Department of Elementary and Secondary Education			
Teachers' Retirement			
General Revenue Total	67,260	70,287	(3,027)
Department of Attorney General			
Bureau of Criminal Identification			
General Revenue Total	949	956	(7)
Department of Corrections			
Parole Board			
Federal Fund Total	33	38	(5)
Judicial Department			
Family Court			
General Revenue Total	17,048	17,251	(203)
E-911 Uniform Emergency Telephone System			
General Revenue Total	4,098	4,116	(18)
Restricted Receipts Total	1,259	1,619	(360)

State of Rhode Island and Providence Plantations
Notes to Required Supplementary Information
June 30, 2007

Fund/Agency/Program	Budgeted Expenditures	Actual Expenditures	Variance
	\$	\$	\$
General Fund			
Municipal Police Training School			
General Revenue Total	395	400	(5)
Office of Public Defenders			
General Revenue Total	8,549	8,565	(16)
Department of Environmental Management			
Office of Director			
General Revenue Total	6,361	7,292	(931)
Restricted Receipts Total	1,881	2,091	(210)
Natural Resources			
General Revenue Total	18,407	18,607	(200)
Environmental Protection			
General Revenue Total	11,795	12,173	(378)
ISTEA Fund			
Central Management			
Gasoline Tax	3,472	3,602	(130)
Infrastructure-Engineering-Garvee/Motor Fuel Tax Bonds			
Restricted Receipts Total	645	1,452	(807)

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 annual budget is adopted on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the "actual" column that have no corresponding original or final budget amount. These amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

The 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.

State of Rhode Island and Providence Plantations
Notes to Required Supplementary Information
June 30, 2007

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 RI Capital Fund projects and any unexpended balances designated by the General Assembly.

Appropriations for Medical Benefits in the Department of Human Services are divided into six categories by the Caseload Estimating Conference (Conference). For the first time, in May 2007, the Conference recognized the reassignment of certain costs recorded in the "Other" line item account as "Long-Term Care" costs, a new line item category of Medicaid expenditures, in conjunction with RIGL 40-8.9-4 of the Long Term Care Service and Reform Act. Contrary to this new budget categorization, the actual expenditures were recorded in the "Other" line item category due to the fact that the Medicaid Management Information System was not programmed to reflect this new account creation. This mismatch between actual and budgeted expenditures occurred for both general and federal revenue funding sources.

The General Assembly authorized the transfer of \$19.4 million from the State's budget reserve account for fiscal 2007 to avert a budget deficit caused by a revenue shortfall. The amount reported as the "Transfer of Excess Budget Reserve to Bond Capital Fund" is net of this transfer from the budget reserve.

Schedule of Expenditures
of Federal Awards



Schedule of Expenditures of
Federal Awards

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2007

Federal Grantor Program Title	CFDA Number	Total Expenditures
U.S. Department of Agriculture		
Agricultural Research - Basic and Applied Research	10.001	\$ 76
Plant and Animal Disease, Pest Control, and Animal Care	10.025	53,720
Wildlife Services	10.028	27,769
Inspection Grading and Standardization	10.162	154,688
Rural Housing Preservation Grants	10.433	26,496
Food Donation (See Note 2)	10.550	3,875,311
Food Stamp Cluster:		
Food Stamps	10.551	86,887,976
State Administrative Matching Grants for Food Stamp Program	10.561	8,808,433
Child Nutrition Cluster:		
School Breakfast Program	10.553	5,412,100
National School Lunch Program	10.555	20,994,150
Special Milk Program for Children	10.556	77,195
Summer Food Service Program for Children	10.559	1,124,008
Special Supplemental Nutrition Program for Women, Infants, and Children (See Note 4)	10.557	21,180,229
Child and Adult Care Food Program	10.558	7,709,938
State Administrative Expenses for Child Nutrition	10.560	934,193
Emergency Food Assistance Cluster:		
Emergency Food Assistance Program (Administrative Costs)	10.568	189,854
WIC Farmers' Market Nutrition Program (FMNP)	10.572	166,261
Team Nutrition Grants	10.574	19
Cooperative Forestry Assistance	10.664	1,019,590
Watershed Surveys and Planning	10.906	64,170
Total U.S. Department of Agriculture		\$ 158,706,176
U.S. Department of Commerce		
Personal Census Search	11.006	\$ 29,252
Economic Development - Support for Planning Organizations	11.302	139,594
Public Works and Economic Development Cluster:		
Economic Adjustment Assistance (See Note 2)	11.307	13,709,047
Interjurisdictional Fisheries Act of 1986	11.407	70,387
Coastal Zone Management Administration Awards	11.419	1,659,031
Coastal Zone Management Estuarine Research Reserves	11.420	944,814
Marine Fisheries Initiative	11.433	701,064
Unallied Science Program	11.472	71,299
Atlantic Coastal Fisheries Cooperative Management Act	11.474	145,817
Habitat Conservation	11.463	75,993
Coastal Services Center	11.473	(239)
Educational Partnership Program	11.481	100,920
Total U.S. Department of Commerce		\$ 17,646,979

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2007

Federal Grantor Program Title	CFDA Number	Total Expenditures
U.S. Department of Defense		
Procurement Technical Assistance for Business Firms	12.002	\$ 212,422
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	256,876
National Guard Military Operations and Maintenance (O&M) Projects	12.401	6,793,728
Total U.S. Department of Defense		\$ 7,263,026
U.S. Department of Housing and Urban Development		
Interest Reduction Payments - Rental and Cooperative Housing for Lower Income Families	14.103	\$ 1,077,117
Mortgage Insurance - Homes (See Note 2)	14.117	3,913,821
Home Equity Conversion Mortgages (See Note 2)	14.183	9,178,981
Qualified Participating Entities (QPE) Risk Sharing	14.189	18,321,975
Section 8 Project-Based Cluster:		
Section 8 Housing Assistance Payments Program-Special Allocations	14.195	107,004,005
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	451,138
Community Development Block Grants/State's Program and Non-entitlement Grants in Hawaii	14.228	4,921,973
Emergency Shelter Grants Program	14.231	265,459
Supportive Housing Program	14.235	4,096,922
Shelter Plus Care	14.238	838,904
HOME Investment Partnerships Program	14.239	6,449,532
Housing Opportunities for Persons with AIDS	14.241	640,799
Community Development Block Grant/Brownfields Economic Development Initiative	14.246	25,000
Fair Housing Assistance Program - State and Local	14.401	222,846
Demolition and Revitalization of Severely Distressed Public Housing	14.866	46,539
Section 8 Housing Choice Vouchers	14.871	7,736,440
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	698,278
Healthy Homes Demonstration Grants	14.901	3,294
Lead Outreach Grants	14.904	202,951
Total U.S. Department of Housing and Urban Development		\$ 166,095,974
U.S. Department of Interior		
Fish and Wildlife Cluster:		
Sport Fish Restoration	15.605	\$ 2,626,677
Wildlife Restoration	15.611	1,165,309
Clean Vessel Act	15.616	85,490
Administrative Grants for Federal Aid in Sport Fish and Wildlife Restoration	15.618	37,528
Landowner Incentive	15.633	(1)
U.S. Geological Survey - Research and Data Collection	15.808	9,307
Historic Preservation Fund Grants-In-Aid	15.904	476,486
Outdoor Recreation - Acquisition, Development and Planning	15.916	2,061,965
Save America's Treasures	15.929	32,451
Total U.S. Department of Interior		\$ 6,495,212

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, 2007

Federal Grantor Program Title	CFDA Number	Total Expenditures
U.S. Department of Justice		
State Domestic Preparedness Equipment Support Program	16.007	\$ 4,358,947
Protection of Voting Rights	16.104	850,738
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202	617,120
Comprehensive Approaches to Sex Offender Management Discretionary Grant (CASOM)	16.203	106,964
Juvenile Accountability Incentive Block Grants	16.523	360,585
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	587,149
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	459,116
Gang-Free Schools and Communities - Community-Based Gang Intervention	16.544	16,013
Victims of Child Abuse	16.547	45,291
State Justice Statistics Program for Statistical Analysis Centers	16.550	51
National Criminal History Improvement Program (NCHIP)	16.554	14,665
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	68,063
Crime Laboratory Improvement-Combined Offender DNA Index System		
Backlog Reduction	16.564	57
Crime Victim Assistance	16.575	1,738,495
Crime Victim Compensation	16.576	309,607
Edward Byrne Memorial Formula Grant Program	16.579	2,105,705
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	48,782
Drug Court Discretionary Grant Program	16.585	429,285
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	6,395,504
Violence Against Women Formula Grants	16.588	1,360,588
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	41,562
Local Law Enforcement Block Grant Program	16.592	7,226
Residential Substance Abuse Treatment for State Prisoners	16.593	35,756
State Criminal Alien Assistance Program	16.606	817,910
Closed-Circuit Televising of Child Victims of Abuse	16.611	(13)
Enforcing Underage Drinking Laws Program	16.727	343,153
Protecting Inmates and Safeguarding Communities Discretionary Grant Program	16.735	251,037
Forensic DNA Capacity Enhancement Program	16.741	4,691
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	4,114
Total U.S. Department of Justice		\$ 21,378,161
U.S. Department of Labor		
Labor Force Statistics	17.002	\$ 804,930
Compensation and Working Conditions	17.005	10,678
Employment Services Cluster:		
Employment Service/Wagner-Peyser Funded Activities	17.207	2,779,523
Disabled Veterans' Outreach Program (DVOP)	17.801	355,100
Local Veterans' Employment Representative Program	17.804	235,078
Unemployment Insurance (See Note 5)	17.225	219,054,163
Senior Community Service Employment Program	17.235	470,030
Trade Adjustment Assistance	17.245	7,489,365
Welfare-to-Work Grants to States and Localities	17.253	(520)
WIA Cluster:		
WIA Adult Program	17.258	2,362,931
WIA Youth Activities	17.259	2,113,539
WIA Dislocated Workers	17.260	4,327,777

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, 2007

Federal Grantor Program Title	CFDA Number	Total Expenditures
WIA Pilots, Demonstrations, and Research Projects	17.261	(1,231)
Employment and Training Administration Evaluations	17.262	48,943
Work Incentive Grants	17.266	104,238
Consultation Agreements	17.504	429,313
Total U.S. Department of Labor		\$ 240,583,857
U.S. Department of Transportation		
Airport Improvement Program	20.106	\$ 25,510,300
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	226,419,867
Motor Carrier Safety	20.217	829,573
Federal Transit Cluster:		
Federal Transit - Capital Investment Grants	20.500	(478,359)
Federal Transit - Formula Grants	20.507	17,906,553
Federal Transit Managerial Training Grants	20.503	68,574
Federal Transit - Metropolitan Planning Grants	20.505	302,955
Urban Mass Transportation Demonstration Grants	20.506	271,642
Formula Grants for Other Than Urbanized Areas	20.509	602,390
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	1,020,978
Public Transportation Research	20.514	199,212
State Planning and Research	20.515	12,492
Job Access - Reverse Commute	20.516	609,857
Highway Safety Cluster:		
State and Community Highway Safety	20.600	5,087,677
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	122,128
Occupant Protection	20.602	384,134
Safety Incentive Grants for Use of Seatbelts	20.604	180,748
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	124,867
Incentive Grant Program to Prohibit Racial Profiling	20.611	10,008
Pipeline Safety	20.700	92,650
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	14,874
Total U.S. Department of Transportation		\$ 279,293,120
Equal Opportunity Employment Commission		
Employment Discrimination - State and Local Fair Employment Practices		
Agency Contracts	30.002	\$ 51,842
Total Equal Opportunity Employment Commission		\$ 51,842
General Services Administration		
Donation of Federal Surplus Personal Property (See Note 2)	39.003	\$ 76,369
Total General Services Administration		\$ 76,369

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, 2007

Federal Grantor Program Title	CFDA Number	Total Expenditures
National Foundation on the Arts and the Humanities		
Promotion of the Arts - Grants to Organizations and Individuals	45.024	\$ 8,036
Promotion of the Arts - Partnership Agreements	45.025	625,059
Promotion of the Arts - Leadership Initiatives	45.026	24,110
Museums for America	45.301	1,010,437
Total National Foundation on the Arts and the Humanities		\$ 1,667,642
National Science Foundation		
Education and Human Resources	47.076	\$ 53,222
Total National Science Foundation		\$ 53,222
U.S. Department of Veterans Affairs		
Grants to States for Construction of State Home Facilities	64.005	\$ 874,111
Veterans Domiciliary Care	64.008	5,589,175
Veterans Housing - Guaranteed and Insured Loans (See Note 2)	64.114	677,336
All-Volunteer Force Educational Assistance	64.124	51,277
State Cemetery Grants	64.203	199,145
Total U.S. Department of Veterans Affairs		\$ 7,391,044
Environmental Protection Agency		
Air Pollution Control Program Support	66.001	\$ 892,623
State Indoor Radon Grants	66.032	175,972
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	197,726
Water Pollution Control State, Interstate and Tribal Program Support	66.419	233,005
State Public Water System Supervision	66.432	466,686
Targeted Watershed Grants	66.439	86,533
Water Quality Management Planning	66.454	54,674
National Estuary Program	66.456	121,934
Capitalization Grants for Clean Water State Revolving Funds	66.458	6,138,943
Capitalization Grants for Drinking Water State Revolving Funds	66.468	8,021,461
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	37,928
Beach Monitoring and Notification Program Implementation Grants	66.472	194,118
Water Protection Grants to the States	66.474	25,919
Performance Partnership Grants	66.605	4,469,807
Surveys, Studies, Investigations and Special Purpose Grants	66.606	12,767
Environmental Information Exchange Network Grant Program and Related Assistance	66.608	456,458
Environmental Policy and Innovation Grants	66.611	33,382
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	222,912
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	145,814
Pollution Prevention Grants Program	66.708	15,684
Multi Media Capacity Building Grants For States & Tribes	66.709	91,682
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	3,212,919
Leaking Underground Storage Tank Trust Fund Program	66.805	396,656

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, 2007

Federal Grantor Program Title	CFDA Number	Total Expenditures
Solid Waste Management Assistance Grants	66.808	4,754
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809	160,023
Brownfield Pilots Cooperative Agreements	66.811	11,791
State and Tribal Response Program Grants	66.817	1,207,508
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	363,740
Total Environmental Protection Agency		\$ 27,453,419
U.S. Department of Energy		
State Energy Program	81.041	\$ 573,096
Weatherization Assistance for Low-Income Persons	81.042	1,222,834
Regional Biomass Energy Programs	81.079	47,979
University Reactor Infrastructure and Education Support	81.114	101,942
Total U.S. Department of Energy		\$ 1,945,851
U.S. Department of Education		
Adult Education - State Grant Program	84.002	\$ 2,336,501
Civil Rights Training and Advisory Services	84.004	2,706
Student Financial Assistance Cluster: (See Note 6)		
Federal Supplemental Educational Opportunity Grants	84.007	2,460,811
Federal Family Education Loans (See Note 2)	84.032	36,564,853
Federal Work-Study Program	84.033	1,726,822
Federal Perkins Loan Program - Federal Capital Contributions (See Note 2)	84.038	14,764,498
Federal Pell Grant Program	84.063	18,438,434
Federal Direct Student Loan Program (See Note 2)	84.268	49,585,118
Academic Competitiveness Grants	84.375	9,000
Title I Grants to Local Educational Agencies	84.010	47,836,315
Migrant Education - State Grant Program	84.011	6,705
Title I Program for Neglected and Delinquent Children	84.013	524,590
Special Education Cluster:		
Special Education - Grants to States	84.027	41,131,748
Special Education - Preschool Grants	84.173	1,756,979
Higher Education - Institutional Aid	84.031	2,420
Federal Family Education Loans (Guaranty Agency) (See Note 2)	84.032	3,982,214
TRIO Cluster:		
TRIO-Student Support Services	84.042	308,650
TRIO-Talent Search	84.044	424,331
TRIO-Educational Opportunity Centers	84.066	755,929
Vocational Education - Basic Grants to States	84.048	6,145,762
Leveraging Educational Assistance Partnership	84.069	358,777
Fund for the Improvement of Postsecondary Education	84.116	29,286
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	11,413,570
National Institute on Disability and Rehabilitation Research	84.133	38,467
Immigrant Education	84.162	13,440
Independent Living - State Grants	84.169	295,534
Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	84.177	246,331
Special Education - Grants for Infants and Families With Disabilities	84.181	650,578

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, 2007

Federal Grantor Program Title	CFDA Number	Total Expenditures
Safe and Drug-Free Schools and Communities - National Programs	84.184	163,756
Byrd Honors Scholarships	84.185	144,000
Safe and Drug-Free Schools and Communities - State Grants	84.186	1,903,198
Supported Employment Services for Individuals with Severe Disabilities	84.187	344,061
Education for Homeless Children and Youth	84.196	297,085
Even Start - State Educational Agencies	84.213	717,611
Fund for the Improvement of Education	84.215	5,514
Assistive Technology	84.224	435,181
Tech-Prep Education	84.243	595,060
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265	17,054
School to Work Opportunities	84.278	13,358
Eisenhower Professional Development State Grants	84.281	(1,982)
Twenty-First Century Community Learning Centers	84.287	4,710,383
State Grants for Innovative Programs	84.298	737,061
Education Technology State Grants	84.318	2,471,142
Special Education - State Personnel Development	84.323	677,082
Research in Special Education	84.324	578
Advanced Placement Program	84.330	8,954
Grants to States for Incarcerated Youth Offenders	84.331	37,269
Comprehensive School Reform Demonstration	84.332	713,485
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	2,496,374
Teacher Quality Enhancement Grants	84.336	158,024
Class Size Reduction	84.340	399
Vocational Education-Occupational and Employment Information State Grants	84.346	2,073
Arts in Education	84.351	189,829
Reading First State Grants	84.357	2,824,636
Literacy Through School Libraries	84.364	88,693
English Language Acquisition Grants	84.365	2,207,280
Mathematics and Science Partnerships	84.366	557,315
Improving Teacher Quality State Grants	84.367	13,891,858
Grants for Enhanced Assessment Instruments	84.368	210,298
Grants for State Assessments and Related Activities	84.369	4,655,612
National Writing Project	84.928	38,746
Hurricane Education Recovery	84.938	27,714
Total U.S. Department of Education		\$ 283,149,070
National Archives and Records Administration		
National Historical Publications and Records Grants	89.003	\$ 86,823
Total National Archives and Records Administration		\$ 86,823
Elections Assistance Commission		
Help America Vote Act Requirements Payments	90.401	\$ 889,286
Total Elections Assistance Commission		\$ 889,286

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, 2007

Federal Grantor Program Title	CFDA Number	Total Expenditures
U.S. Department of Health and Human Services		
Public Health and Social Services Emergency Fund	93.003	\$ (20,436)
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006	149,232
Special Programs for the Aging-Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	25,659
Special Programs for the Aging-Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042	37,023
Special Programs for the Aging-Title III, Part D - Disease Prevention and Health Promotion Services	93.043	14,012
Aging Cluster:		
Special Programs for the Aging-Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	1,653,065
Special Programs for the Aging-Title III, Part C - Nutrition Services	93.045	1,940,554
Nutrition Services Incentive Program	93.053	594,142
Special Programs for the Aging-Title IV and Title II - Discretionary Projects	93.048	403,753
Alzheimer's Disease Demonstration Grants to States	93.051	393,430
National Family Caregiver Support, Title III, Part E	93.052	714,026
Food and Drug Administration - Research	93.103	7,609
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104	1,361,540
Maternal and Child Health Federal Consolidated Programs	93.110	563,059
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	483,487
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118	16,888
Small Business Innovation Research	93.126	34,658
Emergency Medical Services for Children	93.127	132,410
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130	173,673
Injury Prevention and Control Research and State and Community Based Programs	93.136	630,664
Projects for Assistance in Transition from Homelessness (PATH)	93.150	298,562
Grants to States for Loan Repayment Program	93.165	12,538
Disabilities Prevention	93.184	402,252
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	1,074,779
Family Planning - Services	93.217	1,104,044
Consolidated Knowledge Development and Application (KD&A) Program	93.230	2,501,250
Traumatic Brain Injury State Demonstration Grant Program	93.234	95,262
Abstinence Education Program	93.235	177,836
Grants for Dental Public Health Residency Training	93.236	20,127
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	194,009
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	1,170,730
Universal Newborn Hearing Screening	93.251	119,768
State Planning Grants Health Care Access for the Uninsured	93.256	191,859
Immunization Grants (See Note 2)	93.268	11,186,176
Drug Abuse National Research Service Awards for Research Training	93.278	7,033
Drug Abuse and Addiction Research Programs	93.279	37,086
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	12,638,159

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, 2007

Federal Grantor Program Title	CFDA Number	Total Expenditures
Student Financial Assistance Cluster: (See Note 6)		
Health Professions Student Loans, Including Primary Care Loans / Loans for Disadvantaged Students (See Note 2)	93.342	1,639,023
Nursing Student Loans (See Note 2)	93.364	1,475,585
Cancer Detection and Diagnosis Research	93.394	61,975
Project National Significance-Family Support	93.531	237,392
Promoting Safe and Stable Families	93.556	1,580,686
Temporary Assistance for Needy Families	93.558	68,067,960
Child Support Enforcement	93.563	7,325,131
Refugee and Entrant Assistance - State Administered Programs	93.566	347,246
Low-Income Home Energy Assistance	93.568	21,380,299
Community Services Block Grant	93.569	3,602,879
CCDF Cluster:		
Child Care and Development Block Grant	93.575	26,159,804
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	11,613,279
Refugee and Entrant Assistance - Discretionary Grants	93.576	33,675
State Court Improvement Program	93.586	200,441
Grants to States for Access and Visitation Programs	93.597	74,556
Chafee Education and Training Vouchers Program (ETV)	93.599	233,588
Head Start	93.600	123,889
Child Support Enforcement Demonstrations and Special Projects	93.601	15,516
Adoption Incentive Payments	93.603	(124)
Voting Access for Individuals with Disabilities - Grants to States	93.617	123,708
Developmental Disabilities Basic Support and Advocacy Grants	93.630	423,069
University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632	468,384
Children's Justice Grants to States	93.643	130,827
Child Welfare Services - State Grants	93.645	963,508
Social Services Research and Demonstration	93.647	49,906
Foster Care - Title IV-E	93.658	14,289,561
Adoption Assistance	93.659	8,775,312
Social Services Block Grant	93.667	13,550,501
Child Abuse and Neglect State Grants	93.669	330,117
Family Violence Prevention and Services/Grants for Battered Women's Shelters- Grants to States and Indian Tribes	93.671	617,470
Chafee Foster Care Independence Program	93.674	676,001
State Children's Insurance Program	93.767	54,411,223
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	774,512
State Survey and Certification of Health Care Providers and Suppliers	93.777	2,598,771
Medical Assistance Program (See Note 4)	93.778	894,788,366
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	725,040
Medicare Transitional Drug Assistance Program for States	93.783	1,134,288
State Pharmaceutical Assistance Programs	93.786	540,946
Child Health and Human Development Extramural Research	93.865	134,716
Grants to States for Operation of Offices of Rural Health	93.913	171,432
HIV Care Formula Grants	93.917	4,541,935

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, 2007

Federal Grantor Program Title	CFDA Number	Total Expenditures
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Control Programs	93.919	1,014
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	1,144,614
HIV Prevention Activities - Health Department Based	93.940	1,585,164
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	178,887
Assistance Programs for Chronic Disease Prevention and Control	93.945	71
Trauma Care Systems Planning and Development	93.952	6,647
Trauma Care Systems Planning and Development	93.953	1,839,965
Occupational Health and Safety Surveillance	93.957	123,388
Block Grants for Community Mental Health Services	93.958	1,310,461
Block Grants for Prevention and Treatment of Substance Abuse	93.959	7,346,145
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	409,480
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	901,406
Preventive Health and Health Services Block Grant	93.991	361,579
Maternal and Child Health Services Block Grant to the States	93.994	1,689,275
Total U.S. Department of Health and Human Services		\$ 1,201,830,407
Corporation for National and Community Service		
Learn and Serve America - School and Community Based Programs	94.004	\$ 570,254
Foster Grandparent/Senior Companion Cluster: Senior Companion Program	94.016	419,083
Total Corporation for National and Community Service		\$ 989,337
Social Security Administration		
Disability Insurance/SSI Cluster: Social Security - Disability Insurance	96.001	\$ 7,146,857
Social Security - Research and Demonstration	96.007	1,672
Total Social Security Administration		\$ 7,148,529
U.S. Department of Homeland Security		
Homeland Security Cluster: (See Note 7) State Domestic Preparedness Equipment Support Program	97.004	\$ 6,975,156
Homeland Security Grant Program	97.067	8,884,370
State and Local Homeland Security Training Program	97.005	138,782
Boating Safety Financial Assistance	97.012	647,972
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023	(23,341)
Flood Mitigation Assistance	97.029	29,207
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	75,300
First Responder Counter-Terrorism Training Assistance	97.038	1,980
National Dam Safety Program	97.041	95,522
Emergency Management Performance Grants	97.042	906,672
Community Emergency Response Teams	97.054	3,892
Homeland Security Information Technology and Evaluation Program	97.066	259,824

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2007

Federal Grantor Program Title	CFDA Number	Total Expenditures
Aviation Research Grants	97.069	8,843
Map Modernization Management Support	97.070	119,143
National Explosives Detection Canine Team Program	97.072	151,000
Buffer Zone Protection Program (BZPP)	97.078	151,686
Total U.S. Department of Homeland Security		\$ 18,426,008
Research and Development Cluster:		
U.S. Department of Agriculture		
Plant and Animal Disease, Pest Control, and Animal Care	10.025	\$ 4,780
Grants for Agricultural Research, Special Research Grants	10.200	733,275
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203	2,426,235
Grants for Agricultural Research - Competitive Research Grants	10.206	662,053
1890 Institution Capacity Building Grants	10.216	7,307
Higher Education Challenge Grant	10.217	19,952
Higher Education Multicultural Scholars Program	10.220	22,500
Agricultural and Rural Economic Research	10.250	31,452
Initiative for Future Agriculture and Food Systems	10.302	15,767
Integrated Programs	10.303	920,249
Crop Insurance Education in Targeted States	10.458	144,923
Cooperative Extension Service	10.500	357,667
Soil Survey	10.903	61,526
Environmental Quality Incentives Program	10.912	295,144
Wildlife Habitat Incentive Program	10.914	26,025
Other Research and Development	N/A	130,373
U.S. Department of Commerce		
ITA Special Projects	11.113	10,580
Sea Grant Support	11.417	2,755,628
Coastal Zone Management Estuarine Research Reserves	11.420	14,183
Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	11.427	17,891
Climate and Atmospheric Research	11.431	19,608
Office of Oceanic and Atmospheric Research (OAR) Joint and Cooperative Institutes	11.432	424
Marine Fisheries Initiative	11.433	20,447
Environmental Sciences, Applications, Data, and Education	11.440	6,477
Cooperative Science and Education Program	11.455	298,707
Special Oceanic and Atmospheric Projects	11.460	252,903
Habitat Conservation	11.463	223,592
Unallied Science Program	11.472	319,473
Coastal Services Center	11.473	135,973
Center for Sponsored Coastal Ocean Research - Coastal Ocean Program	11.478	417,595
Other Research and Development	N/A	163,806
U.S. Department of Defense		
Basic and Applied Scientific Research	12.300	4,172,923
Military Medical Research and Development	12.420	142,899
Basic Scientific Research	12.431	136,787
Air Force Defense Research Sciences Program	12.800	168,139
Other Research and Development	N/A	660,741

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, 2007

Federal Grantor Program Title	CFDA Number	Total Expenditures
U.S. Department of Housing and Urban Development		
Community Development Work-Study Program	14.512	1,875
U.S. Department of Interior		
Fish, Wildlife, and Parks Programs on Indian Lands	15.039	117,390
Fish and Wildlife Management Assistance	15.608	145,478
Coastal Wetlands Planning, Protection and Restoration Act	15.614	9,346
Assistance to State Water Resources Research Institutes	15.805	81,090
U.S. Geological Survey - Research and Data Collection	15.808	397,392
National Spatial Data Infrastructure Cooperative Agreements Program	15.809	72,502
National Center for Preservation Technology and Training	15.923	21,531
Other Research and Development	N/A	271,585
U.S. Department of Justice		
National Institute of Justice Domestic Anti-Terrorism Technology Development Program (Counter Terrorism Research and Development)	16.565	(29)
Other Research and Development	N/A	95,492
U.S. Department of State		
Cooperative Agreements	19.420	8,006
Other Research and Development	N/A	2,837,546
U.S. Department of Transportation		
Highway Planning and Construction	20.205	10,650
Highway Training and Education	20.215	33,522
University Transportation Centers Program	20.701	1,444,231
Other Research and Development	N/A	40,607
National Aeronautics and Space Administration		
Aerospace Education Services Program	43.001	23,710
Technology Transfer	43.002	1,688,223
Other Research and Development	N/A	60,539
National Foundation on the Arts and the Humanities		
Laura Bush 21st Century Librarian Program	45.313	130,236
Promotion of the Humanities-Division of Preservation and Access	45.149	2,107
National Science Foundation		
Engineering Grants	47.041	963,764
Mathematical and Physical Sciences	47.049	193,318
Geosciences	47.050	7,015,448
Computer and Information Science and Engineering	47.070	533,890
Biological Sciences	47.074	934,098
Social, Behavioral, and Economic Sciences	47.075	718,495
Education and Human Resources	47.076	3,197,605
Polar Programs	47.078	366,796
International Science and Engineering (OISE)	47.079	476,099
Other Research and Development	N/A	137,249

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2007

Federal Grantor Program Title	CFDA Number	Total Expenditures
Environmental Protection Agency		
Long Island Sound Program	66.437	19,684
National Estuary Program	66.456	269,150
Regional Wetland Program Development Grants	66.461	3,568
Water Quality Cooperative Agreements	66.463	9,031
Environmental Protection - Consolidated Research	66.500	65,591
Science to Achieve Results (STAR) Research Program	66.509	10,454
Office of Research and Development Consolidated Research/Training	66.511	73,657
Surveys, Studies, Investigations and Special Purpose Grants	66.606	78,297
Training and Fellowships for the Environmental Protection Agency	66.607	60,134
Pollution Prevention Grants Program	66.708	74,580
U.S. Department of Energy		
Other Research and Development	N/A	80,031
U.S. Department of Education		
Higher Education - Institutional Aid	84.031	504,885
Magnet Schools Assistance	84.165	6,134
Fund for the Improvement of Education	84.215	45,192
State Grants for Innovative Programs	84.298	1,155
Demonstration Project to Ensure Students with Disabilities Receive a Higher Education	84.333	9,985
Teacher Quality Enhancement Grants	84.336	1,249,914
U.S. Department of Health and Human Services		
Alzheimer's Disease Demonstration Grants to States	93.051	2,417
Innovations in Applied Public Health Research	93.061	141,792
Environmental Health	93.113	331,234
Applied Toxicological Research and Testing	93.114	17,910
Grants to Increase Organ Donations	93.134	167,466
Research Related to Deafness and Communications Disorders	93.173	65,889
Disabilities Prevention	93.184	3,435
Research and Training in Complementary and Alternative Medicine	93.213	79,087
Mental Health Research Grants	93.242	58,673
Advanced Education Nursing Grant Program	93.247	296,882
Alcohol National Research Service Awards for Research Training	93.272	333,764
Alcohol Research Programs	93.273	1,299,434
Drug Abuse and Addiction Research Programs	93.279	659,826
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	57,086
Advanced Education Nursing Traineeships	93.358	52,567
Nursing Research	93.361	277,167
National Center for Research Resources	93.389	4,345,365
Cancer Cause and Prevention Research	93.393	379,108
Cancer Detection and Diagnosis Research	93.394	194,691
Cancer Biology Research	93.396	151,040

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2007

Federal Grantor Program Title	CFDA Number	Total Expenditures
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	470,166
Heart and Vascular Diseases Research	93.837	60,412
Allergy, Immunology and Transplantation Research	93.855	35,799
Microbiology and Infectious Disease Research	93.856	649,376
Biomedical Research and Research Training	93.859	312,992
Aging Research	93.866	229,939
Advanced Hypothermia System	93.873	60,209
Health Care and Other Facilities	93.887	104,402
Geriatric Education Centers	93.969	127,516
Other Research and Development	N/A	440,486
Corporation for National and Community Service		
AmeriCorps	94.006	71,631
U.S. Department of Homeland Security		
Port Security Research and Development Grant	97.060	226,956
Agency for International Development		
USAID Foreign Assistance for Programs Overseas	98.001	746
Global Development Alliance	98.011	81,090
Other Agency for International Development Awards	N/A	106,239
Total Research and Development Cluster		\$ 52,282,029
Other Expenditures of Federal Awards		\$ 1,389,408
Total Expenditures of Federal Awards (See Note 2)		\$ 2,502,292,791

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, 2007

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 the CFDA number is not available from the State or component unit's accounting records then N/A is indicated in the schedule. The Research and Development (R&D) Cluster is presented at the end of the schedule because there are multiple federal funding agencies. As a result, total expenditures of federal awards presented for some federal funding agencies do not include expenditures for R&D programs.

Cash assistance is presented using the same basis of accounting as that used in reporting the expenditures (or expenses) of the related funds and component units in the State's basic financial statements (see Note 1 to the basic financial statements – Summary of Significant Accounting Policies – D. Measurement Focus Basis of Accounting and Financial Statement Presentation).

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

- Food Donation (CFDA 10.550) – reported at the fair market value of food distributed.
- 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.
- The following guaranteed/insured mortgage loan programs are reported at the value of loans disbursed during the fiscal year: Mortgage Insurance-Homes (CFDA 14.117); Home Equity Conversion Mortgages (CFDA 14.183); and Veterans Housing - Guaranteed and Insured Loans (CFDA 64.114).
- Donation of Federal Surplus Personal Property (CFDA 39.003) – reported at the fair market value of the donated property at the time of receipt.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation (continued)

- Federal Family Education Loans - (CFDA 84.032) and Federal Direct Student Loan Program (CFDA 84.268) - reported at the value of loans made during the fiscal year.
- Federal Perkins Loan Program – Federal Capital Contribution (CFDA 84. 038), Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students (CFDA 93.342) and Nursing Student Loans (CFDA 93.364) - reported at the balance of loans outstanding at June 30, 2007.
- Immunization Grants (CFDA 93.268) – includes the value of vaccines received at the contracted price (amount paid by the federal Centers for Disease Control to the manufacturer).

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, 2007</u>	<u>Insurance, Loans and Loan Guarantees Outstanding - June 30, 2007</u>
11.307	Economic Adjustment Assistance	\$ 13,709,047	\$ 8,463,386
14.117	Mortgage Insurance – Homes	3,913,821	107,995,850
14.183	Home Equity Conversion Mortgages	9,178,981	N/A
64.114	Veterans Housing – Guaranteed and Insured Loans	677,336	23,340,023
84.032	Federal Family Education Loans	36,564,853	N/A
84.032	Federal Family Education Loans (Guaranty Agency)	(a)	1,380,933,416
84.038	Federal Perkins Loan Program – Federal Capital Contributions	14,764,498	14,764,498
84.268	Federal Direct Student Loan Program	49,585,118	N/A
93.342	Health Professions Student Loans, Including Primary Care Loans/ Loans for Disadvantaged Students	1,639,073	1,639,073
93.364	Nursing Student Loans	1,475,585	1,475,585
	<u>Other Non-Cash Assistance</u>		
10.550	Food Donation	3,875,311	
39.003	Donation of Federal Surplus Personal Property	76,369	
93.268	Immunization Grants (Vaccines)	<u>9,816,968</u>	
	Total Non-Cash Assistance	<u>\$ 145,276,960</u>	

(a) Administrative cost allowances (cash assistance) totaling \$ 3,982,214 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 Federal Family Education Loans (Guaranty Agency) Program – CFDA 84.032.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2007

NOTE 3. FEDERAL AWARDS RECEIVED FROM PASS-THROUGH ENTITIES

The majority of expenditures of federal awards reflected in the schedule are from awards made directly by the federal government to the State and its component units. An immaterial amount of funds have been passed-through from other entities to component units of the State totaling approximately \$7.1 million. Of this amount, \$6.2 million relates to the Research and Development Cluster of which all is unidentified as to the pass-through entity. Of the remaining amount (\$865,000), approximately \$382,000 is unidentified as to either the CFDA number and/or the pass-through entity.

NOTE 4. REBATES OF PROGRAM EXPENDITURES

The State received the following program expenditure rebates during fiscal 2007:

<u>Program</u>	<u>CFDA Number</u>	<u>Rebate Amount</u>
Medical Assistance Program	93.778	\$ 26,665,643
Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	10.557	\$ 4,715,481

Manufacturers of infant formula (WIC) and prescription drugs (Medical Assistance) remitted 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 (\$13.9 million) earned during fiscal year 2007. 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 \$204.6 million funded from the State's account in the federal Unemployment Trust Fund and \$14.5 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 \$126.7 million.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2007

NOTE 7. HOMELAND SECURITY CLUSTER

The OMB A-133 Compliance Supplement (March 2007) included guidance on reporting expenditures of federal awards made by the Department of Homeland Security. Consistent with that guidance, expenditures are reported in the Schedule of Expenditures of Federal Awards using the CFDA number(s) shown on the notice of award for the period in which the funds were awarded. Certain expenditures reported under other than the *Homeland Security Cluster* programs (CFDA numbers 97.004 and 97.067) have been considered part of the cluster for Type A program determination and audit testing purposes.

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

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- ◆ 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, 2007, which collectively comprise the State's basic financial statements and have issued our report thereon dated April 7, 2008. Our report was modified to include a reference to 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. As described in our report on the State's financial statements, other auditors audited the financial statements of:

- certain component units which represent 2% of the assets and 1% of the revenues of the governmental activities and 1% of the assets and 2% of the revenues of the aggregate remaining fund information;
- the Convention Center Authority, a major fund, which also represents 48% of the assets and 1% 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.

This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we and the other auditors identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the State's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the State's financial statements that is more than inconsequential will not be prevented or detected by the State's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting: Findings 2007-1, 2007-2, 2007-3, 2007-4, 2007-5, 2007-6, 2007-7, 2007-8, 2007-9, 2007-10, 2007-11, 2007-12, 2007-13, 2007-14, 2007-15, 2007-16, 2007-17, 2007-18, 2007-19, 2007-20, 2007-21, 2007-22, 2007-23, 2007-24, 2007-25, 2007-26, 2007-27, 2007-28, 2007-29, 2007-30, 2007-31, 2007-32, 2007-33, 2007-34, 2007-35, 2007-36, 2007-37, 2007-38, 2007-39, 2007-40, 2007-41, 2007-42, and 2007-43.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the State's internal control.

Our consideration of the internal control over financial reporting and the reports of the other auditors was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Findings 2007-1, 2007-4, 2007-5, 2007-6, 2007-7, 2007-9, 2007-12, 2007-16, 2007-17, 2007-18, 2007-20, 2007-24, 2007-26, 2007-27, 2007-29, 2007-41, and 2007-42 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests 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 also noted certain matters that we will report to management of the State in a separate communication. Other auditors noted certain matters that they have communicated to management of the component units.

The State's response to the findings identified in our audit are described in the accompanying Corrective Action Plan. We did not audit the State's response and accordingly, we express no opinion on it.

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

April 7, 2008



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
- ◆ RELIABILITY
- ◆ INDEPENDENCE
- ◆ ACCOUNTABILITY

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

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

Compliance

We have audited, except as described in the next three sentences, the compliance of the State of Rhode Island and Providence Plantations (the State) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. 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 2007. 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.

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We were unable to obtain sufficient documentation supporting the compliance of the State with the Adoption Assistance program (CFDA 93.659) regarding the eligibility 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 2007-52 in the accompanying schedule of findings and questioned costs, the State did not comply with the special tests and provisions requirement regarding Housing Quality Standards that is applicable to its Section 8 Housing Assistance Payments Program – Special Allocations (CFDA 14.195). 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 2007-58 in the accompanying schedule of findings and questioned costs, the State did not comply with the special tests and provisions requirement regarding materials testing that is applicable to its Highway Planning and Construction program (CFDA 20.205). 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 2007-67 in the accompanying schedule of findings and questioned costs, the State did not comply with the subrecipient monitoring requirement that is applicable to its Centers for Disease Control and Prevention – Investigations and Technical Assistance program (CFDA 93.283). 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 2007-108 in the accompanying schedule of findings and questioned costs, the State did not comply with the special test and provisions requirement regarding subgrant awards that is applicable to its Homeland Security Cluster programs (CFDA 97.004 and CFDA 97.067). 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 (1) 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 Adoption Assistance program regarding eligibility, and (2) the noncompliance described in the four 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, 2007. The results of our auditing procedures and the reports of the other auditors also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2007-51, 2007-53, 2007-59, 2007-68, 2007-74, 2007-83, 2007-84, 2007-98, 2007-99, and 2007-105.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

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 2007. 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.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the State's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of a compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the State's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2007-44, 2007-45, 2007-46, 2007-47, 2007-48, 2007-49, 2007-50, 2007-52, 2007-54, 2007-55, 2007-56, 2007-57, 2007-58, 2007-60, 2007-61, 2007-62, 2007-63, 2007-64, 2007-65, 2007-66, 2007-67, 2007-69, 2007-70, 2007-71, 2007-72, 2007-73, 2007-75, 2007-76, 2007-77, 2007-78, 2007-79, 2007-80, 2007-81, 2007-82, 2007-85, 2007-86, 2007-87, 2007-88, 2007-89, 2007-90, 2007-91, 2007-92, 2007-93, 2007-94, 2007-95, 2007-96, 2007-97, 2007-100, 2007-101, 2007-102, 2007-103, 2007-104, 2007-106, 2007-107, 2007-108, 2007-109, 2007-110, and 2007-111 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the State's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider Findings 2007-47, 2007-57, 2007-58, 2007-67, 2007-85, 2007-88, 2007-100, 2007-108, 2007-109, and 2007-110 to be material weaknesses.

Finance Committee
Joint Committee on Legislative Services

The State's response to the findings identified in our audit are described in the accompanying Corrective Action Plan. We did not audit the State's response and accordingly, we express no opinion on it.

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

April 21, 2008 for all major programs except the
Immunization Grants program (CFDA 93.268),
State Children's Insurance Program (CFDA 93.767),
and the Medicaid Cluster (CFDA 93.775, 93.777, and 93.778)
as to which the date is May 21, 2008.

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	Unqualified
Business-type Activities	Unqualified
Aggregate Discretely Presented Component Units	Unqualified
Major funds –	
General	Unqualified
Intermodal Surface Transportation	Unqualified
GARVEE	Unqualified
Lottery	Unqualified
Convention Center Authority	Unqualified
Employment Security	Unqualified
Aggregate Remaining Fund Information	Unqualified

- 2) The audit of the basic financial statements disclosed significant deficiencies 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 significant deficiencies in internal control over major programs, some of which were classified as material weaknesses.
- 5) The independent auditor’s report on compliance for major programs expressed 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>
Section 8 Housing Assistance Payments Program – Special Allocations	14.195
Highway Planning and Construction Cluster:	
Highway Planning and Construction	20.205
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283
Adoption Assistance	93.659
Homeland Security Cluster:	
State Domestic Preparedness Equipment Support Program	97.004
Homeland Security Grant Program	97.067

- 6) The audit disclosed findings that must be reported under OMB Circular A-133 provisions.
- 7) Major programs are listed in the table below.

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

Major Programs

Program Title	<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
Child and Adult Care Food Program	10.558
Public Works and Economic Development Cluster:	
Economic Adjustment Assistance	11.307
Home Equity Conversion Mortgages	14.183
Qualified Participating Entities (QPE) Risk Sharing	14.189
Section 8 Project Based Cluster:	
Section 8 Housing Assistance Payments Program – Special Allocations	14.195
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856
Section 8 Housing Choice Vouchers	14.871
Unemployment Insurance	17.225
Trade Adjustment Assistance	17.245
WIA Cluster:	
WIA Adult Program	17.258
WIA Youth Activities	17.259
WIA Dislocated Workers	17.260
Airport Improvement Program	20.106
Highway Planning and Construction Cluster:	
Highway Planning and Construction	20.205
Federal Transit Cluster:	
Federal Transit – Capital Investment Grants	20.500
Federal Transit – Formula Grants	20.507
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
Academic Competiveness Grants	84.375
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342
Nursing Student Loans	93.364

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

Major Programs (continued)

<u>Program Title</u>	<u>CFDA Number</u>
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
Immunization Grants	93.268
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
Social Services Block Grant	93.667
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
Homeland Security Cluster:	
State Domestic Preparedness Equipment Support Program	97.004
Homeland Security Grant Program	97.067
Research and Development Cluster	Various

- 8) The dollar threshold used to distinguish between Type A and Type B programs was \$7,506,878.
- 9) The State did not qualify as a low-risk auditee as defined by OMB Circular A-133.

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

Finding 2007-1

CONTROLS OVER ACCOUNTING AND FINANCIAL REPORTING – STATEWIDE ACCOUNTING SYSTEM

The State substantially modified and renamed its statewide accounting system for fiscal 2007. Now called the Rhode Island Financial and Accounting Network System (RIFANS), the system includes Oracle’s procurement, accounts payable, and asset (capital asset) modules in addition to the general ledger module already utilized. Implementation of these modules was a move towards a fully-integrated comprehensive accounting system for the State.

During fiscal 2007, the State focused mostly on implementing the Oracle modules critical to ensure that vendor payments continued without interruption and that all critical financial reporting needs were met. While overall control features are enhanced within RIFANS, certain key controls require strengthening.

RIFANS Control Structure – Agency Hierarchies

RIFANS allows the State to configure detailed agency transaction initiation and approval hierarchies, transaction workflows (routings to different agencies for subsequent approvals), and various levels of approval authority to ensure that transactions are appropriately authorized and controlled. Agency approval hierarchies are a key control within RIFANS to ensure that adequate segregation of duties are maintained between the initiation and approval of various transaction types. The hierarchies outline the authorization limits at which specific agency personnel can initiate and approve transactions.

The State did not maintain sufficient documentation (i.e., RIFANS reports, flowcharts, etc.) of the initial setup of the RIFANS agency hierarchies and subsequent modifications. This significantly limited the State’s ability to monitor and evaluate the overall control structure within RIFANS.

Our analysis of agency hierarchies established within RIFANS found that most were not designed to prevent individual users from being able to both initiate and approve significant transactions. We noted instances where users had incompatible access for the initiation and approval of transactions in almost all agencies and departments. While our transaction testing, on a sample basis, did not identify a significant number of transactions that were initiated and approved by the same individual, the system design of agency hierarchies, in many instances, would not have prevented such occurrences. Requests to obtain transaction approval data for purposes of determining the volume and significance of transactions that were initiated and approved by the same individual were unsuccessful due to the lack of any standardized reports within RIFANS.

The State will need to reevaluate the design of specific agency hierarchies to ensure that adequate segregation of duties exist over the processing of transactions within RIFANS. Additionally, the State should also develop an “approval only” access within RIFANS so that final agency approvers have access limited to just approving transactions.

During fiscal 2007, many modifications were made to established agency hierarchies within RIFANS to reflect changes in employee functions and responsibilities. The State did not have

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

procedures in place to formally document changes made to agency hierarchies. The State was unable to provide documentation reflecting the approval of RIFANS hierarchy changes by agency administrators and the Office of Accounts and Control that were made during the year.

The State needs to significantly improve its policies and procedures relating to the establishment and modification of agency hierarchies. The policies and procedures should include the review and approval of agency requests for hierarchy modifications by a designated individual responsible for internal control within RIFANS.

RECOMMENDATIONS

- 2007-1a Reevaluate the design of specific agency hierarchies to ensure that adequate segregation of duties exist over all transactions processed through RIFANS.
- 2007-1b Develop an “approval only” access within RIFANS so that final agency approvers have access limited to approving transactions.
- 2007-1c Formalize procedures to ensure that agency hierarchy modifications are appropriately authorized and adequately documented to provide an audit trail of changes to RIFANS access.

Recording Cash Transfers between Funds and Bank Accounts within RIFANS

Certain journal entry transactions (commonly referred to as “CSH” documents – CSH is the prefix of the documentation identification number) are utilized in RIFANS to record cash transfers between State bank accounts. Upon approval by the Controller’s office, cash transfers are recorded in RIFANS. The Controller’s office then faxes the “CSH” document to the General Treasurer’s office as instruction to transfer the funds. Under the current process, there is no validation by the General Treasurer’s office that the actual cash transfer has been completed. In instances where the cash transfer does not take place as instructed, it likely takes months before the omission is identified in the General Treasurer’s bank reconciliation process.

Overall control over the recording of cash transfers could be improved through more systemic control processes such as:

- ❑ develop a daily “CSH” report that would instruct the Treasurer’s office regarding the required daily cash transfers between State accounts. The Treasurer’s office could implement supervisory review procedures in conjunction with this report to ensure that Treasury personnel have transferred funds in accordance with authorization from RIFANS; or
- ❑ explore the feasibility of transferring funds between State bank accounts via ACH. RIFANS may be able to produce a daily ACH file for cash transfers between State accounts which could eliminate the current manual transfer process.

While the automation of cash transfers between State accounts by ACH would be the best solution, implementation of either process would improve controls over cash transfers.

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

RECOMMENDATIONS

- 2007-1d Develop a daily cash transfer report to instruct the General Treasurer’s Office regarding required daily transfers between State bank accounts. Implement supervisory review procedures within the General Treasurer’s Office to ensure funds have been transferred based on RIFANS transactions.
- 2007-1e Explore the feasibility within RIFANS to generate an ACH file to transfer funds between State bank accounts.

Controls over Journal Entry Transactions

RIFANS journal entry transactions are utilized to record a variety of financial reporting activity including:

- cash receipts,
- accounting adjustments,
- financial reporting entries such as accruals and closing adjustments,
- transfers of cash between funds and bank accounts, and
- cost allocations to functions and activities.

State agencies currently utilize journal entry transactions within RIFANS to record cash receipts because RIFANS does not utilize an accounts receivable/revenue module. Controls are weakened by providing journal entry capability and general ledger access to agency users that would not otherwise require it. Journal entry posting capability in most accounting systems is limited to specific general ledger accounting staff and those with responsibility for financial reporting. Journal entries are subject to fewer controls within RIFANS than disbursement transactions controlled through the accounts payable module. The State’s internal control over financial reporting would be improved if journal entries were only available to individuals responsible for the State’s financial reporting.

In addition to receipts, there is a significant volume of journal entries to process accounting adjustments. Supporting documentation for most journal entries is voluminous; therefore, most journal entries do not include documentation sufficient to appropriately review the transaction at the time of approval. We considered the highest departmental approval of journal entries to be more substantive and the final approval at the Controller’s office to be more perfunctory. Accordingly, we believe that the State should amend its current journal entry procedures (and related transaction hierarchy design) to ensure that all journal entries require supervisory approval (by a user other than the transaction initiator) at the agency level before flowing to the Controller’s office for final approval.

RECOMMENDATION

- 2007-1f Require supervisory approval at the agency level for all journal entries before transactions are routed to the Controller’s office for final approval.

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

Finding 2007-2

COMPLETE IMPLEMENTATION OF A COMPREHENSIVE FULLY-INTEGRATED STATE ACCOUNTING SYSTEM

The State made progress during fiscal 2007 toward its implementation of a comprehensive fully-integrated accounting system by placing the Oracle purchasing (i-procurement and sourcing), accounts payable and capital asset modules in service. The Oracle general ledger module was operational under the predecessor RISAIL system. Implementation of these modules addressed deficiencies reported in prior years, which resulted, in part, from accounting system components from different vendors that were not designed to work together.

Continued progress must be made to achieve the goal of a comprehensive fully-integrated accounting system for the State. In addition to enhancing controls over financial reporting, significant improvement in both the quality and quantity of financial and management information would result. At a minimum, the following functionalities must be addressed within the accounting system to meet that goal:

- ❑ revenue/receivables – receipts/revenue are currently recorded via journal entry transactions (directly to the general ledger) instead of through a receivables module as part of the fully integrated Oracle accounting system. This weakens controls by providing numerous individuals the access to initiate and approve journal entry transactions that would otherwise not need such access. This further weakens controls over financial reporting because receivables are tracked by numerous departmental accounting systems that cannot be integrated into RIFANS. A revenue/receivable module would improve control over the recording of revenue and receivables and improve information available to management.
- ❑ human resources (personnel/payroll) – this module should be implemented to automate, standardize and streamline employee time and effort reporting and perform various payroll related processing functions.
- ❑ grants management – this module should be implemented to improve the State’s controls over the administration of numerous federal grant programs which are a critical component of the State’s overall operations. The State uses multiple departmental cost allocation systems, many of which are outdated, cannot be upgraded, and cannot be integrated into RIFANS. Cost allocation among grant programs, as currently performed, is labor intensive, prone to error and lacks appropriate statewide controls.
- ❑ cash management – this module is necessary to integrate the cash management, investing, and accounts payable functions which are critical to improving the efficiency and effectiveness of the State’s management of its significant cash and investment balances. Additionally, controls over the purchase and sale of investments require improvement which could be addressed through implementing the cash management module.
- ❑ budget preparation – annual budget preparation should be integrated into the accounting system to reduce the time and effort devoted to annual budget preparation. The existing budget templates utilize the legacy account structure (pre-fiscal 2002) which requires continual updating of account conversions and crosswalks.

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

Current budgetary challenges will likely impact the pace with which these additional modules can be implemented. However, the State must consider the continued weakening of controls over financial reporting and deferred realization of operational efficiency and effectiveness that will result if complete system implementation is delayed.

RECOMMENDATION

2007-2 Complete installation of remaining modules necessary to complete implementation of a comprehensive fully integrated accounting system.

Finding 2007-3

CONTROLS OVER COMPLIANCE WITH STATE PURCHASING REGULATIONS

RI General Law chapter 37-2 delineates purchasing requirements for all State agencies, unless exempted by law. The Division of Purchasing (Division), Department of Administration is responsible for administering a statewide procurement program including promulgating policies and procedures consistent with the General Laws. As part of our audit of the State's financial statements, we evaluated the effectiveness of the State's policies and procedures to prevent material noncompliance with General Law Chapter 37-2 and related regulations.

All agencies subject to State purchasing requirements are required to follow the State's policies and procedures for procuring goods and services. These policies and procedures require agencies to submit purchase requisitions prior to ordering and receiving goods or services. The purchase requisition is used by the Division of Purchasing to solicit bids for the goods or services needed and to award a contract to the lowest responsive bidder. The terms of the final award are used to generate a purchase order in RIFANS as the authorization for the agency to make payment to the vendor after the goods or services have been obtained. Agencies can also utilize blanket purchase orders to order goods and services needed. Blanket purchase orders outline the State's Master Price Agreements with certain vendors that have agreed to set terms for providing goods and services to State agencies. Generally, a RIFANS invoice referenced to an underlying purchase order serves as documentation that the agency complied with State purchasing regulations.

Once the Division has awarded a contract to a bidder, the Division will establish a purchase order in RIFANS that outlines the specific contract terms and serves as the accounting system's authorization for the requisitioning agency to purchase the related goods or services. Upon delivery of specific goods and services outlined in the purchase order, the agency can initiate payment to the vendor within RIFANS which will liquidate the established purchase order in the system.

We tested 120 invoice transactions to assess compliance with applicable purchasing requirements. The Division's policies and procedures were applicable to 73 of the 120 sample transactions. The remaining sample items were non-procurement type disbursements.

RIFANS Controls to Ensure Compliance with State Purchasing Regulations

RIFANS does not have a systemic control to ensure that agencies comply with State purchasing policies. Invoice transactions can be created without first following the required

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

procurement activity. While the Office of Accounts and Control reviews all invoice transactions greater than \$20,000 to ensure that the transaction has an underlying purchase order authorizing the vendor payment, not all invoice transactions subject to purchasing regulations are reviewed. Transactions subject to purchasing regulations between \$5,000 and \$20,000 are only post audited on a sample basis, leaving the majority of the State's invoice documents not subject to adequate controls to ensure compliance with State purchasing requirements. Further, these activities will detect noncompliance after the fact but not prevent noncompliance with State purchasing requirements.

We found four instances where agency procurements had bypassed the centralized purchasing function by ordering and receiving goods or services without obtaining prior purchasing approval. In these instances, agencies should have procured the needed goods or services through the Division or, if appropriate, obtained approval to conduct the procurements by delegated authority.

The State should develop controls within RIFANS to prevent agencies subject to the State's purchasing procedures from creating invoice transactions without having an approved purchase order established in the system. The State also needs to develop specific system reporting to identify instances of noncompliance with State purchasing guidelines.

RECOMMENDATIONS

- 2007-3a Explore capabilities within RIFANS to prevent agencies from processing invoices without having authorized purchase orders established.
- 2007-3b Develop a standardized report within RIFANS to identify invoice transactions processed without an underlying purchase order. Utilize this report to monitor and enforce agency compliance with State purchasing requirements.

Bid Solicitation and Contract Awards

We noted the following areas where the Division could improve its policies and procedures over bid and award administration to ensure compliance with State purchasing regulations:

- ❑ Two instances where bid information received from vendors was incorrectly entered into the tabulation worksheet used by the buyer to award the contract. In one instance, it resulted in an amount higher than the actual bid amount being entered onto the purchase order. The Division should require assigned buyers to validate the information in the tabulation worksheet to the original vendor bids to ensure the accuracy of the worksheet being utilized for award determinations.
- ❑ Various instances where the determination of bid awards were not expressly stated in writing so that the reasons for the bid award were clearly identified. RI General Law section 37-2-6 requires that every determination required by law be in writing and based upon written findings of fact by the public official making the determination. The Division of Purchasing should develop a standardized form that expressly stipulates the reasons for the bid award by the assigned buyer.
- ❑ The Administrator routinely acted as the buyer and final approver for several procurements reviewed in conjunction with our audit. Overall segregation of duties within the bid award

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process would be improved if the Chief Purchasing Agent was the final approval on procurements where the Administrator served as the buyer.

While our procedures found the State to be in material compliance with bid requirements mandated in the General Laws, addressing the above noted procedural deficiencies would further improve the State's overall control relating to procurement.

RECOMMENDATIONS

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| 2007-3c | Adopt procedures requiring the assigned buyer to validate the data reported in the tabulation worksheet with original vendor bids to ensure the accuracy of the worksheet being utilized for award determinations. |
| 2007-3d | Develop a standardized form to be completed by the assigned buyer that expressly documents the reasons supporting specific bid awards. |
| 2007-3e | Require the Chief Purchasing Agent to provide the final approval for procurements where the Administrator served as the buyer. |

Delegated Purchasing Authority

Certain agencies are awarded special delegated purchasing authority to administer their programs outside of the Division's centralized purchasing procedures. Written communication of the delegated authority identifies the scope of the authority as it relates to specific programs, vendors, and categories of expenditures, etc.

The Division had difficulty in providing documentation of purchasing authority delegated to certain departments and agencies. The Division was also unable to provide us with a complete list of delegated authorities that have been granted to agencies. The Division should improve its administration of delegated purchasing authority to ensure that agencies are unable to circumvent centralized purchasing controls by claiming invalid delegated purchasing authority. Ideally, the administration of delegated purchasing authority should be incorporated into the overall control structure of the RIFANS accounting system.

RECOMMENDATION

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| 2007-3f | Improve procedures over the administration and documentation of delegated purchasing authority by the Division of Purchasing. |
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Documentation of Noncompetitive Procurements

Certain noncompetitive procurements are allowed by Section 37-2-21 of the RI General Laws. This section allows certain contracts to be awarded as "sole source" procurements when the Chief Purchasing Agent or purchasing agent, determines, in writing, that there is only one source for the required supply, service, or construction item. Additionally, the Chief Purchasing Agent can make or authorize others to make emergency procurements in situations where a threat to public health, welfare, or safety exists.

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The General Laws require that a written determination of the basis for noncompetitive procurements and for the selection of the particular contractor be included in the contract file. Our review of the Division's practices, however, does not require all instances of noncompetitive procurements to be documented in writing and additionally does not have specific policies detailing procurement types that are exempt from the mandated documentation requirements.

RECOMMENDATION

2007-3g Enhance the Division's policies and procedures relating to the documentation of noncompetitive procurements to ensure compliance with RI General Laws.

Vendor Registration

The State currently has one employee responsible for the registration of vendors within RIFANS. In many instances, requests to register a vendor come from the same agency employees who also initiate and approve purchase requisitions and invoice transactions. This current process, coupled with access to these other user functions, increases the risk that a system user could create fraudulent payments to a fictitious vendor.

Overall control could be enhanced by requiring all requests to register vendors on RIFANS to be approved by agency chief financial or executive officers before being completed. This approval would further ensure that only legitimate vendors are added to RIFANS.

Additionally, we were unable to obtain vendor documentation for 15 vendors out of the 113 vendors included in our sample because the vendors were registered more than three years ago and the documentation had been destroyed. The Division of Purchasing should periodically update vendor information within RIFANS to ensure that all vendors are active and all vendor information is current. Vendor enrollment documentation should be retained consistent with other record retention guidelines.

RECOMMENDATIONS

2007-3h Require approval by agency chief financial or chief executive officers prior to enrolling vendors within RIFANS.

2007-3i Update vendor information periodically to ensure vendors are active, vendor information is current, and all information is on file with the Division of Purchasing.

Finding 2007-4

ACCUMULATION AND CONSIDERATION OF ALL RELEVANT DATA NECESSARY FOR FINANCIAL REPORTING

The State's annual financial statements encompass the entirety of state operations. Accordingly, there is a wide array of information that must be accumulated and considered for financial reporting purposes. Although the State utilizes a statewide accounting system, a substantial

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amount of information resides within departmental accounting systems and rests with departmental finance and program managers, legal counsels and others outside of the Office of Accounts and Control within the Department of Administration.

We observed various examples of material information that was not considered in preparing the draft fiscal 2007 financial statements primarily because the data resided outside of the purview of the Office of Accounts and Control. For example, information involving federal cost disallowances and threatened federal sanctions are not routinely forwarded to the Office of Accounts and Control to assess the impact on financial reporting. Federal grant programs are administered almost entirely at the department level. Additionally, except for the inquiry of the State's various attorneys at the close of the annual audit, the Office of Accounts and Control does not have a process to accumulate and consider contingent liabilities resulting from actual or threatened litigation. Both the Budget Office and the Division of Taxation are other important sources of data that could potentially impact the State's financial reporting.

A process should be implemented whereby key financial managers outside the Office of Accounts and Control are informed of the types of information that could affect the State's financial reporting. Information meeting the defined criteria should then be forwarded to the Office of Accounts and Control on a timely basis throughout the year. Additionally, the Office of Accounts and Control should make specific inquiries of other departments and agencies in conjunction with drafting the State's annual financial statements.

RECOMMENDATION

2007-4 Implement policies and procedures to accumulate relevant financial reporting information from the various departments and agencies of the State.

Finding 2007-5

CONTROLS OVER LONG-TERM ACCOUNT BALANCES USED IN PREPARING THE
GOVERNMENT-WIDE FINANCIAL STATEMENTS

Controls over financial reporting can be improved by recording long-term asset and liability account balances directly in the accounting system. Governmental financial reporting involves two perspectives; the fund perspective, which for governmental funds focuses on current available resources, and the government-wide financial statements which are full-accrual entity-wide financial statements. The RIFANS accounting system is currently designed to meet the fund level reporting perspective. Government-wide financial statements are produced by making a series of "conversion" entries to record long-term assets and liabilities and interfund eliminations. These long-term asset and liability balances and conversion entries are currently recorded independently of the RIFANS accounting system.

Long-term assets and liabilities are accumulated from various sources. Certain of the balances, such as capital assets and debt obligations are recorded in subsidiary accounting systems. Other balances such as long-term receivables and other long-term liabilities are maintained less formally and are not subject to typical accounting controls. Controls over financial reporting should be improved by recording all long-term assets and liabilities in the general ledger and ensuring that

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changes in those balances are recorded within the system and subject to accounting controls. This would also prevent the inadvertent omission of balances recorded at the close of one year from the subsequent year's financial statements.

The Office of Accounts and Control recently established a separate "book" of general ledger accounts to support the government-wide financial statements. While not used to prepare the fiscal 2007 financial statements, this enhancement to the RIFANS accounting system, when fully operational, should improve control over financial reporting.

RECOMMENDATION

- 2007-5 Improve controls over financial reporting by recording all long-term assets and liabilities within the RIFANS accounting system. Complete implementation of a separate "book" of general ledger accounts for the government-wide financial statements.

Finding 2007-6

CONTROLS OVER RECORDING TAX REVENUES CONSISTENT WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Collection of taxes, which is the single largest source of State revenue, is the responsibility of the Department of Revenue – Division of Taxation. Responsibility for the State's financial reporting rests with the State Controller. Information sharing and improved coordination between these two agencies is necessary to improve controls over financial reporting. Significant audit adjustments were required to correct misstatements in fiscal 2007 tax revenues. These adjustments resulted from discovery of more detailed information within the Division of Taxation that needed to be considered in the preparation of the State's financial statements.

Recognition of tax revenues in accordance with generally accepted accounting principles requires consideration of various matters including, the collectibility of receivables and estimates of amounts likely to be refunded to taxpayers when final tax returns are filed. Additionally, tax assessments can be contested and may be proceeding through administrative hearings or the courts. The impact of these matters must be considered on the amount of tax revenue recorded for the period.

The following specific instances highlight the need for enhanced coordination between the two agencies for the purpose of improving controls over the reporting of tax revenue:

- ❑ Tax receipts totaling \$19 million were initially recorded as fiscal 2007 revenue but upon further examination were considered likely to be refunded to the taxpayer. Generally accepted accounting principles require that tax revenue be reported net of anticipated refunds in the year of receipt.
- ❑ An unfavorable judgment against the State totaling \$5.2 million resulted from a contested tax assessment for a corporate taxpayer. The judgment against the State, was known in January

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2007, met criteria to be recorded as a June 30, 2007 liability, but was not included in the draft fiscal 2007 financial statements.

The specific information required to appropriately consider items such as those described above is within the control of the Division of Taxation. The State needs to implement a cooperative process to identify specific tax related information that should be considered as part of the annual financial reporting process. This may include discussion of significant estimates and estimation methodology, written requests for information, inquiry of the State's attorneys, and other coordination procedures deemed necessary to appropriately consider the types of significant transactions that could impact financial reporting.

RECOMMENDATION

2007-6 Implement a cooperative process between the Office of Accounts and Control and the Department of Revenue to identify specific tax related information that should be considered as part of the annual financial reporting process.

Finding 2007-7

ACCOUNTING CONTROLS OVER FEDERAL REVENUE AND EXPENDITURES

The State needs to improve its controls over recording federal revenue consistent with the limitations of grant awards from the federal government. Federal revenue within the governmental activities was nearly \$1.9 billion for fiscal 2007. Generally, federal revenue is recognized as reimbursable expenditures are incurred for federal grant programs. Some federal grants are open-ended entitlement programs where the federal government will reimburse the State for all allowable costs incurred under the program. Other federal grants are limited by a specific award amount and grant period. These grant periods are often for the federal fiscal year and are not aligned with the State's fiscal year. Expenditures could be recorded in a specific federal program account yet not be reimbursable from the federal government either because grant funds have been exhausted or the expenditures do not meet the specific program limitations.

We noted the following control deficiencies:

- ❑ Federal programs are administered at the department level. Knowledge of grant requirements and limitations regarding dollar limits and reimbursable expenditures all rests with departmental managers. Accordingly, the Office of Accounts and Control, in preparing the State's financial statements, relies solely on the coding of expenditures within the RIFANS accounting system. All expenditures recorded in federal accounts are considered reimbursable from the federal government and federal revenue is recorded to match those expenditures. From an overall statewide perspective, controls over financial reporting are ineffective to ensure that all federal expenditures are reimbursable and federal revenue is recognized appropriately.

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 necessary adjustments on federal

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reports but not adjusting the State's accounting system. Timely recording of such adjustments in the RIFANS accounting system is necessary 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 requires departments and agencies 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. The FGIS schedule, however, does not provide adequate control over federal revenue and expenditures reported in RIFANS. The FGIS should be revised to require reconciliation of:

- federal expenditures reported in RIFANS with federal expenditures reported on federal reports (cash-basis);
- federal revenue reported in RIFANS with cash basis drawdowns made during the fiscal year; and
- deferred revenue or federal receivable balances recorded at year-end by the Office of Accounts and Control utilizing revenue and expenditure amounts recorded for the fiscal year.

Departmental compliance with the FGIS requirements has often been inconsistent and submissions are frequently not within a timeframe to be useful in preparing the State's annual financial statements. Additionally, the Office of Accounts and Control has not performed effective review and follow-up on the FGIS forms submitted. Controls, as well as coordination between the departments administering federal programs and the Office of Accounts and Control, need to be enhanced to ensure federal revenue is recorded appropriately.

- During fiscal 2007, a number of new federal accounts were established to effect the allocation of certain costs among federal programs. The new federal accounts were linked to specific federal programs without complete consideration as to how the costs would be reimbursable from the federal government. Accordingly we found approximately \$7.1 million in costs charged to federal programs that are not reimbursable:
 - CFDA 93.778 (Medical Assistance) – \$5.9 million; and
 - CFDA 93.658 (Foster Care) – \$1.2 million.

The State needs to improve its controls over the creation and linkage of federal accounts to ensure that only allowable costs are charged to federal programs. Statewide cost allocation objectives must consider the unique aspects of each federal program regarding rate setting and departmental cost allocation procedures which would ultimately impact reimbursement from the federal government.

- 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. We found that controls continue to require enhancement. Initial RIFANS reports of federal accounts from RIFANS generated in July 2007 included more than 80 federal accounts with no

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corresponding CFDA number. Incomplete linkage of federal accounts with CFDA numbers in RIFANS significantly impacts the State's ability to produce an accurate Schedule of Expenditures of Federal Awards (SEFA). The incomplete data also impacts audit planning for the Single Audit by making it more difficult to identify major programs.

RECOMMENDATIONS

- 2007-7a Enforce the requirement that departments administering federal programs complete the required FGIS reconciliation form on a timely basis. Implement specific review and follow-up procedures to be performed by the Office of Accounts and Control of the FGIS.
- 2007-7b Reconsider the design of the Federal Grants Information Schedule (FGIS) to ensure that it fully meets the intended objective of ensuring that reported federal program expenditures, amounts due from the federal government, and available grant awards are consistent with amounts recorded within the State accounting system.
- 2007-7c Improve controls over the creation and linkage of federal accounts within RIFANS. 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.
- 2007-7d Consider the unique departmental cost allocation and rate setting procedures of individual departments and agencies when modifying statewide cost allocation objectives.

Finding 2007-8

CONTROLS OVER STATE PAYROLL PROCESSING

The State utilizes two separate and distinct information systems to manage personnel information for approximately 14,700 State employees and payroll costs totaling more than \$900 million annually. The personnel system stores all critical personnel information such as employee name, address, hire date, salary, etc. The payroll system calculates the State's biweekly payroll and related withholdings and tax liabilities. Any changes in personnel information impacting payroll needs to be recorded in both systems. The use of two separate systems increases the risk that required changes will not be consistently and accurately made in both systems. This control weakness could be resolved through implementation of the Oracle human resource module as an integrated RIFANS component.

We matched the State's payroll data to a database which allows users to validate social security numbers maintained within their systems. The data match results in reports of social security numbers that are associated with deceased individuals and numbers that are potentially invalid due to number/name match discrepancies or inconsistencies in the individual's date of birth and the social security number issue date. We noted the following occurrences, which are indicative of deficiencies in controls over data reported in the State's payroll system:

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- ❑ 23 deceased individuals were left in an active status on the payroll system, some for an extended time period – no payments were made to these individuals; and
- ❑ Invalid social security numbers were reported for certain employees.

We also noted incorrect employee data within the State’s payroll system most likely resulting from data entry errors, and incomplete data records for certain employees.

Controls should be strengthened to enhance controls over employee payroll processing by ensuring the integrity and completeness of employee data within the systems. Deceased, terminated and inactive employees should be promptly removed from the systems.

RECOMMENDATIONS

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| 2007-8a | Subscribe to a social security verification service to periodically validate social security numbers reported in the State’s payroll system. |
| 2007-8b | Match data reported in the State’s personnel system with data reported in the State payroll system to identify discrepancies between the two systems. |
| 2007-8c | Review data fields in the State’s payroll system periodically to identify missing or incomplete data. |

Finding 2007-9

CONTROLS OVER THE IDENTIFICATION AND RECORDING OF YEAR END ACCRUALS

The State has implemented statewide fiscal closing procedures designed to accurately report accounts receivable and payable balances at year-end. These procedures require all agencies to record all revenue and expenditure transactions relating to the fiscal year by a specified closing date. Specifically, agencies are required to report liabilities for goods or services provided prior to fiscal year end that have not been paid and receivables for amount owed to the State at June 30. The Office of Accounts and Control requires agencies to report these amounts, including estimates if necessary, on a designated form for recording in RIFANS and, ultimately, the State’s financial statements.

We found that not all State agencies complied with the State’s control procedures, as described above. We identified unrecorded payables approximating \$7 million during our audit, most of which related to construction liabilities associated with capital projects at the State’s University that are paid through the State’s Bond Capital Fund. The majority of these liabilities were subsequently recorded by audit adjustment.

Controls should be improved to ensure that material liabilities are accrued at year-end. The State should also consider expanding its search for unrecorded liabilities beyond the General Fund and lower its search threshold from \$250,000 to identify transactions not reported to the Office of Accounts and Control in accordance with adopted closing procedures.

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Controls over payables were weakened by cancelling numerous transactions that remained suspended within the RIFANS accounts payable module at year-end. The large number of cancelled or suspended transactions mostly resulted from failed or erroneous transactions entered at the inception of RIFANS that were subsequently replaced with valid transactions that cleared the system. No review was performed to determine whether the transaction should have been cancelled or if they represented valid liabilities of the State at the end of the fiscal year. Further, the actual cancellation was initially done incorrectly and required subsequent correction through large journal entries. This correction was poorly documented and compromised the audit trail for these cancelled transactions. Although, we were able to perform alternative procedures to evaluate reported payables at year-end, overall control was significantly weakened by this cancellation process.

The State needs to better address the issue of suspended transactions in the accounts payable module, going forward, to ensure the completeness and integrity of reported expenditures and payables.

RECOMMENDATIONS

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| 2007-9a | Enforce agency compliance with fiscal closing procedures and expand the search for unrecorded liabilities at fiscal year-end to improve controls over recording liabilities for financial reporting purposes. |
| 2007-9b | Develop procedures to clear suspended and invalid transactions from the accounts payable module. Document the investigation of all transactions subsequently cancelled from the system and maintain a complete audit trail. |

Finding 2007-10

TRANSACTIONS WITH COMPONENT UNITS

The State does not currently attempt to align transactions between the primary government and discretely presented component units (transfers to and from component units and amounts due to and from component units). This results in inconsistent reporting of transactions between the primary government and component units within the State's financial statements. These inconsistencies generally are caused by differences between the manner in which the component unit records the transaction and how it is coded in the State accounting system. Timing differences may also cause inconsistencies between the financial statements of the primary government and the component units. Instances also exist where the primary government (State) is recording a receivable from a component unit without recognition of a liability by the component unit. For example, the State reflected a \$7.2 million receivable from the Rhode Island Public Transit Authority (RIPTA) for debt service reimbursements – RIPTA has not recorded a related liability on its financial statements. Similarly, the Rhode Island Public Telecommunications Authority recorded a \$1 million liability to the State – the State has reflected no corresponding receivable for this amount.

The Office of Accounts and Control should provide more specific guidance to component units to follow in reporting these transactions. Additionally, the Office of Accounts and Control should review the draft component unit financial statements prior to issuance to ensure that transactions between the State and its component units are recorded appropriately and consistently.

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RECOMMENDATIONS

- 2007-10a Provide more specific guidance to the State’s component units on recording transactions with the primary government.
- 2007- 10b Review draft component unit financial statements prior to issuance to ensure that transactions between the State and its component units are recorded appropriately and consistently.

Finding 2007-11

LEGACY SYSTEMS – ACCOUNT STRUCTURE CONVERSION

Various subsidiary accounting systems process material classes of statewide expenditures such as employee payroll, investments, and departmental cost allocations and have not been converted to the current account structure used within the RIFANS accounting system. These subsidiary accounting systems continue to use an old account structure that has not been utilized since July 2001. Consequently, account conversion tables must be continually maintained which increases the risk that data may be misposted in the accounting system. This adds unnecessary complexity to the overall internal control structure and requires that certain employees remain knowledgeable about and even create new accounts (to match new activities or programs within RIFANS) in an account structure that was discontinued more than six years ago.

RECOMMENDATION

- 2007-11 Complete conversion of subsidiary accounting systems using the legacy account structure to the new RIFANS account structure.

Finding 2007-12

ACCOUNTING AND PHYSICAL CONTROL OVER CAPITAL ASSETS

The State implemented a capital asset reporting module during fiscal 2007. This component of RIFANS provides the State with a more integrated process of identifying capital assets by isolating transactions charged to natural accounts designated for capital asset acquisitions. These “flagged” transactions are then analyzed and added to the State’s capital asset inventory consistent with the State’s capitalization policies.

This new process for identifying and recording capital assets, while a significant improvement over the previous process, still has control deficiencies that led to the following misstatements in recording the State’s capital assets for fiscal 2007:

- ❑ Capital assets totaling in excess of \$4.4 million were not recorded in the capital asset accounting records - mostly land and building improvement projects in the implementation or

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construction phase as of June 30, 2007. This results from a weakness in the State's accumulation of expenditures for project based capital assets. Project based capital asset acquisitions are tracked manually, independent of the automated process employed within RIFANS. Functionality to track project based expenditures involving multiple transactions that could span more than one accounting period should be integrated into the RIFANS accounting system. This could be accomplished by "flagging" transactions as potential capital asset additions by designated line item (for project based capital assets) as well as by natural account.

Of the \$4.4 million identified above, the State did not adjust its capital asset records for \$3 million in capital assets that we believe met both the State's capitalization criteria and guidance within generally accepted accounting principles regarding the definition of capital items.

- ❑ Contributed capital totaling approximately \$600,000 received by the State as part of the acquisition of non-depreciable intangibles (deed to developmental rights and conservation easement) was not identified by the State. Because these amounts are not reflected by receipts in RIFANS, the Controller's office relies on agencies to inform them of contributed capital related to the acquisition of property or property rights.
- ❑ The State recorded approximately \$300,000 of land rights as capital assets at June 30, 2007 where the legal rights to the property had not transferred to the State. The State recorded these assets prematurely in anticipation of the real estate closings which did not occur as scheduled.
- ❑ The State identified approximately \$12 million in infrastructure assets that were mistakenly placed into service during fiscal 2006. The State reclassified these costs back to construction in progress during fiscal 2007.
- ❑ Controls are inadequate to ensure all disposals or sales of certain categories of capital assets are recorded in the State's capital assets records and financial statements. Excluding real estate and vehicles, only nine items totaling approximately \$350,000 were reported as disposals during fiscal 2007. This volume of disposals appears low considering the short estimated useful life of this asset class (five years) and the large number of computer equipment assets included in this category. Computer assets are likely to be disposed due to both use and obsolescence. Total furniture and equipment assets (excluding vehicles) included approximately 4,200 assets with a total book value of approximately \$148 million at June 30, 2007. Inadequate controls to identify disposals also prevent the State from identifying and reporting gains and losses on disposals of capital assets. As discussed below, performing periodic physical inventories can partly mitigate this control deficiency.

Audit adjustments were proposed to correct these misstatements relating to the recording of capital assets in the financial statements. Improved coordination between the Office of Accounts and Control and the various State agencies that are responsible for the acquisition, maintenance, and financing of capital assets is essential to improve the overall accuracy of capital asset data reported in the State's financial statements.

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Capital Assets Acquired with Federal Funds

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 RIFANS system does not currently have reports designed to identify capital assets by funding source. Additionally, the State's weaknesses in accounting and physical controls over capital assets impacted its ability to identify equipment purchased with federal funds and to ensure compliance with its own procedures regarding the use, management and disposition of all equipment.

Periodic Physical Inventories

Periodic physical inventories of the State's capital assets should be performed to ensure the accuracy of the State's capital asset accounting records and to serve as an important element of physical control over capital assets. Except for limited instances where inventories were performed of assets utilized by departing general officers, no physical inventories were performed during fiscal 2007. Physical inventories should be performed on a cyclical basis such that each agency is visited every three years. The Department of Administration's Bureau of Audits could be utilized to assist in this effort.

The State will need to enhance RIFAN's standardized reports for capital assets to provide sufficiently detailed asset inventory data to facilitate the performance of physical inventories. Such reports would also provide useful information for financial reporting and management purposes.

Infrastructure Assets

The State should revisit its criteria regarding when infrastructure assets are placed in service. Many infrastructure asset construction projects involve significant dollars and can span a long timeframe. Waiting until the entire project is complete before beginning to record any depreciation expense may warrant reconsideration since the time interval for the completion of specific phases may be up to five years or more.

Capitalization Thresholds

During fiscal 2007, the State's management increased certain of the dollar thresholds for defining capital assets, generally utilizing a \$1,000,000 threshold for all asset categories excluding land/land rights and furniture and equipment. For land and land rights, all amounts are capitalized and a \$5,000 threshold has been set for furniture and equipment. The increases in certain of the dollar thresholds are reasonable given the nature and size of the State's operations; however, we believe a \$1,000,000 for buildings is inappropriately high. The State's investment in group homes, all of which were acquired for less than \$1,000,000 individually, would not have been capitalized under this new criteria. Further, this policy may result in inconsistent accounting treatment for the acquisition of real estate representing both land and buildings. Under existing accounting policy, the cost of real estate representing land would be capitalized and the building portion would be expensed if less than \$1,000,000.

RECOMMENDATIONS

2007-12a Develop procedures to track project-based capital projects within the RIFANS capital asset module.

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| 2007-12b | Enhance procedures to ensure the proper identification and recording of capital asset disposals. |
| 2007-12c | Develop procedures to ensure the proper recording of land and land rights only upon the legal transfer of ownership to the State. Improve procedures to ensure that contributed capital relating to the acquisition of capital assets is fully recognized in the financial statements. |
| 2007-12d | Review existing application of capital asset policies and procedures to ensure that the State's investment in capital assets is not understated. |
| 2007-12e | Perform physical inventories of capital assets utilized by the State's departments and agencies on a cyclical basis. Enhance RIFAN's standardized reports for capital assets to provide sufficiently detailed asset inventory data to facilitate the performance of physical inventories. |
| 2007-12f | Reconsider the capitalization threshold established for the acquisition of buildings. |

Finding 2007-13

CAPITAL LEASES

The State does not have adequate controls in place to identify capital assets (mostly machinery and equipment) acquired through capital leases. The State's RIFANS accounting system and established capital asset policies and procedures do not provide an effective means to identify and properly record capital assets and the related capital lease obligations. The State has created a natural account for agencies to record capital lease expenditures; however, transactions in this account do not prompt review by the Controller's office. Ultimately no process is in place to identify capital leases entered into by State agencies and to record the asset and related lease obligations. We noted monthly payments of \$17,623 relating to a lease of office equipment with a total acquisition cost of approximately \$585,000. The lease met criteria to be recorded as a capital lease (lease financing with ownership reverting to State at end of lease term).

Further, the State has not routinely recorded capital lease transactions in accordance with generally accepted accounting principles (GAAP). GAAP require 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" 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.

The State does not have processes in place to accumulate the information necessary to identify capital lease obligations and related capital assets for financial reporting purposes. Revised control procedures should be implemented to prompt identification of potential capital lease

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transactions and result in the appropriate financial reporting for such transactions. These new control procedures should be integrated into accounting policies and procedures for the RIFANS capital asset module.

RECOMMENDATION

- 2007-13 Implement procedures to ensure that all capital lease activity is identified and recorded in accordance with GAAP in the State's financial statements.

Finding 2007-14

RIFANS ACCESS CONTROLS

Access to the RIFANS accounting system was not sufficiently restricted during fiscal year 2007. RIFANS 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 the viewing of data or the actual entry or changing of system information.

Access roles are assigned to all users of the RIFANS 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. We found that various individuals had system access that was in excess of what was required for their respective duties or functions, which does not sufficiently restrict the opportunity for perpetrating or concealing errors or irregularities. (*Policy 10-06: IT Security Handbook Operational Controls, § 1.3.1*)

RECOMMENDATION

- 2007-14a Review the access of all RIFANS accounting system users to ensure it is appropriate to their assigned functions and does not allow inappropriate access that results in control weaknesses.

Logical access controls provide reasonable assurance that computer resources (systems and data files, application programs, etc.) are protected against unauthorized modification, disclosure, loss, or impairment. Logical access controls involve the use of computer hardware and software to prevent or detect unauthorized access by requiring a user to input a user identification number, password, or other similar identifiers that are linked to predefined access privileges. Identification and authentication is a critical element of computer security since it is the basis for most types of access control and for establishing user accountability. Identification and authentication is a technical measure that prevents unauthorized individuals from entering an automated system. Passwords are used to authenticate a person's identity or to authorize a person's specific access to data. Basic design factors to be considered in the implementation and use of a password system are: composition, length range, lifetime, source, ownership, distribution, storage, entry, transmission, and authentication period. Effective administration and control of users' computer access is essential to maintaining strong systems security. User account management focuses on identification,

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authentication, and access authorizations. Further, user accounts that are inactive on the system for a specified period should be flagged for required review and corrective action. The process of periodically verifying the legitimacy of current accounts and access authorizations is a key element in this process. Access for employees who are reassigned, promoted, terminated, or retired must be reviewed on a scheduled basis.

During fiscal year 2007, Division of Information Technology (DoIT) policies and procedures were established to secure logical access over the RIFANS accounting system.

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

- ❑ We found instances where users shared account passwords, evidenced by transactions that were approved by a certain individual but records maintained by a separate system indicated the approving user was absent the day the approval occurred. (*Policy 10-07: IT Security Handbook Technical Controls, § 1.3.2.3*)
- ❑ Based on user job duties and responsibilities, there were over 40 Super User accounts of which some did not merit such privileges. (*Policy 10-06: IT Security Handbook Operational Controls, § 1.3.1.1*)
- ❑ Some user accounts were not promptly updated or removed as a result of employee terminations or transfers. (*Policy 10-07: IT Security Handbook Technical Controls, § 1.3.3.4*)
- ❑ Passwords are not required to be of a specific design (i.e., a mix of alphanumeric characters and upper/lower cases). (*Policy 10-07: IT Security Handbook Technical Controls, § 1.3.2.5*)
- ❑ Users are not notified prior to password expiration.
- ❑ Simple passwords are allowed (i.e., repeating characters, re-using the same password, using similar passwords). (*Policy 10-07: IT Security Handbook Technical Controls, § 1.3.2.6*)
- ❑ Users are not forced to select a new password upon first entry into the system. (*Policy 10-07: IT Security Handbook Technical Controls, § 1.3.2.6*)
- ❑ Password changes are not required/enforced by the system to be changed on a scheduled basis (i.e., 30, 60, 90 days).
- ❑ User accounts are not disabled after a set period of inactivity (e.g. 60, 90 days). (*Policy 10-07: IT Security Handbook Technical Controls, § 1.3.1.3*)
- ❑ Access to the system is not restricted based on time-of-day, day-of-week, calendar-date, and method of entry or location. (*Policy 10-07: IT Security Handbook Technical Controls, § 1.3.3*)
- ❑ Valid and invalid user authentications attempts are not reviewed by DoIT personnel. (*Policy 10-07: IT Security Handbook Technical Controls, § 1.3.4*)

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- ❑ Activities of privileged users (system administrators) are recorded by the system but not reviewed. (*Policy 10-07: IT Security Handbook Technical Controls, § 1.3.4*)
- ❑ Authentication and access security functions/processes are not clearly defined and documented (written formal policies). (*Policy 10-07: IT Security Handbook Technical Controls, § 1.4.5.3*)
- ❑ Individual user access is not reviewed and/or recertified on a scheduled basis. (*Policy 10-06: IT Security Handbook Operational Controls, § 1.3.2.2*)

RECOMMENDATIONS

- 2007-14b On a scheduled basis, compare employee attendance records with his/her transaction approvals to verify transactions are not approved the day that the employee is absent. This check is required to ensure that an individual's RIFANS access privileges are not being shared.
- 2007-14c Apply the principles of "separation of duties" and "least privilege" when establishing an individual's RIFANS access privileges, ensuring these are based on job duties and responsibilities.
- 2007-14d Review RIFANS user accounts on a scheduled basis to ensure the assigned access privileges are appropriate.
- 2007-14e Implement DoIT compliant password policies that are enforceable by the RIFANS system.
- 2007-14f Promptly remove or as required, adjust access privileges for terminated or transferred employees.
- 2007-14g Implement a security awareness training program and require the attendance of all RIFANS users to ensure they are aware of management expectations regarding user compliance with systems security. Repeat this training program on a regular / 'as-required' basis.
- 2007-14h Appoint a RIFANS Security Officer to develop, implement and manage a comprehensive security program specific to the RIFANS operation. The above RIFANS Security Officer working with the DoIT – CISO should performed a complete and comprehensive *IT Security Compliance Assessment Audit* to determine exactly where the current RIFANS system is not compliant with the published DoIT IT Security Policies and Procedures. This audit should detail exactly where there are RIFANS security compliance issues and include a corrective action plan, designed to address all areas of non-compliance.

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Finding 2007-15

CONTROLS OVER EXPENDITURE DATA IMPORTS TO RIFANS

Within RIFANS, batch imports are used to process payments to a large group of individuals or companies without creating an individual payment or requiring individual approval for each payee. These batch imports are transmitted from numerous departments and agencies to the Office of Accounts and Control via the file transfer protocol (FTP). One large example of this batch import data is payments on behalf of children in the care of the Department of Children, Youth and Families. FTP is one of the more common methods of transferring data from one computer to another over the Internet, or through an internal network.

Each department or agency that creates batch import files has a unique FTP site to which the files are uploaded. Files in the FTP sites are deleted every 1/2 hour to avoid duplication. Access to the FTP sites is limited to a small number of users.

The batch import payment data being transmitted via the FTP process is sent in a clear / open text format. No form of encryption is being applied over this data. This represents a control deficiency that would not prevent altering payment information prior to posting to the accounting system.

RECOMMENDATION

2007-15 Implement data encryption over batch payment data being transmitted via the FTP service to the RIFANS accounting system. Develop encryption policies and procedures governing all FTP data transmissions.

Finding 2007-16

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 with the State's accounting system. During fiscal 2007, 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 RIFANS. Daily cash balances reported by RIFANS are inaccurate because they do not reflect daily investment activity.

Investment purchases and sales represent a significant dollar volume of cash receipt and disbursement transactions. Monthly investment activity during fiscal year 2007 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.

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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 State RIFANS accounting system or through acquiring a module to the accounting system that allows direct and timely recording of investment activity.

RECOMMENDATION

2007-16 Record investment activity on a daily basis in the RIFANS accounting system. Improve control over investment transactions by integrating the investment function within the State’s accounting system.

Finding 2007-17

FUNDS ON DEPOSIT WITH FISCAL AGENT

Funds on Deposit with Fiscal Agent on the Statement of Net Assets – Governmental Activities totaled more than \$300 million at June 30, 2007. These assets result from the issuance of certain debt (Grant Anticipation Revenue Vehicle (GARVEE), and Motor Fuel Revenue Bonds and Certificates of Participation) by the State. Unlike the issuance of general obligation bonds of the State where the proceeds are received by the General Treasurer and disbursed through the State accounting system for authorized purposes, these debt proceeds are retained by a trustee. A trust agreement entered into at the time of issuance governs (a) the establishment of various trust accounts and restrictions on their use, (b) permitted investments of the bond proceeds, (c) documentation required to release the funds for valid project expenditures and (d) various other legal and operational matters.

Because these debt proceeds are not actually “received” directly by the State, the manner in which they are accounted for, monitored, and invested differs from other funds of the State. Because of the dollar significance of these assets, compliance monitoring, and controls over financial reporting should be enhanced. We observed the following weaknesses:

- ❑ Once the debt is issued, the State Investment Commission or the Office of the General Treasurer has no role in investing, monitoring or disbursing the funds on deposit with the fiscal agent. Generally, the State Investment Commission and Office of the General Treasurer have statutory authority for the custody and investment of state funds. Consequently, the control procedures in place over the investment and disbursement of state funds (employed by the Office of the General Treasurer and Office of Accounts and Control) do not apply to these amounts.
- ❑ Control over funds on deposit with fiscal agent is not centralized – some trustee activity and reporting is controlled at the department level while other activity is controlled at the Office of Accounts and Control.
- ❑ Trustee activity statements are not all stored in a central area under common control.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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- ❑ Balances reported by the trustee are not consistently reconciled each month to the State accounting system -- this weakens controls designed to ensure all trustee activity is recorded within the accounting system and the State's financial statements.
- ❑ Duties related to recording and reconciling trustee activity with balances in the State accounting system are not sufficiently segregated.
- ❑ The role of the trustee should be clarified to assess whether they have a responsibility to monitor various compliance features (e.g., permitted investments – credit quality of corporate issuer of investment agreements) or provide various reports and disclosure information.

RECOMMENDATION

- 2007-17 Enhance controls over funds on deposit with fiscal agent by centralizing oversight responsibilities, performing monthly reconciliation of trustee and accounting system activity, segregating certain duties, and clarifying the role and responsibilities of the trustee.

Finding 2007-18

DISCLOSURE OF DEPOSIT AND INVESTMENT RISKS

Generally accepted accounting principles (GAAP) require detailed disclosures in the notes to the financial statements regarding deposits with financial institutions and investments. The disclosures focus on custodial, credit, interest rate, and foreign currency risks. The amounts subject to such disclosures exceed \$1 billion at June 30, 2007 (exclusive of pension trust funds and discretely presented component units). The disclosures provided in the State's financial statements each year, as drafted by the Office of Accounts and Control, have typically required material adjustment due to inaccurate and, in some cases, incomplete information. This largely results from individuals preparing the disclosures that are not involved in the management and investment of these balances and therefore not being familiar with various investment vehicles used by the Office of the General Treasurer and their unique characteristics (e.g., collateralization requirements, credit rating, FDIC insurance provisions, etc.).

Since the Office of the General Treasurer is responsible for cash deposits and investments, much of the information required for disclosure is within their control. Accordingly, staff of the Office of the General Treasurer should be involved in the preparation and review of the State's deposit and investment disclosures. A work-group comprised of staff from the Offices of Accounts and Control and the General Treasurer should be established to accumulate all the information needed to meet the GAAP disclosure requirements for deposits and investments.

RECOMMENDATION

- 2007-18 Establish a work-group to accumulate all the information needed to meet the GAAP disclosures for deposit and investment risks.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Finding 2007-19

CONTROLS OVER ACCOUNTING TRANSACTIONS RELATING TO THE ISSUANCE OF DEBT

Controls should be enhanced over the recording of transactions related to the issuance of bonds and other forms of debt (Certificates of Participation). Proceeds from the issuance of bonds, including any premium or discount upon issuance, accrued interest, and issuance costs are first recorded as fund level transactions in RIFANS. This information is also recorded within the State's debt management system, which maintains an inventory of bonds payable, as well as annual debt service requirements. The debt management system also tracks and calculates the amortization of premiums, discounts and bond issuance costs. Controls need to be improved to ensure that data recorded in the State's debt management system are consistent with amounts recorded at the fund level. This will ensure that the government-wide financial statements, which reflects these transactions consistent with accrual based accounting, will align with the fund level statements and the detail recorded within the debt management system.

Certain debt related transactions are recorded within the debt management system at the General Treasurer's Office while other entries are recorded at the Office of Accounts and Control. Accounting system transactions are recorded by Budget Office or Accounts and Control staff. A reconciliation and data verification process should be put in place to ensure that data recorded within the debt management system is accurate. Due to the long-term nature of bonds, data should be validated at the time of issuance to avoid unintended long-term financial reporting impact.

RECOMMENDATION

2007-19 Establish a reconciliation and data verification process over debt-related accounting information to ensure accurate and consistent recording within the RIFANS accounting system and the State's debt management system.

Finding 2007-20

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 (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 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. Taxation has taken steps to segregate duties regarding the

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processing of EFT receipts; however, certain individuals still have access that allows them to perform multiple functions.

The EFT process was revised to the extent that the tasks of downloading, processing, and uploading payment detail files was placed under the control of an automated system that monitors and records the movement and processing of these payment files. Near the close of fiscal 2006, Taxation, in coordination with the Division of Information Technology (DoIT), implemented an automated system that logs all changes made to these files and maintains version control over each individual data file. This type of automated system is required to ensure that all changes made were required, authorized, and available for management review or audit.

This automated control process was not consistently in operation during the first half of the fiscal year, became disabled for the remainder of the year, and remained inoperable into fiscal 2008. The State needs to immediately restore this control process to ensure the continued operation of the automated logging system and to implement monitoring procedures that will identify any problems with the system in a timely manner.

RECOMMENDATION

2007-20 Restore the automated logging system control process over EFT receipts and improve monitoring procedures to ensure that the system remains operational.

Finding 2007-21

TAXATION – CONTROLS OVER THE RECORDING OF ACCOUNTS RECEIVABLE
CORRECTION ADJUSTMENTS

The Division of Taxation (Division) should strengthen controls over Accounts Receivable Correction (ARC) transactions posted to their mainframe systems. The Division currently requires supervisory approval of all ARC transactions for sales, withholding, and corporate taxes before they are posted to those respective systems. However, ARC transactions relating to personal income taxes do not require supervisory review prior to posting. Over \$50 million in ARC transactions were posted to the personal income tax system in fiscal 2007. There were four individual ARC transactions over \$1 million each. While it would be impractical for a supervisor to review each ARC posted to the system due to the number of ARC transactions processed, we believe that a supervisor should at least review all ARCs over an established threshold.

In addition, controls are not in place to ensure that the total of ARC transactions posted to each mainframe tax system matches the amount approved for data entry. The lack of data entry controls could result in an ARC transaction being incorrectly posted to the mainframe system and not being detected by management.

RECOMMENDATIONS

2007-21a Establish a threshold for supervisory review of accounts receivable corrections of personal income tax accounts.

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2007-21b Improve data entry controls over ARC transactions.

Finding 2007-22

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.

In June 2006, a new payroll sub-system was implemented to capture and log selected data changes within the “Employee Time Keeping / Attendance Reporting” system. While this action meets the objective of our prior year recommendation for one component of the payroll system, changes in the payroll master file, which contains a multitude of data elements that have a direct effect on payroll for state employees, are not similarly captured and logged. Logging these data element changes should be implemented to provide adequate control over changes to the payroll master file.

RECOMMENDATION

2007-22 Identify critical data elements to be tracked as changes occur. Capture and maintain the unique user identification for each transaction resulting in changes to critical payroll master file data elements.

Finding 2007-23

COMPREHENSIVE INFORMATION SYSTEMS SECURITY POLICIES AND PROCEDURES

The Division of Information Technology (DoIT), within the Department of Administration (DOA) has been charged with the safe and secure operation of the State’s mission critical automated systems (i.e., RIFANS, 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, the possibility that access security may be compromised increases; thereby exposing the State to potential losses and other risks.

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,

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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. The information security plan should include appropriate consideration of disaster recovery/business continuity planning aspects as well.

After making notable progress during fiscal 2006 including the formalization of system security policies and procedures and the hiring of an information systems security officer, little additional progress was made during fiscal 2007.

Efforts need to continue to develop an initial assessment (with continual monitoring thereafter) to ensure that mission critical information systems meet the State's newly promulgated system security standards. For example, new systems, including the State's new accounting system (RIFANS) in fiscal 2007 and the Department of Transportation's new financial management system in fiscal 2006, have been implemented since the formalization of system security policies and procedures. Our initial assessments of the systems security control procedures over these systems indicated that access controls do not meet the State's systems security standards. We found instances where individuals had system access that was in excess of what was required for their respective duties. Further, password access controls need to be enhanced to conform to current standards (e.g., character composition, required change interval). Additionally, no security administrator had been designated to control access rights to the system. The State should ensure that new information systems comply with its current systems security standards prior to becoming operational.

For systems that do not meet the State's current systems security standards, a risk-based priority timeline should be adopted to modify systems as required.

RECOMMENDATIONS

- | | |
|----------|--|
| 2007-23a | Complete an initial assessment of compliance with newly promulgated systems security standards for the State's mission critical systems. |
| 2007-23b | Adopt a risk-based priority timeline to modify systems as required to meet the new system security standards. |

Finding 2007-24

FISCAL AGENT OVERSIGHT – MEDICAL ASSISTANCE PROGRAM

As described in Finding 2007-88 (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.

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Finding 2007-25

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

As described in Finding 2007-75 (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 2007 totaled over \$2 billion. 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.

Finding 2007-26

INTERMODAL SURFACE TRANSPORTATION FUND - FINANCIAL REPORTING

The Intermodal Surface Transportation (IST) Fund has been established as a special revenue fund to account for transportation related activities of the State including the highway construction program. During fiscal 2007, controls over financial reporting for the IST Fund improved sufficiently to eliminate concerns over the completeness of certain account balances. Control weaknesses had resulted in qualification of the independent auditor's report on the IST fund for the previous three fiscal years. That qualification has been removed for fiscal 2007; however, controls can be further improved to ensure consistent and accurate reporting of fund activity in accordance with generally accepted accounting principles.

Reconciliation between the RIDOT FMS and the State Accounting System

Financial statements for the IST Fund are prepared with information from the State's accounting system as well as information from the Rhode Island Department of Transportation's (RIDOT) Financial Management System (FMS). The RIDOT FMS is a complex multi-module system intended to meet all of RIDOT's project accounting and financial reporting needs, including purchasing, billing, construction management, and general ledger functions. While the majority of RIDOT financial transactions originate in the FMS, the FMS is dependent on the State's accounting system to process cash disbursements to vendors and for payroll processing. A significant interrelationship exists between the two systems requiring each system to generate transmission files to pass transaction data back and forth to complete various processing cycles.

While the two systems utilize some of the same software components, the systems were not designed to be compatible, and consequently, maintenance of the systems with appropriate internal controls requires extensive resources. Transactions processed by both the RIDOT and the Office of Accounts and Control (Department of Administration) post to two separate and unrelated general

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ledgers under significantly different account structures and control environments, yet are intended to be synchronized. Periodic reconciliation between the two general ledgers is a critical control to ensure transactions are in fact synchronized and to allow timely and accurate financial reporting.

During fiscal 2007 and subsequently, RIDOT designed and implemented a process to reconcile the RIDOT FMS to the State accounting system. Specifically, procedures were implemented to automate much of the comparison of data between the two systems and to assign responsibility for performing the reconciliations and initiating required adjustments on a timely basis. This monthly reconciliation process is a significant improvement over the previous control structure. The reconciliation process was not in operation throughout fiscal 2007 but was completed in time for preparation of the fiscal 2007 financial statements. Consequently, RIDOT initiated numerous adjustments to align the two systems in conjunction with preparing the fiscal 2007 draft financial statements for the IST Fund.

The complexity of the interrelationship of the two accounting systems utilized to process and record transactions for the IST Fund coupled with the lack of timely reconciliations throughout the fiscal year represented a significant deficiency in controls over financial reporting.

RECOMMENDATION

2007-26a Reconcile the RIDOT FMS general ledger to data reported for the IST and GARVEE funds within the State's accounting system on a monthly basis.

Controls over the Preparation of Financial Statements

Several account balances reflected in the fiscal 2007 draft financial statements required material audit adjustment due to weaknesses in controls over financial reporting.

- **Accounts payable** - RIDOT implemented a new process for accumulating accounts payable data for the preparation of financial statements at June 30, 2007 which was a significant improvement over processes utilized in prior fiscal years. Controls over the reporting of accounts payable can be further improved to ensure all material amounts are included in the financial statements. One material adjustment required at June 30, 2007 related to known payables that were not booked because a specific funding source had not been identified for those project expenditures. RIDOT's process inappropriately excluded these amounts from reported payables. Another adjustment related to RIDOT's incomplete procedures to identify potential unrecorded payables. A query was created for audit purposes to search for unrecorded payables - delivery slips dated June 30 or prior but entered into the system after June 30, 2007. This query to search for unrecorded items should become a standard part of RIDOT's process of accumulating accounts payable data at June 30.
- **Gas tax revenue transfers** – All gas tax revenue is recorded first in the IST fund and then, amounts are transferred to other funds or component units consistent with statutory requirements. Gas tax revenue receivables were calculated by the Division of Taxation and recorded within the IST Fund; however, amounts due to the GARVEE fund at June 30, 2007 were not reflected on the IST or GARVEE fund financial statements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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- ***Fund balance reservation*** – Fund balance within the IST fund includes general obligation bond proceeds transferred in prior years in excess of the required state match to federal funds. Such amounts were not reported as a reserved component of fund balance to reflect legal limitations on their use for only voter approved transportation projects.

RECOMMENDATION

2007-26b Strengthen control procedures over financial reporting to ensure accurate identification of accounts payable, amounts due to other funds, and reservations of fund balance.

Amounts Due from the Federal Government

Amounts due from the federal government relate not only to current project expenditures pending reimbursement but also include substantial amounts relating to prior projects. In the case of prior projects, a receivable from the federal government likely exists but funds have not been drawn because project modifications are pending federal approval or RIDOT has chosen to use its allocation of federal funds for new projects instead of collecting amounts owed for reimbursable project expenditures. RIDOT believes this component of amounts due from the federal government (commonly referred to as “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.

The “earned but unbilled” component of amounts due from the federal government decreased by \$9.8 million during fiscal 2007 to \$13.8 million at June 30, 2007, mostly in response to a concerted effort to collect amounts on older projects for improved cash flow.

The “earned but unbilled” and other long-term components (amounts to be reimbursed for retainage payable) of amounts due from the federal government are controlled within RIDOT FMS but not the State accounting system (RIFANS). The balances are only recorded in RIFANS at the end of the year solely for financial reporting purposes. Amounts reported at year-end are immediately reversed in the new fiscal year without additional reporting until the close of the next fiscal year. From the state accounting system perspective, controls are ineffective over this substantial financial statement balance.

Because not all of such amounts will be fully collected within the next fiscal year, an allowance is 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). The estimate of amounts that are unavailable is based on past collection practices. The long-term nature of certain receivable balances results in increased risk of uncollectibility.

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). Advances from other funds are required to “finance” these receivable balances since project expenditures are disbursed on a current basis yet reimbursement from the federal government may occur several years later. Failure to collect these amounts due from the federal government for extended periods impacts the State’s financial operations negatively.

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RECOMMENDATIONS

- 2007-26c Collect all amounts due from the federal government in reimbursement of highway project expenditures as soon as all federal requirements have been met.
- 2007-26d Improve controls over the reporting of long-term receivable balances (due from the federal government) within the State's accounting system.

Finding 2007-27

GARVEE CAPITAL PROJECTS FUND

The GARVEE fund accounts for the expenditure of proceeds from the State's Grant Anticipation Revenue Vehicle (GARVEE) bonds and matching Motor Fuel bonds for specific highway construction related projects. Debt service on the bonds is repaid with federal funds and a dedicated portion of the State's gas tax. Bond proceeds held by a trustee pending disbursement for eligible project costs totaled \$227 million at June 30, 2007.

Reconciliation between the GARVEE Trustee, RIDOT FMS and the State Accounting System

GARVEE project disbursement processing originates in the RIDOT FMS in the same manner as other transportation related project expenditures (IST Fund). These expenditures are also processed within the State's accounting system; however, unlike other state expenditures disbursement is made by the GARVEE trustee. Periodic reconciliation between all three sources of data is necessary to ensure that all GARVEE project disbursements have been recorded in the State's accounting system which serves as the basis for annual fund financial statements.

Monthly reconciliations were not performed timely throughout the fiscal year. A reconciliation of all fiscal year activity was performed at year end which identified numerous reconciling items that required resolution and adjustment. Errors discovered through the reconciliation included items that were not posted to the State's accounting system, transfers of gas tax proceeds that were not received by the trustee, duplicate payments, and transactions misposted by the trustee. For example:

- ***November 2006 Gas Tax transfer to trustee*** - In November 2006 a wire was initiated to transfer monthly gas tax receipts to the GARVEE trustee; however, due to a trustee reorganization, the wire transfer failed and the funds were returned to the State. The November 2006 gas tax funds were left in the State's disbursement account until fiscal 2008 when the funds were successfully transferred. In preparing the fiscal 2007 financial statements, RIDOT recognized that the November 2006 gas tax receipts had not been recorded in the State's accounting system or by the trustee. Even with timely reconciliation of trustee and accounting system balances this type of error would be difficult to detect since the transfer of gas tax receipts to the trustee is recorded on the State's books only after recording by the Trustee.

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- ***Duplicate payment*** - GARVEE project disbursements are made by the trustee; however, due to improper coding of a transaction within the State accounting system, a vendor was paid \$468,933 by both the trustee and state accounting system. The vendor returned the duplicate payment; however, controls were not in place to prevent or detect the duplicate payment in a timely manner.
- ***Deposit in error to the GARVEE trustee account*** – the trustee erroneously posted a deposit to the State’s GARVEE trust accounts that was not detected by either the State or trustee on timely basis. Upon completion of the annual reconciliation, RIDOT requested the trustee investigate the erroneous deposit which was subsequently corrected.
- ***Disbursements recorded to incorrect trustee sub-account*** – various trustee sub accounts have been established for each issuance of GARVEE and Motor Fuel bonds. Corresponding accounts have been established within the State accounting system. Since GARVEE transactions are disbursed by the trustee, a manual adjustment is required to reduce the appropriate trustee asset account on the State’s accounting system as disbursements are made. Adjustments to reduce funds in trust posted by the Office of Accounts and Control (Department of Administration) were not made to the appropriate account and variances of approximately \$70 million existed between certain accounts maintained within the State accounting system and trustee at June 30, 2007.

Periodic reconciliation of the activity recorded in each of the systems would have detected these errors, allowed for timely correction and improved controls over financial reporting. Further, RIDOT’s fiscal 2007 reconciliation focused on asset balances rather than specific transaction types or accounts, e.g., gas tax transfers in, expenditures, investment income, and debt service. RIDOT’s reconciliation process can be further improved to also include reconciliation by transaction type. This will ensure financial statement activity is not materially misstated. Subsequent to June 30, 2007, RIDOT has implemented a comprehensive monthly reconciliation process of GARVEE fund trustee activity to the State accounting system.

RECOMMENDATIONS

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|----------|--|
| 2007-27a | Complete reconciliation of trustee, RIDOT FMS and State accounting system activity on a monthly basis and initiate required correcting adjustments on a timely basis. |
| 2007-27b | Expand the reconciliation between the trustee and the State accounting system to encompass transactions at the account level to ensure financial statement activity is not materially misstated. |

Controls over the Preparation of Financial Statements

Several account balances reflected in the fiscal 2007 draft financial statements required material audit adjustment due to weaknesses in controls over financial reporting.

- ***Overstatement of accounts payable and funds in trust due to duplicate recording*** - certain vendor payments were classified as accounts payable within the State’s accounting system although the trustee had already made disbursement to the vendor. These vendor payments

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were inappropriately identified as reconciling items on the trustee to the state accounting system reconciliation. An audit adjustment was required to reduce accounts payable and funds in trust.

- ***Accrued investment income for invested funds held by the trustee*** - no accrual of investment income was recorded at June 30 for interest bearing investments held by the trustee. An adjustment of more than \$2 million was required for the fair presentation of GARVEE investment income and Funds in Trust.
- ***Fund balance reserved for debt service*** – a portion of the GARVEE fund balance is not available for project expenditures and should be presented as a reservation of fund balance on the financial statements. Amounts that should be reserved for future debt service include (1) a debt service reserve fund created at the time of issuance of the bonds, and (2) any amounts available from the dedicated portion of the State’s gas tax that were not required to meet current debt service. An audit adjustment was required to reserve fund balance for the portion of unexpended gas tax revenues available for future debt service.

RECOMMENDATION

2007-27c Strengthen control procedures over financial reporting to ensure accurate recording of funds in trust, accounts payable, investment income and the reserved portion of fund balance.

Finding 2007-28

SYSTEMS SECURITY OVER RIDOT IT APPLICATIONS IMPACTING FINANCIAL REPORTING

The Rhode Island Department of Transportation (RIDOT) utilizes two information technology (IT) applications to gather and process financial information that is used (in conjunction with the State’s RIFANS accounting system) for financial reporting. Within the Project Management Portal (PMP), construction progress payment information is captured by the Contract Management System (CMS). Progress payment information is then interfaced with RIDOT’s Financial Management System (FMS) where financial processing occurs after which it is transferred to RIFANS for payment.

The Division of Information Technology (DoIT), within the Department of Administration (DOA) has created IT system security standards and policies that are outlined within its IT Security Handbook Controls Manuals (Policy #s 10-05, 10-06, and 10-07). These policy standards and procedures are to be followed for all IT functions, applications, and systems operating under its control including the CMS and FMS. Our assessment of these systems indicated areas where improvement to IT security, password and user management, processing controls, and system integrity should be made to enhance controls over financial reporting.

Overall, we noted that a RIDOT Security Administrator has not been designated to oversee and implement the DoIT/DOA IT security policies and procedures. Currently, these duties/functions fall within the responsibilities of the RIDOT System Administrator/DBA. The Security

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Administrator should be independent of the IT programming and technical support functions within RIDOT (Policy # 10-05 2.3.4 Designated Department/Unit/Office Information Security Officer, Policy #10-06 1.4.6 - *The Agency Information Security Officer (ISO)/Alternate ISO*). Additionally, a RIDOT security awareness program has not been designed and implemented as per DoIT/DOA IT Security Handbook standards.

Specific areas requiring attention within the CMS and FMS applications are:

- Some individuals in both the CMS and FMS applications have access rights that are in excess of what is required for their respective duties and/or have access rights which create a conflict of duties. User access should be granted based upon the DoIT/DOA stipulated standard of “least privilege”. If excessive rights or conflicting duty access is deemed a business requirement, compensating controls in the form of logging and monitoring of those individual actions should be instituted.
- Password access controls need to be enhanced within the application systems in order to conform to DoIT/DOA standards (e.g., minimum length, character composition, required change interval, etc.).
- Monitoring, logging, and creation and review of audit trails needs to be implemented as mandated by DoIT/DOA IT Security policy.
- The transfer of data from CMS to FMS is accomplished through the internet using an unsecure file transfer protocol (ftp) and should be performed through a secured protocol.
- The interface of data from CMS to FMS typically includes instances where RIDOT Business Management staff make manual modifications to the payment file names and file contents. This function should be further automated to enhance the accuracy and integrity of the data.
- Application system changes to the CMS application are not made within an appropriate change management structure. A change management methodology and controlled process should be implemented to ensure the integrity of the application system and related data.

RECOMMENDATIONS

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|----------|--|
| 2007-28a | Complete an initial assessment of compliance with DoIT/DOA Security Handbook policies and standards for the RIDOT financial management system and adopt a risk-based priority timeline to modify systems as required to meet DoIT/DOA IT security standards. |
| 2007-28b | Designate a Security Administrator as mandated by the DoIT/DOA IT Security Handbook policy. |
| 2007-28c | Assess the propriety of user access rights within the CMS and FMS application systems on a periodic basis as mandated by DoIT/DOA policy (Policy #10-06, 1.3 Policy, 1.3.2 User Administration, and 1.3.2.2 Audit and Management Review). |

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- 2007-28d Use a secure file transfer protocol (sftp) or other secure transmission method to transfer data over the internet from the CMS application to FMS application.
- 2007-28e Automate the interface process of CMS data to the FMS thereby eliminating the amount of required human intervention. Should manual file modifications continue, implement a process for logging file changes with periodic monitoring by management to ensure that only appropriate changes have been made.
- 2007-28f Implement change management controls within the CMS application similar to those that are operational within the FMS application to ensure that only authorized and tested system changes are implemented.

Finding 2007-29

EMPLOYMENT SECURITY FUND AND TEMPORARY DISABILITY INSURANCE FUND - TAX REVENUE ACCRUALS

The State accrues employment security, temporary disability, and job development tax revenues at year-end based on wages paid by employers prior to fiscal year end but remitted to the State after the close of the year. The Office of Accounts and Control estimates the accrued tax revenue based on various reports generated from the employment security and temporary disability tax revenue system.

Changes in the manner in which employers remit both payments and tax information have changed in recent years. This affected the reliability of the reports provided for accruing tax revenue at fiscal year end. Consequently, the report did not identify \$5.4 million, \$6.8 million, and \$367,000 of tax receipts relating to the Temporary Disability, Employment Security and Job Development Fund programs, respectively that should have been accrued at June 30, 2007. The report excluded ACH tax remittances which resulted in the misstatement.

Although adjustments were made to correct the State's financial statements for fiscal 2007, the State needs to reevaluate the revenue accrual process and the data used to estimate the accrual amount to ensure that it's appropriate for the intended purpose. The State may consider implementing a more estimate based accrual approach to improve the timelines of accrual calculations at year-end and reduce the reliance on actual data reported after fiscal year end.

RECOMMENDATION

- 2007-29 Reevaluate the methodology and processes for accruing employment security, temporary disability, and job development fund revenue at year-end.

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Finding 2007-30

RHODE ISLAND LOTTERY FUND - MONITORING OF VIDEO LOTTERY OPERATIONS

The Rhode Island Lottery introduced video lottery games to the public at two licensed video lottery facilities in 1992. Since its introduction, video lottery revenues have grown from \$32.7 million in fiscal 1993 to nearly \$1.6 billion in fiscal 2007. In that same period, the number of video lottery terminals in operation has increased from 1,292 to 5,671. Much of this increase occurred in the last fiscal year as a result of new agreements with each of the licensed video lottery facilities. Video gaming now comprises more than 86% of total Lottery gaming revenue and prize awards expense.

Although the Lottery has made appropriate changes in the monitoring of video lottery operations as revenues increased, most of the enhancements have involved additional security personnel to monitor physical security at the facilities and internal audit personnel to evaluate and review video lottery procedures and controls. These additional personnel have improved the Lottery's overall monitoring of video operations; however, additional enhancements are necessary to improve the efficiency and effectiveness of the daily monitoring of cash activity for each terminal and also to ensure the accuracy and reliability of the information reported from the video lottery gaming system.

Daily Video Lottery Terminal Activity

The current volume of activity for nearly 6,000 video lottery terminals (VLT) seven days a week requires a more sophisticated and automated process to assist in monitoring the daily terminal activity and cash reconciliation information.

The Lottery's current process of reviewing daily terminal activity has a significant manual component and is similar to the process followed when there were far fewer terminals. With the current number of terminals, the number of daily reporting variances that require resolution is large. Certain of these variances warrant further investigation, whereas others are routine or expected and could be resolved through more "intelligent" reporting capabilities. We observed instances during fiscal 2007 where the Lottery's procedures did not highlight variances that should have been investigated and resolved on a timely basis.

In the interest of both efficiency and effectiveness, the Lottery should develop an automated system that could be programmed to highlight exceptions (e.g., inconsistencies in cash receipts vs. gaming activity, unusual player activity, higher than expected payouts, etc.). This exception-based reporting would enhance the Lottery's ability to identify abnormalities in VLT and gaming operations that require investigation and resolution. Ultimately, improved monitoring would enhance controls and further protect the integrity of video lottery operations.

RECOMMENDATION

2007-30a Develop video lottery exception-based reporting to enhance controls and further protect the integrity of video lottery operations. Document the resolution of variances requiring investigation.

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Enhancement of Video Lottery Monitoring Capabilities

The Lottery is dependent on the video lottery gaming system maintained by its gaming system contractor to meet both its financial reporting and operational monitoring responsibilities. One of the key financial controls is the reconciliation of cash activity to information reported by the video lottery gaming system, a process which requires significant manual analysis and follow-up. While this process provides some validation of reported cash-in amounts, no such independent validation process exists for reported video lottery cash-out amounts, the other component of net terminal income. Additionally, recent enhancements to video gaming operations (e.g., ticket in-ticket out, MWAP, etc.) impact the determination of net terminal income for which the Lottery relies on amounts reported by the gaming system. As the volume of video lottery activity increases along with enhancements to actual gaming functionality, the Lottery needs to develop more efficient and effective means of monitoring video lottery operations to ensure the accuracy and reliability of the information reported from the video lottery gaming system.

Monitoring enhancements designed to validate amounts reported by the video lottery gaming system could be achieved through a variety of means. The Lottery may consider implementing a separate Internal Control System (ICS) for its video gaming system similar to the ICS for on-line games which records key revenue and prize award activity for the Lottery's drawing games (Numbers, Powerball, KENO, etc.), as well as activity for the Lottery's instant games. The ICS for the on-line gaming system operates by receiving lottery terminal gaming activity prior to its reporting to the on-line gaming central system for purposes of generating independent totals for critical on-line gaming activity. The system then compares these independent totals to those reported by the contractor's gaming system and produces a report for the Lottery which highlights any differences in reported amounts.

Additionally, the Lottery could consider periodically obtaining an independent assessment of the internal control policies and procedures used in video lottery. A "SAS 70" examination of the controls over video lottery, including tests of the operating effectiveness of the applicable controls, would provide the Lottery with additional assurance regarding the accuracy and reliability of reported video lottery activity.

Other monitoring enhancements could involve increased use of existing internal audit capabilities as a supplement to external contracted resources such as information technology risk assessments.

RECOMMENDATION

2007-30b Enhance video lottery monitoring capabilities to ensure the accuracy and reliability of information reported from the video lottery gaming system.

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Finding 2007-31

RHODE ISLAND LOTTERY FUND - RECONCILIATION TO THE STATE'S ACCOUNTING SYSTEM

The Lottery's internal general ledger accounting system is used for financial reporting; however, the Lottery utilizes the State's accounting system known as the Rhode Island Financial and Accounting Network System (RIFANS) for all disbursements relating to Lottery operations, except for prize disbursements. The Lottery records all payment transactions in both their internal accounting system and RIFANS for payments to vendors. Revenue and cash receipt transactions are also recorded in both systems although more detail is recorded in the Lottery's accounting system. The activity recorded in RIFANS is basically cash receipts and disbursements whereas the Lottery's accounting system records all activity on an accrual basis necessary to prepare financial statements in accordance with generally accepted accounting principles.

For certain centralized billing processes used by the State (e.g., payroll, purchase cards, office supplies, etc.), payments are initiated through the State's Office of Accounts and Control and individual agencies are charged for their pro-rata share of monthly activity. In these instances, the Lottery does not initiate payment and must review reports from RIFANS to identify and record this activity in their internal accounting system.

Controls over financial reporting are weakened because a complete reconciliation is not performed between the two systems to ensure that all activity has been appropriately recorded in both accounting systems. Partial reconciliations are now performed mostly focusing on cash balances reported between the two systems.

The Lottery should explore the option of utilizing the State's accounting system exclusively for all accounting and financial reporting thereby eliminating the redundancy of recording activity in two systems and the effort required to perform periodic reconciliations. Further, controls over financial reporting would be enhanced by eliminating the risk of omitting transactions recorded only in one system.

Until recently the State's accounting system was incapable of meeting the financial reporting needs of the Lottery, however RIFANS can likely accommodate the Lottery's financial reporting objectives with minimal modification (e.g., creating additional accounts).

Utilizing RIFANS for financial reporting would also simplify cash reconciliation procedures by eliminating the need for the three-way reconciliation between bank balances, RIFANS cash balances, and the Lottery's cash balance.

RECOMMENDATIONS

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| 2007-31a | Perform full periodic reconciliations of activity recorded in the Lottery's accounting system utilized for financial reporting and the State's accounting system. |
| 2007-31b | Explore using RIFANS for Lottery financial reporting thereby eliminating the redundancy of recording Lottery activity in two accounting systems. |

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Finding 2007-32

EMPLOYEES' RETIREMENT SYSTEM – PENSION TRUST FUNDS - IMPROVE
MONITORING CONTROLS OVER SYSTEM INVESTMENTS AND ENHANCE
INFORMATION REQUIRED FOR FINANCIAL REPORTING

Responsibility for certain aspects of financial reporting relating to investments should be better coordinated to improve the timeliness, completeness, and quality of the data generated as well as controls over its accumulation. Monitoring of the investment portfolio can also be enhanced to ensure timely and effective oversight of the System's diversified investments.

The growth and complexity of the System's investment portfolio warrant additional attention to the accounting and financial reporting aspects of the investment cycle. Additionally, complex investment valuation issues, disclosure of investment-related risks, the System's exposure to derivative type investments, the overall requirements of preparing financial statements in accordance with generally accepted accounting principles and the need to monitor the activities of various parties involved with the System's investment portfolio have increased the need for accounting resources. Accounting responsibility for the System's investments is fragmented since a Treasury unit separate from the Retirement Division is responsible for the investment activity cycle.

The following areas should be addressed in improving controls over financial reporting as it relates to the System's investment cycle.

- The nature and volume of the data required for financial statement preparation and note disclosure necessitates attention throughout the fiscal year rather than just once a year as part of preparing annual financial statements. Subsequent to June 30, 2007, Treasury reassigned an individual to supplement staff assigned to investment monitoring. Specific training and task assignment need to continue through the next financial reporting cycle to ensure the newly allocated resources meet the anticipated objective.
- Investment transactions are recorded, reported, and summarized by ERSRI's investment custodian. Recording and reconciling this activity (in summary form) within the System's accounting records is performed only once at the close of the fiscal year. Summarized investment activity reported by the custodian should be analyzed and reconciled monthly to detect variances and mispostings on a timely basis. Variances often occur in the recording of transfers to and from the plans. These variances need to be corrected promptly because of the impact on the allocation of assets among the System's four plans. Errors may also occur in the recording of other investment transactions which require correction. For example, during fiscal 2007 the custodian misposted activity for two private equity investments with similar partnership names. Total assets were not misreported but the balances for the specific investments were materially misstated – upon sale or dissolution of the investment, the gain or loss would have been similarly misstated. Enhanced review of the monthly reports provided by the investment custodian with monthly recording of the summarized activity within the System's general ledger will highlight any variances on a timely basis and allow prompt correction by the System's investment custodian as required and improve controls over financial reporting.

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- Coordination between the Retirement and Treasury-Finance Divisions can be enhanced to meet the objective of preparing timely financial statements in accordance with generally accepted accounting principles (GAAP). The process of accumulating all the required investment information necessary to prepare financial statements should be coordinated by individuals knowledgeable about financial reporting and governmental GAAP. This process should be lead and coordinated by the Retirement Division. Specific year-end closing tasks should be assigned and data to be requested from various external parties should be formalized and scheduled. Areas that require additional attention include the reporting and disclosure of derivative type investments, the classification of investments by various risk categories, and the fair value estimation process for investments that are not publicly traded.
- An overall investment monitoring plan should be formalized to ensure appropriate and timely oversight of the System’s diversified investments. The System’s investments are appropriately diversified with many advisors, managers, consultants, and investment custodians involved in the overall administration of the investment portfolio. Each of these parties has a specific role to perform with Treasury assuming ultimate oversight and monitoring responsibility. We found that monitoring could be improved in a number of areas including (1) securities lending to ensure that the System receives its appropriate share of income, (2) service auditor reports (“SAS 70 reports”) of the investment custodian’s internal control structure, and (3) documentation of the review and resolution of investment manager compliance exceptions reported by the investment custodian’s compliance monitoring system. A detailed monitoring plan which delineates each investment category, the various parties and their respective roles, the frequency of the monitoring activity and the Treasury personnel responsible for the monitoring activity should be formalized.

RECOMMENDATIONS

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| 2007-32a | Continue training and developing specific task assignments for individuals involved with investment monitoring to ensure the additional resources committed to these activities achieve the intended objective. |
| 2007-32b | Analyze and reconcile investment activity reported by the custodian monthly to detect variances and mispostings on a timely basis. |
| 2007-32c | Enhance coordination between the Retirement and Treasury-Finance Divisions to meet the shared objective of preparing financial statements in accordance with generally accepted accounting principles. This process should be lead by the Retirement Division. |
| 2007-32d | Formalize an overall investment monitoring plan which delineates each investment category, the various external parties and their respective roles, the frequency of the monitoring activity and the Treasury personnel responsible for the monitoring activity. |

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Finding 2007-33

EMPLOYEES' RETIREMENT SYSTEM – PENSION TRUST FUNDS - IMPROVE THE RELIABILITY OF CONTRIBUTIONS RECEIVABLE REPORTED BY THE ANCHOR SYSTEM

Contributions from both employees and employers are recognized as revenue (additions) based upon employer payroll activity – contributions are considered receivable when wages are paid to the employee. When employers report their detail contribution data before remitting payment to the System, ANCHOR appropriately recognizes contributions receivable. Without actual detail contribution data, the ANCHOR system has not generated reliable estimates of contributions due the System for financial statement reporting purposes. With the intent of improving information available for financial reporting, ERSRI required all participating employers to report their detail contribution data for fiscal 2007 payrolls on a timely basis. This improved the reporting of contributions due the system at June 30, 2007 but contributions and contributions receivable reported by ANCHOR still required analysis and adjustment to yield amounts that are appropriate for financial statements prepared in accordance with generally accepted accounting principles.

Some of the balances reported by ANCHOR for an employer are inaccurate because of posting errors that occurred in prior periods. While a modification was made to the system which allows correction of posting errors on a prospective basis, previously known errors have been tracked off-line and therefore the ANCHOR system may not report accurate current balances of contributions receivable for a specific unit. Additionally, the ANCHOR system is intended to be self-monitoring by employers, allowing them access to the system via the internet to assess the status of contribution data and remittance of payments. Inaccurate employer contribution receivable data limits the effectiveness of this system function.

The analysis and correction of misposted contribution data has been ongoing since the ANCHOR system was implemented in fiscal 2002. The analysis and adjustment of member unit contribution receivable data must be completed expeditiously to improve controls over financial reporting.

Other issues which impact the reliability of contributions receivable reported by ANCHOR stem from certain system configurations that were designed to ensure the integrity of employer wage data uploaded to the ANCHOR system but are inconsistent with financial reporting objectives. For example, employer wage data is only posted to the system if there is a match of 95% or more of the items reported – if the test is not met the data is held in suspense until corrected or resolved. Amounts due from the State as the matching share of employer contributions for teachers are only billed once 100% of the employer reported data has been successfully posted. Analyses have been developed to work around these system configurations; however, controls over financial reporting are impacted. ERSRI is considering modifying some of these system configurations now that the integrity and accuracy of data reported by employers is less of an issue than when the ANCHOR system was first implemented.

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RECOMMENDATIONS

- 2007-33a Complete analysis and reconciliation of prior period posting errors affecting contributions and contributions receivable by employer unit.
- 2007-33b Review and modify existing ANCHOR system configurations to improve the reliability of contribution receivable data reported by the ANCHOR system.

Finding 2007-34

CONVENTION CENTER AUTHORITY FUND - EVENT AGREEMENTS AND SETTLEMENTS

Certain components of agreements with vendors for event services at the Rhode Island Convention Center (RICC) were made orally. In addition, the RICC held events without fully executed event settlements signed by a representative of the event promoter. The use of such arrangements with vendors and promoters inhibits RICC's ability to support valid claims to cash for services rendered, and to defend claims to cash made by third parties, and creates opportunities for misstatement of related amounts, whether caused by error or fraud.

RECOMMENDATION

- 2007-34 Event related agreements with vendors and settlements with promoters should be made in writing and a fully executed copy of said arrangements signed by representatives of both the RICC and the event promoter should be maintained. Such documentary evidence of properly approved agreements provides binding support for amounts owed to and by the RICC and minimizes the potential for misstatement of related amounts.

Finding 2007-35

CONVENTION CENTER AUTHORITY FUND - REVIEW AND APPROVAL OF JOURNAL ENTRIES

The Authority does not have control procedures placed in operation to review and approve journal entries posted to its general ledger. The absence of the performance and documentation of such review and approval allows unauthorized journal entries to be recorded and creates unlimited exposure to misstatements of the Authority's financial statements, whether caused by error or fraud.

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RECOMMENDATION

- 2007-35 Documented review and approval of journal entries and accompanying supporting documentation by a member of management provides assurance that journal entries are not posted to misstate the Authority's financial position. We recommend that applicable members of Authority management review and approve all journal entries prior to posting to the general ledger, document their review and approval, and retain such documentation with the appropriate financial records to facilitate retrieval.

Finding 2007-36

DISCRETELY PRESENTED COMPONENT UNITS:

University of Rhode Island, Rhode Island College, Community College of Rhode Island

FINANCIAL REPORTING / CLOSING PROCESS

Management made a number of adjustments to the financial records of the respective Institutions in preparing for and completing the fiscal 2007 audit, and it was apparent that the Institutions encountered significant challenges in timely and accurately producing year-end financial statements in accordance with U.S. generally accepted accounting principles (GAAP). The primary reasons for this situation are:

- Maintaining two accounting systems at the Institutions. The State mandates the use of Rhode Island budgetary reporting (non-GAAP) for operations. Year-end financial statements are produced in accordance with GAAP.
- A partially automated but labor intensive year-end closing process.
- A relatively small financial staff with unfilled positions and limited ability to apply high-level management reviews of key information because of workload and a lack of segregation of duties between preparing and reviewing certain accounting entries.

RECOMMENDATION

- 2007-36 The accounting infrastructure should be re-designed such that the Controller can be freed from processing routine accounting entries and focus instead on high-level reviews of financial information and supporting schedules. This would strengthen segregation of duties and management review controls used to validate financial information. The respective Institutions should also consider the feasibility of bolstering staff resources as appropriate, to ensure timely and accurate production of the financial statements.

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Finding 2007-37

DISCRETELY PRESENTED COMPONENT UNITS:

University of Rhode Island, Rhode Island College, Community College of Rhode Island

JOURNAL ENTRY AUTHORIZATION

During our testing of journal entries, we noted that accounting staff can independently post journal entries without a second level of review.

RECOMMENDATION

2007-37 All journal entries should be approved by a second knowledgeable individual prior to input into the general ledger system. Unusual entries of a material amount should be reviewed. Adequate documentation supporting the entry should be attached to facilitate effective secondary review and provide an audit trail. The review should be documented by initialing or signing and dating the journal entry. Written policies and procedures should be established documenting these protocols. Implementation of review procedures for journal entries will reduce the potential for errors and irregularities and improve financial reporting.

Finding 2007-38

DISCRETELY PRESENTED COMPONENT UNIT:

Rhode Island Resource Recovery Corporation

TRACKING OF METHANE ROYALTY REVENUES

The Corporation receives fairly significant royalties from the sale of electricity generated by a third party who uses methane created by the landfill in its production process. These royalties are recorded strictly on a cash basis by the Corporation throughout the year, with an attempt made at year-end to estimate the outstanding receivable due to the Corporation, thereby truing-up royalty revenue for the year. This method of recording methane royalty revenues is problematic because there are approximately seven royalty types earned by the Corporation on a monthly basis, which are paid based upon criteria tracked by the third party selling the electricity. These royalties are typically several months in arrears and when payments are made, these payments are only for certain royalties in a given month rather than for the entire month's outstanding royalty amount due. This uneven payment method results in the various royalty types being in arrears over differing periods. For example, as of June 30, 2007, royalty payments were in arrears for between three and seven months depending upon the royalty type. A significant adjustment was required at year-end due to the fact that no tracking of payments received by royalty type was performed during the year, which caused an unreasonable estimate of the year-end royalty receivable to be made by the Corporation because certain royalties were further in arrears than the receivable estimate took into account.

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RECOMMENDATION

- 2007-38 We recommend that a member of the Corporation's accounting staff be assigned the duty of tracking payments made by royalty type so that when the receivable estimate is prepared, an accurate estimate can be made based upon a comparison of actual receipts by royalty type to number of months each royalty type in arrears.

Finding 2007-39

DISCRETELY PRESENTED COMPONENT UNIT:
Rhode Island Resource Recovery Corporation

TIMELY RECONCILIATION OF ACCOUNT BALANCES

During performance of audit fieldwork it was noted that certain asset account balances had either not been reconciled on a timely basis or had not been reconciled at all. For instance:

- The operating cash account balance at June 30, 2007 was not reconciled until August 10, 2007. This reconciliation was made more difficult because the April and May reconciliations were prepared by a part-time employee, without being subsequently reviewed by the Finance/Budgeting Officer who is charged with oversight of the cash and investment accounts. This resulted in issues with the June reconciliation because certain undocumented adjustments made to reconcile the operating cash account in April and May were having unforeseen effects on June account balances.
- While investment activity is recorded on a monthly basis based upon the activity detailed within the investment statements received from investment custodians, the adjusted general ledger investment balances are not agreed to the investment statement balances after the activity has been recorded. We noted during investment testing that there were certain variances between the investment statement balances and the corresponding general ledger account balances, because certain activity had not been recorded. These variances went undetected until the audit because no account balance reconciliation was performed between the investment statements and the general ledger account balances.
- Certain amortizable assets have expense activity recorded to the general ledger on a monthly basis. However, no analysis is performed at any point during the year to assess whether the net book value of the asset is correctly stated based upon the amortization treatment selected for the asset.
- There was an immaterial uncorrected variance between the year-end accounts receivable aging and the general ledger balance. This variance could not be identified and is being carried forward into the next period.

These reconciliation issues did not result in material adjustments to the financial statements during the year ended June 30, 2007, however, if timely accurate account reconciliations are not

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performed, uncorrected misstatements of financial information could be reported to outside parties and/or depended upon by management in its decision making process.

RECOMMENDATION

2007-39 We recommend that a monthly closing calendar be developed, in which specific accounts are assigned to accounting personnel to reconcile and/or analyze. Any unexplained variances should be investigated and corrected in a timely basis (i.e. prior to the next month's closing). These reconciliations and/or analyses should be reviewed by an individual with the requisite technical expertise to assess their adequacy and accuracy.

Finding 2007-40

DISCRETELY PRESENTED COMPONENT UNIT:

Rhode Island Resource Recovery Corporation

EXCLUSION OF INVENTORY FROM YEAR-END BALANCES

It was discovered during performance of audit fieldwork that certain quantities of materials inventory (i.e. common borrow, crushed stone, etc.) were excluded from year-end counting procedures and therefore from year-end account balances. Exclusion of inventories on-hand from year-end counts can result in a misstatement of inventory balances, as well as cause management to over-budget for materials purchases in the coming fiscal year.

RECOMMENDATION

2007-40 We recommend that the Corporation's engineering staff ensure that counts of materials inventories are performed at sites where materials are stockpiled so that an accurate valuation of the inventories on-hand can be performed.

Finding 2007-41

DISCRETELY PRESENTED COMPONENT UNIT:

Rhode Island Resource Recovery Corporation

ACCOUNTING ESTIMATES

The Corporation has several significant accounting estimates that are not reviewed and/or adjusted on a regular basis. These estimates include the allowance for doubtful accounts, reserve for obsolete inventory, asset depletion lives, capitalized material costs, and certain accruals. This lack of review of estimates stems from the fact that in many cases the estimates are developed by personnel of the Corporation outside of the accounting department (i.e. engineers, in-house counsel, scale-house personnel, etc). These individuals create estimates when requested to by a member of

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management; however, once the estimate is created, no personnel are assigned takes ownership of the estimate. The estimate is only reviewed if it is questioned, and because the accounting department did not develop the estimate, the assumptions used in the initial estimate are carried forward into future periods, when in fact modification of the estimate is appropriate.

RECOMMENDATION

2007-41 We recommend that a member of the accounting personnel with adequate technical knowledge and an operational understanding of the Corporation review significant estimates on a regular basis and adjust the estimates accordingly. This review should be performed on a semi-annual basis at a minimum because financial statements are required to be submitted to the State of Rhode Island twice yearly.

Finding 2007-42

DISCRETELY PRESENTED COMPONENT UNIT:
Rhode Island Resource Recovery Corporation

ACCOUNTING DEPARTMENT OVERSIGHT

The Corporation's accounting department design as of June 30, 2007 divides the final responsibility for the general ledger between the more than one individual within the accounting department. These individuals have final responsibility for recording the activity and reconciling specific account balances. While these individuals have the skill necessary to record much of the Corporation's day-to-day activity, they do not have the technical or operational knowledge necessary to take final responsibility for the information included within the financial statements and related footnotes.

RECOMMENDATION

2007-42 We recommend that the Corporation hire a controller or chief financial officer with the requisite accounting knowledge and business background necessary to oversee the day-to-day operations of the accounting department, review the information recorded by the accounting staff for accuracy and reasonableness, and ensure the proper reporting of financial information in accordance with U.S. generally accepted accounting principles. The individual hired should be at a level within the organization adequate to be privy to operational information, because this operational information can have a significant effect on the accounting treatment of certain transactions.

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Finding 2007-43

DISCRETELY PRESENTED COMPONENT UNIT:
Rhode Island Turnpike and Bridge Authority

JOURNAL ENTRY APPROVAL

Preparation and posting of general journal entries to the general ledger are not required to be reviewed and approved. In addition, anyone with access to the general ledger software is able to post these journal entries. Because there are no controls in place, there is unlimited exposure to errors and/or misstatements.

RECOMMENDATION

2007-43 Controls should be developed to ensure that only approved journal entries are posted to the general ledger. All journal entries should be numbered sequentially, accompanied by appropriate supporting documentation and filed in order to facilitate retrieval. Entries should be prepared by the accounting staff for approval of the Chief Financial Officer (CFO) prior to posting. Entries prepared by the CFO should be approved by the Executive Director prior to posting.

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

Table of Findings by Federal Program		
Program Title	CFDA	Applicable Findings
Food Stamp Cluster:		
Food Stamps	10.551	07-46
State Administrative Matching Grants for Food Stamp Program	10.561	07-44, 07-45
Child Nutrition Cluster:		
School Breakfast Program	10.553	07-44, 07-47, 07-48, 07-49
National School Lunch Program	10.555	07-44, 07-47, 07-48, 07-49
Special Milk Program for Children	10.556	07-44, 07-48, 07-49
Summer Food Service Program for Children	10.559	07-44, 07-47, 07-48, 07-49
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	07-44, 07-45, 07-50, 07-51
Child and Adult Care Food Program	10.558	07-44, 07-48
Public Works and Economic Development Cluster:		
Economic Adjustment Assistance	11.307	None
Home Equity Conversion Mortgages	14.183	None
Qualified Participating Entities (QPE) Risk Sharing	14.189	None
Section 8 Project Based Cluster:		
Section 8 Housing Assistance Payments Program – Special Allocations	14.195	07-52, 07-53
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	None
Section 8 Housing Choice Vouchers	14.871	None
Unemployment Insurance	17.225	07-44, 07-45
Trade Adjustment Assistance	17.245	07-44, 07-54
WIA Cluster:		
WIA Adult Program	17.258	07-44, 07-55
WIA Youth Activities	17.259	07-44, 07-55
WIA Dislocated Workers	17.260	07-44, 07-55, 07-56
Airport Improvement Program	20.106	None
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	07-44, 07-45, 07-57, 07-58, 07-59, 07-60
Federal Transit Cluster:		
Federal Transit – Capital Investment Grants	20.500	None
Federal Transit – Formula Grants	20.507	None
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	07-62, 07-63, 07-64, 07-65
Federal Family Education Loans	84.032	07-62, 07-63, 07-64, 07-65
Federal Work-Study Program	84.033	07-62, 07-63, 07-64, 07-65
Federal Perkins Loan Program – Federal Capital Contributions	84.038	07-62, 07-63, 07-64, 07-65
Federal Pell Grant Program	84.063	07-62, 07-63, 07-64, 07-65
Federal Direct Student Loans	84.268	07-62, 07-63, 07-64, 07-65
Academic Competitiveness Grants	84.375	07-62, 07-63, 07-64, 07-65

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Program Title	CFDA	Applicable Findings
Student Financial Assistance Cluster (continued):		
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	07-62, 07-63, 07-64, 07-65
Nursing Student Loans	93.364	07-62, 07-63, 07-64, 07-65
Title I Grants to Local Educational Agencies	84.010	07-44, 07-49
Special Education Cluster:		
Special Education – Grants to States	84.027	07-44, 07-49, 07-61
Special Education – Preschool Grants	84.173	07-44, 07-49, 07-61
Federal Family Education Loans (Guaranty Agency)	84.032	None
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	07-44
Immunization Grants	93.268	07-44, 07-111
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	07-44, 07-66, 07-67, 07-68
Temporary Assistance for Needy Families	93.558	07-44, 07-46, 07-69, 07-70, 07-71, 07-72, 07-73, 07-74, 07-75
Low-Income Home Energy Assistance	93.568	07-44, 07-76, 07-77, 07-78, 07-79, 07-80, 07-81
CCDF Cluster:		
Child Care and Development Block Grant	93.575	07-44, 07-46, 07-70, 07-75, 07-82
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	07-44, 07-46, 07-70, 07-75, 07-82
Foster Care – Title IV-E	93.658	07-44, 07-45, 07-83, 07-84
Adoption Assistance	93.659	07-44, 07-45, 07-85
Social Services Block Grant	93.667	07-44, 07-46, 07-82, 07-86
State Children’s Insurance Program	93.767	07-44, 07-46, 07-75, 07-87, 07-88, 07-89, 07-90, 07-110
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	07-44
State Survey and Certification of Health Care Providers and Suppliers	93.777	07-44
Medical Assistance Program	93.778	07-44, 07-46, 07-71, 07-75, 07-86, 07-88, 07-90, 07-91, 07-92, 07-93, 07-94, 07-95, 07-96, 07-97, 07-98, 07-99, 07-100, 07-101, 07-110
Homeland Security Cluster:		
State Domestic Preparedness Equipment Support Program	97.004	07-44, 07-45, 07-102, 07-103, 07-104, 07-105, 07-106, 07-107, 07-108, 07-109
Homeland Security Grant Program	97.067	07-44, 07-45, 07-102, 07-103, 07-104, 07-105, 07-106, 07-107, 07-108, 07-109
Research and Development Cluster	Various	None

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Finding 2007-44

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 (Treasury/State 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.

Each department is responsible for drawing federal funds for the programs it manages. Generally, draw techniques are expenditure driven based on expenditure data recorded in the State's centralized accounting system known as RIFANS. RIFANS was implemented at the beginning of fiscal 2007 and, among other changes, impacted the reporting functionality for departments using the system. The Office of Accounts and Control did not provide guidance to departments on how to obtain system data to comply with the Treasury/State agreement. As a result, departments utilized their own queries of RIFANS data to determine amounts to be drawn. Consequently, a comprehensive and uniform control process to ensure that draws of federal funds were being determined in accordance with the specific requirements of the Treasury/State agreement was not in place.

The following table summarizes major programs administered by the primary government.

Major programs administered by the primary government	22
# of programs included in the Treasury/State agreement	17
Total number of components/funding techniques utilized for programs included	32
# of components/techniques being executed in compliance with the agreement	11

In most instances where the techniques specified in the agreement were not consistently followed, funds were generally drawn later than permitted. In some instances, draws were timed such that no excess federal cash was on hand, but the method for determining the drawdown amount was not in compliance with the Treasury/State agreement. We noted efforts to modify the draw techniques specified in the Treasury/State agreement to more accurately reflect program disbursement patterns and actual practice. These efforts should continue to streamline administration of federal cash management and to improve overall compliance with the Treasury/State agreement.

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In addition, since each department draws federal cash for its programs, centralized monitoring procedures are necessary to ensure compliance with federal cash management requirements. The Office of Accounts and Control assigned an employee to review departmental compliance with the Treasury/State agreement. As a result, various changes were made to the fiscal 2008 agreement, including reducing the number of programs included in the agreement. However, this employee retired during fiscal 2007 and review of departmental compliance with federal cash management requirements has not been reassigned to other staff. Continual monitoring is needed to improve controls over compliance with the Treasury/State agreement and overall cash management requirements for federal programs.

Questioned Costs: None

RECOMMENDATIONS

- | | |
|----------|---|
| 2007-44a | Continue to implement a centralized monitoring process to ensure compliance with cash management requirements for federal programs. |
| 2007-44b | Produce RIFANS reports and implement specific procedures to ensure data used by departments in drawing cash for federal programs is consistent and appropriate for the intended objective. |
| 2007-44c | 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 compute interest liabilities for major assistance programs. We found the following:

- ❑ The Treasury-State Agreement stipulates that no interest liability will be incurred (interest-neutral) for transfers of funds made in accordance with the agreed upon procedures specified in the agreement. All but one of the funding techniques included in the Treasury/State agreement were interest-neutral. In calculating the interest liability, compliance with the funding techniques was not considered. For those programs that adhered to the funding techniques no interest liability would accrue.

- ❑ The WIC program utilizes a separate bank account for the payment of program benefits. The interest liability for the benefit portion of the WIC program is based on the average daily balance of federal funds on hand. The Office of Accounts and Control's calculation of the average daily balance and resulting interest liability was incorrect. The result of these errors was a net underpayment of \$2,159 for the WIC program State interest liability. An overpayment error we noted in last year's calculation of \$2,404 was not included as an

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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adjustment in this year's calculation of the liability. The combined result of this year's errors is an overpayment of \$245.

- ❑ CMIA regulations require an interest liability to be paid on all refund transactions in excess of \$50,000. In 2006, we noted that the state liability related to refund transactions was not determined as required by the agreement. No liability for refund transactions was calculated for the 2007 report because the programming change was not completed in time. The Office of Accounts and Control intends to calculate the fiscal 2007 refund liability as an adjustment to the 2008 report.
- ❑ An error in the calculation of interest due for the Unemployment Insurance program benefit payment account resulted in an underpayment of \$802.

Questioned Costs: None

RECOMMENDATIONS

- 2007-44d 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.
- 2007-44e Calculate refund liabilities in accordance with the terms outlined in the Treasury-State Agreement. Submit a corrected CMIA Annual Report as necessary.

Finding 2007-45

VARIOUS PROGRAMS – refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

MANAGEMENT OF EQUIPMENT ACQUIRED WITH FEDERAL FUNDS

As described in Finding 2007-12 (Section II – Financial Statement Findings), accounting and physical control over the State's capital assets can be improved. These control deficiencies also impacted the State's controls over compliance for management of equipment acquired with federal funds.

Questioned Costs: None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Finding 2007-46

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

SOCIAL SERVICES BLOCK GRANT – 93.667

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 2007, there were just over 1,000 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. First reported for fiscal 2006 and continuing into fiscal 2007, there were a number of DHS employees and 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

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mandate that contractor employees not be granted any type of access into the production version of the INRHODES system. In their efforts to rectify the above problem DHS started in late SFY 2007 to reassign all of the contractor's 'SSS' employees into eight new true 'user roles' that would allow these individuals to perform only selected, application specific user functions. This reassignment process continued into SFY 2008. In addition to these new user roles, DHS has developed procedures requiring that prior permission must be obtained before these individuals, using these new user roles, are allowed to sign-on to the production version of the INRHODES system.

- ❑ Control over the establishment and maintenance of user accounts and privileges for contractor employees had been delegated to a contractor employee. Control and assignment of all user access rights should be assigned to a DHS security administrator. Late in fiscal 2007, DHS began developing the needed procedures that would transfer this control process away from the contracted employee and assigned it to a DHS employee. These efforts have not been finalized.
- ❑ 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. DHS has started to work with the DoIT staff to determine what is needed in the way of 'standard security' monitoring and tracking reports detailing the activities of the INRHODES users. No final /formal plan has been developed.

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

- | | |
|----------|---|
| 2007-46a | Regarding INRHODES system access for contractor employees DHS needs to continue in its efforts to create required, specific user roles designed to control, and as needed, limit the contractor's access to the production version of the INRHODES system. |
| 2007-46b | 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. |
| 2007-46c | Finalize, document and implement standard monitoring and tracking security reports that will supply the DHS systems security administrator with required details pertaining to the activities of all INRHODES users. Follow-up on all activity considered questionable or potentially inappropriate. |

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EBT Card PIN Machine Operation

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.

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, 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. Controls should be enhanced by implementing an automated sign-off, or deactivation of these devices upon completion of the pinning process.

In an effort to resolve this issue, new vendor supplied pinning terminals were delivered in late fiscal 2007. These units were not preprogrammed with an “*automated sign-off process*” in place as anticipated. It was subsequently determined that an upgrade was required to activate the automated sign-off function. Field upgrades began in November 2007.

Questioned Costs: None

RECOMMENDATION

2007-46d Establish an automated sign-off, deactivation process over the EBT pinning terminals. If this deactivation cannot take place immediately, then these terminals should be configured to automatically sign-off after the shortest allowable ‘time-out’ period.

Finding 2007-47

CHILD NUTRITION CLUSTER:

School Breakfast Program – CFDA 10.553

National School Lunch Program – CFDA 10.555

Summer Food Service Program for Children – 10.559

Administered by: Rhode Island Department of Education (RIDE)

SUBRECIPIENT MONITORING

The Rhode Island Department of Education (RIDE) performed on-site reviews of fifteen school food authorities (SFAs) as part of its subrecipient monitoring process; however, the results of

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the reviews were not always analyzed, translated into findings, and communicated to the SFAs for corrective action and follow-up in a timely manner. This is a continuing finding that was first reported in our fiscal 2006 Single Audit Report. In February 2007, the Northeast Regional Office of the USDA conducted a Management Evaluation of RIDE's administration of the National School Lunch Program. They cited several findings related to RIDE's on-site review process.

Federal regulations (7 CFR 210.18 and 7 CFR 210.19) require state agencies to conduct comprehensive evaluations of SFAs participating in the National School Lunch Program. Each SFA should be reviewed at least once during each five-year review cycle; provided that each SFA is reviewed at least once every six years. Consistent with federal requirements, RIDE has divided its subrecipient monitoring reviews into two parts:

- ❑ The Coordinated Review Effort (CRE) primarily focuses on eligibility determinations; the system for counting, recording, and reporting correct claims; and meal elements.
- ❑ The School Meals Initiative (SMI) review focuses primarily on a qualitative analysis of the nutritional value of the food served and an inspection of the food service preparation areas.

RIDE maintained a tracking log of CRE and SMI reviews conducted during the fiscal year. The log for the CRE reviews indicated that follow up visits were required of two SFAs that were first visited in January and February 2007. Although the deficiencies identified at these two SFAs required follow-up, the reviews have not been performed as of March 2008. According to federal regulation 7 CFR 210.18 (c)(4), "the State agency is encouraged to conduct first follow-up reviews in the same school year as the administrative review; but in no event shall the first follow-up review be conducted later than December 31 of the school year following the administrative review." The initial reviews were performed in school year 2007 and the follow-up reviews should have been conducted by December 31, 2007, i.e., school year 2008.

The tracking log for the CRE reviews also noted two instances where fiscal sanctions should have been imposed against two SFAs for not submitting a corrective action plan by the deadline. The corrective action plans are three months overdue, but fiscal sanctions have not been imposed. Federal regulations 7 CFR 210.18 (l)(1) require payments to be withheld from the SFA if the documented corrective actions on critical violations has not been provided by the deadline. According to section (k)(2), "documented corrective action is required for any degree of violation of general or critical areas identified in an administrative review or on any follow-up review. Documented corrective action may be provided at the time of the review; however, it shall be postmarked or submitted to the State agency no later than 30 days from the deadline for completion of each required corrective action."

RIDE did not provide written notifications to four SFAs on the results of the CRE reviews and to none of the 15 SFAs on the SMI reviews although the on-site reviews were performed between January 2007 through September 2007. Federal regulations 7 CFR 210.18 (j) requires that "after every review, the State agency shall provide written notification of the review findings to the school food authority's Superintendent (or equivalent in a non-public school food authority) or authorized representative. The written notification shall include the review findings, the needed corrective actions, the deadlines for completion of the corrective action, and the potential fiscal action." Similarly, RIDE performed on-site administrative reviews of the Summer Food Program administered by four of the sponsors at 19 sites during the summer of 2006. The reviews were performed in conjunction with the USDA. USDA identified some findings at one of the sponsors

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and communicated those findings to RIDE. However, RIDE did not communicate the findings to the sponsor and as a result no corrective action was requested.

A complete evaluation requires the State to report deficiencies to the SFA on a timely basis followed by the collaborative development of corrective action plans within a reasonable time frame. The State must continue to monitor the SFAs progress on implementing the corrective action plans.

In fiscal 2007, RIDE was not communicating the results of their reviews in a timely manner. Timely analysis of nutritional information, communication of findings to SFAs, and collaborative development of a corrective action plan is necessary to prevent deficiencies from going uncorrected for extended periods of time and to comply with federal regulations.

Questioned Costs: None

RECOMMENDATIONS

- | | |
|----------|--|
| 2007-47a | Ensure that SMI nutritional reviews are completed in a timely manner and include written communication of findings and development of a collaborative, corrective action plan. |
| 2007-47b | Conduct follow up visits within required federal timeframes. |
| 2007-47c | Enforce and impose fiscal sanctions when corrective action plans are not received timely. |

Finding 2007-48

CHILD NUTRITION CLUSTER:

- School Breakfast Program – CFDA 10.553
- National School Lunch Program – CFDA 10.555
- Special Milk Program for Children – CFDA 10.556
- Summer Food Service Program for Children – 10.559

CHILD AND ADULT CARE FOOD PROGRAM – CFDA 10.558

CONTROLS OVER eSNACS SYSTEM - CHANGE MANAGEMENT

RIDE has implemented eSNACS, an internet-based computer system, to administer the Child Nutrition Cluster programs and Child and Adult Care Food Program. We reviewed information technology controls in place over the system to ensure the validity of data used to administer the program including reimbursing subrecipients and preparing federal reports.

Change management controls over the eSNACS system should be enhanced. We discovered that a recent application change was not properly promoted into the production environment. Upon further investigation, we discovered that the consultant programmer inadvertently promoted code from a folder that did not contain the proper modified, tested, and approved code.

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

Enhanced control over the change management process is necessary to ensure that only properly tested and approved code changes are promoted into the production environment. This is accomplished by separating the functions of initiation, code creation/modification, testing, approval, and promotion of the application code into the production environment.

The support staff for this application program consists of two consultants: one application programmer and one project manager. The programmer currently performs code changes (based upon user requests) and system tests the changes. Additionally, he promotes the changes to production once unit testing (performed by the project manager), end-user testing, and RIDE management approval is completed.

RIDE has an IT operations staff, the Office of Network and Information Systems (ONIS), which typically is responsible for the support and maintenance of RIDE's application production environment. For other RIDE production application programs, ONIS is responsible for promoting approved application program changes into the production environment. This structure creates an appropriate separation of function between application developers and the production environment.

By allowing the consultant application programmer to control the entire process from code change to installation into production, proper separation of functions is not being followed. Change management controls should be enhanced by making ONIS responsible for the eSNACS application production environment similar to all other RIDE applications.

Questioned Costs: None

RECOMMENDATION

2007-48 Enhance controls over change management for the eSNACS program by making RIDE's Office of Network and Information Systems responsible for promoting application program changes into production after they have been properly tested and approved by RIDE operational staff.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Finding 2007-49

CHILD NUTRITION CLUSTER:

- School Breakfast Program – CFDA 10.553
- National School Lunch Program – CFDA 10.555
- Special Milk Program for Children – CFDA 10.556
- Summer Food Service Program for Children – 10.559

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

Administered by: Rhode Island Department of Education (RIDE)

SUBRECIPIENT AUDIT REPORTS

Subrecipients are required to submit a Single Audit Report to the Rhode Island Department of Education (RIDE) if they meet certain criteria outlined in OMB Circular A-133 regarding their total expenditures of federal awards. Federal regulations require the pass-through entity, such as RIDE, to issue 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 eight Local Education Agency (LEA) single audit reports received during fiscal 2007 contained findings related to federal funding passed through RIDE. Management decision letters should have been issued within six months after receipt of the findings, but no letters were sent until our audit inquiries were made. One of the LEAs single audit reports identified questioned costs of \$10,289 related to the Title I program, which RIDE subsequently requested be refunded by the LEA. We also found one LEA had not submitted a complete single audit reporting package to RIDE. Based on the information received, RIDE could not determine whether the LEA had any findings related to its programs.

We also noted that the Nutrition Cluster was not listed in the Schedule of Expenditures of Federal Awards in the single audit report of one subrecipient for their fiscal year ended September 30, 2005. RIDE had provided federal funding totaling \$166,742 in the state fiscal year ended June 30, 2005 to this subrecipient. Review of subrecipient single audit reports should include ensuring that significant federal funding passed-through has been reported by the subrecipient consistent with OMB Circular A-133 requirements and included in the major program determination process.

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.

Questioned Costs: None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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RECOMMENDATIONS

- 2007-49a Obtain subrecipient audit reports in a timely manner, and provide applicable management decision letters to local educational agencies within required time frames.
- 2007-49b Review the Schedule of Expenditures of Federal Awards (included within subrecipient single audit reports) to ensure all pass-through federal funding has been appropriately reported and included in the major program determination process.

Finding 2007-50

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

Administered by: Rhode Island Department of Health (DOH)

REPORTING

DOH did not maintain adequate supporting documentation for all the data reported on the *WIC Financial Management and Participation Report - FNS-798* and the *Addendum to WIC Financial Management and Participation Report – NSA Expenditures - FNS-798A*.

Federal regulations (7 CFR 246.25(b)) require State agencies to submit monthly financial and program performance (participation) data on the FNS-798 report. The financial data includes projected and actual Federal food expenditures and billed rebates for infant formula. A final report for the entire federal fiscal year is due at grant close-out.

We selected the final 2006 FNS-798 close-out report and three monthly reports from fiscal 2007 for testing. We found that the supporting documentation, in many instances, did not agree to the submitted report or the supporting documentation was not available.

State agencies prepare the FNS-798A annually to report administrative expenditures by four functions for the fiscal year being closed out. The Food and Nutrition Service (FNS), a division of the U.S. Department of Agriculture, uses the amounts reported for nutrition education and breast-feeding promotion and support to determine whether the State agencies met the statutory minimum spending level for those functions (7 CFR 246.14(c)).

On the FNS-798A for federal fiscal year ended September 30, 2006, we found that state personnel costs of \$52,585 for nutrition education and state and local personnel costs of \$195,249 for breastfeeding were not based on time sheets or periodic time studies but rather were the same amounts as reported in the prior fiscal year. Other state administrative costs, \$89,264, charged to nutrition education and breastfeeding support were based on predetermined allocation percentages from the prior year. While all the personnel costs included on the FNS-798A report were for individuals assigned to the WIC program, appropriate supporting documentation (timesheets or equivalent personnel activity reports) was not maintained for the outlays related to nutrition education and breast-feeding promotion and support. The amounts reported for these categories are

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questioned because of insufficient documentation to support the allocations to these categories; however, we consider these to be appropriate charges to the WIC program. The total amount reported for administrative costs is proper; however, the classifications are questioned.

Questioned Costs: \$337,098

RECOMMENDATION

2007-50 Ensure all data reported on the *WIC Financial Management and Participation Report - FNS-798* and *Addendum to WIC Financial Management and Participation Report – NSA Expenditures - FNS-798A* is adequately supported and documentation is retained.

Finding 2007-51

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

PAYROLL CHARGES

The salary and fringe benefits of one DOH employee were allocated to the WIC program but were not supported by time activity reports. Federal regulations, OMB Circular A-87, require that “where employees who 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. The regulations allow for budgeted allocations, but the budgeted amounts must be compared to actual at least quarterly, and adjustments must be made if differences of more than ten percent are found. Otherwise, the adjustment may be recorded annually.

Generally, WIC employees complete weekly time cards to record the actual hours spent on the WIC program or other activities. Periodically, the budget hours are compared to the actual hours and adjustments are made to transfer salary and fringe benefit charges to the appropriate program. However, for this one employee, the time cards did not detail the time spent on WIC and other programs. Forty percent of the employee’s salary and fringe benefits totaling \$13,633 were funded by the WIC program for the fiscal year.

In addition, another WIC employee has been on military leave for most of the past four years. The employee does not receive any wages, but the WIC program continues to pay the employer’s share of health insurance premiums, which totaled \$12,361 during fiscal 2007, because this employee previously worked 100 percent on the WIC program. Charging the WIC program the full cost of the health insurance premium while the employee has been on leave for several years does not appear to be an equitable distribution of the costs in accordance with OMB Circular A-87.

Pursuant to OMB Circular A-87, fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as military leave, are an allowable cost of federal programs as long as they are provided under established written leave

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policies and the costs are equitably allocated to all related activities. In addition, the cost of fringe benefits in the form of employer contributions for health insurance are allowable federal costs as long as such benefits are granted under established written policies and shall be allocated to federal awards and other activities in a manner consistent with the pattern of benefits attributable to the employee whose wages are chargeable to the federal award.

The State has developed an assessed fringe benefits rate applied to all payroll to fund disbursements for certain costs including unemployment compensation and accumulated vacation or sick leave upon retirement. The rate applied to all payroll results in an equitable distribution of such costs to all programs and activities. We believe that health insurance paid for an extended period to employees on military leave should also be included in the assessed fringe benefit rate applied to all payroll.

Questioned Costs: \$25,994

RECOMMENDATION

2007-51 Require all employees who allocate time to the WIC program to complete personnel activity reports which are then used as the basis for adjusting the budget allocations of payroll charges to the actual time spent on the program.

Finding 2007-52

SECTION 8 PROJECT BASED CLUSTER:

Section 8 Housing Assistance Payments Program – Special Allocations – CFDA 14.195
Administered by: Rhode Island Housing and Mortgage Finance Corporation

SPECIAL TESTS AND PROVISIONS

According to 24 CFR parts 5, subpart G, “any entity responsible for conducting a physical inspection of HUD housing to determine compliance with this subpart, must inspect such HUD housing annually in accordance with HUD prescribed physical inspection procedures. The inspection must be conducted annually unless the program regulations governing the housing provide otherwise or unless HUD has provided otherwise by notice.” During the year ended June 30, 2007, Rhode Island Housing realigned the dates on which it performed Housing Quality Inspections for its Section 8 Housing Assistance Payments project portfolio to correspond to the date on which it conducted Management and Occupancy Reviews for each respective project. The purpose of this change was to utilize resources more efficiently, streamline the frequency of site visits and conduct a more comprehensive inspection. However, this also resulted in the scheduling of some of the housing quality inspection during previous 12 month period. During our audit, we noted that for 4 of the 12 selected developments, Rhode Island Housing had not conducted a Housing Quality Inspection during the previous 12 month period. The non performance of a Housing Quality Inspection once in each 12 month period does not permit Rhode Island Housing to monitor housing quality in accordance with HUD guidelines. Rhode Island Housing should conduct Housing Quality Inspections for all projects in the Section and Housing Assistance Payment program at least one in every 12 month period. Also, Rhode Island Housing should institute a control policy and procedure which requires senior management review of the Housing Quality Inspection scheduling and requires

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senior management to obtain HUD’s approval when deviating from existing compliance requirements.

According to Section C (Unit Inspection) in Chapter 15 of section 4350.5 of the Housing Handbooks, the unit inspection must cover all vacant units and, at a minimum, 25% of occupied units.” During our audit, we noted that for 2 of 12 selected developments, Rhode Island Housing had selected less than 25% of the occupied units. Selecting less than the minimum number of occupied units required by HUD for inspection does not permit Rhode Island Housing to monitor housing quality in accordance with the HUD guidelines.

Questioned Costs: None

RECOMMENDATION

2007-52 Rhode Island Housing should select the minimum number of occupied units to inspect required by the Handbook and institute a control policy and procedure to determine whether it is complying with the requirement.

Finding 2007-53

SECTION 8 PROJECT BASED CLUSTER:

Section 8 Housing Assistance Payments Program – Special Allocations – CFDA 14.195
Administered by: Rhode Island Housing and Mortgage Finance Corporation

SPECIAL TESTS AND PROVISIONS

According to the Performance Based Contract Administration Core Tasks, the Contract Administrator is responsible for processing rental adjustments. During our audit, we noted that for 1 of 12 selected developments, Rhode Island Housing had for two months applied an adjusted 1 bedroom rate that was \$10 more than the approved adjusted 1-bedroom rent for this development. When this error was projected to the entire population of Section 8 Housing payment Program developments for the year ended June 30, 2007, the projected error was \$12,556.

Questioned Costs: \$12,556

Finding 2007-54

TRADE ADJUSTMENT ASSISTANCE PROGRAM – CFDA 17.245

Administered by: Department of Labor and Training (DLT)

REPORTING

Controls over federal reporting need to be enhanced to ensure accurate and consistent reporting of financial and program information to the federal Department of Labor. Reporting is complicated by the number of reports and the number of accounting systems or databases used to

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accumulate the required data. Controls over reported financial information could be enhanced by timely reconciliation to the State's RIFANS accounting system from which program expenditures are disbursed.

Financial Status Reports

Financial reports for the TAA program are based on different accounting systems depending on the type of expenditure. The US Department of Labor requires separate reports for administrative, training and benefits (TRA) and (ATAA) expenditures.

In general, program expenditures are disbursed through the State's accounting system and then recorded in the Department's FARS cost allocation system. Administrative and training expenditures are recorded in the same FARS ledger, however, only the administrative expenditure report is supported by the ledger. Training expenditures are accumulated on a series of spreadsheets to track expenditures by grant year -- these spreadsheets are then used to support the quarterly financial reports. Benefit expenditure reports are based on information from the department's cost allocation system, known as FARS.

The total amount charged to FARS for administration and training was reconciled to RIFANS at year-end, however the amount reported was not initially reconciled. Subsequent to our audit fieldwork, a reconciliation was completed. The spreadsheets used to accumulate training costs are not routinely reconciled to either RIFANS or FARS; however, training costs were included in the overall FGIS reconciliation process.

The State's federal grants information schedule (FGIS) is a tool designed to ensure reconciliation between federal reports and claims for reimbursement and the State's underlying accounting records. However, the FGIS for fiscal 2007 contained errors and did not prove that the amount reported per the federal reports reconciled to the amount recorded in RIFANS.

Controls over federal reporting should be enhanced by simplifying the multiple sources used to accumulate the data required for federal reporting and ensuring all sources are reconciled to the State's RIFANS accounting system from which program expenditures are disbursed.

Questioned Costs: None

RECOMMENDATION

2007-54a Improve controls over federal finance reports by simplifying the multiple sources used to accumulate the data required for federal reporting and ensuring all sources are reconciled to the State's RIFANS accounting system from which program expenditures are disbursed. Reconcile supporting documentation for federal reports to ledger activity.

Trade Act Participant Report

The Trade Act Participant Report (TAPR) includes employment and wage information of recipients of assistance to the US Department of Labor (USDOL). This quarterly report is prepared from client information data maintained within DLT's Adult and Dislocated Worker Unit (ADWU).

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We noted clerical errors in both the individual participant database and the composition of the quarterly TAPR data files that were submitted to the USDOL during the fiscal year ended June 30, 2007. For the quarters ended September 30, 2006, December 31, 2006 and March 31, 2007, 2 new records, 1 new record and 3 new records, respectively, were added to the TAPR databases maintained by RIDLT. These records were omitted when the TAPR databases were originally electronically submitted to the US DOL. Corrected reports have been subsequently submitted.

The errors result from a lack of supervisory review of reports prior to submission. Additionally, the database software used is not designed to meet the federal reporting requirements of the program. The department recently issued an RFP to obtain software to improve record keeping and reporting of information.

Questioned Costs: None

RECOMMENDATION

2007-54b Review reports prior to submission to ensure data agrees to supporting information systems.

Quarterly Determinations, Allowance Activities and
Employability Services Under the Trade Act (ETA 563)

The ETA 563 report is also based on information obtained from the same database used to support the TAPR, above. This report details data by each petition approved by the USDOL. Data reported include the number of recipients, number of first payments, number of weeks paid and amount paid. Some of this information is also reported on other reports, such as the 269 reports for training and benefit expenditures.

The 563 report provides additional detail over benefit expenditures by type, such as Basic TRA, Additional TRA and Remedial TRA. The 563 report for December 31, 2006 combined the data for additional and remedial TRA, resulting in an overstatement of the number of recipients. We noted similar errors for the quarter ended June 30, 2007.

The benefits amount reported in the 563 reports is not compared to the amount reported on the 269 reports. When we compared the amount reported on the four quarterly 563 reports submitted in fiscal 2007 to the four quarterly 269 benefit reports, we noted a difference of \$36,521.

The source for training expenditures reported on the 563 is the same database of client information used for the TAPR. The training amount reported in the 563 is not compared to the amount reported on the 269. When we compared the amount reported on the four quarterly 563 reports submitted in FY 2007 to the four quarterly 269 reports, we noted a difference of \$86,526. This could be attributed to timing of the expenditures, but without regular reconciliation, the variance could not be determined.

The report for the quarter ended December 31, 2006 was the first prepared under amended regulations issued by the USDOL, which may have contributed to errors in the report. Increased oversight should have been exercised during the report preparation process, including review of

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reports prior to submission. DLT staff was unaware of key accounting basis requirements of these reports. Staff have resubmitted reports for quarters ended December 31, 2006 and June 30, 2007.

Questioned Costs: None

RECOMMENDATION

2007-54c Review reports prior to submission to ensure data is consistent with supporting information systems, including data on other federal reports.

Alternative Trade Adjustment Assistance Activities Report

The Alternative Trade Adjustment Assistance program offers workers 50 years of age or older the option of receiving a temporary wage subsidy in place of training and other TAA benefits if they have been reemployed at a lower rate than received at their previous employer. Their previous employer must be certified by the USDOL in order for workers to be eligible for ATAA.

The quarterly report of activities submitted for the quarter ended June 30, 2007 contained an error for benefits paid.

Questioned Costs: None

RECOMMENDATION

2007-54d Review reports prior to submission to ensure data agrees to supporting information.

Finding 2007-55

WIA CLUSTER

WIA Adult Program – CFDA 17.258

WIA Youth Activities – CFDA 17.259

WIA Dislocated Workers – CFDA 17.260

Administered by: Department of Labor and Training (DLT)

FINANCIAL REPORTING

Financial reports for the WIA Cluster are based on financial information from DLT's cost allocation system, known as FARS. The FARS system establishes a ledger for each funding source. Expenditures are disbursed through the State's RIFANS accounting system and then recorded to the appropriate FARS ledger. Due to the complex administration of the WIA Cluster, there were 43 accounts and 23 ledgers in all created to administer the cluster. Ledgers are established for each grant year, but do not contain all the activity of the particular grant award. The amount of expenditures reported by grant award is derived by totaling all active ledgers and applying expenditures to the oldest grants first until each is fully expended. When ledgers are closed, the total expenditures recorded may not match with the amount authorized.

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The total amount charged to FARS is not reconciled to the State’s RIFANS accounting system on a regular basis. Federal regulations require financial reports to be based on the same financial system used to prepare the State’s financial statements. In comparing total WIA Cluster expenditures recorded in the State’s accounting system to total expenditures reported on WIA financial status reports, we noted a difference of \$146,270. Part of the difference (\$72,349) relates to the reporting of actual program expenditures (instead of funds advanced) for one of the service delivery areas; the remaining amount is unreconciled.

Controls over federal reporting could be improved by completing the State’s federal grants information schedule (FGIS). This statewide control procedure was put into place to ensure that federal program activity as reported in the State accounting is accurate and reconcilable to the amounts claimed and/or reported on federal reports.

Questioned Costs: None

RECOMMENDATIONS

2007-55a Establish authorized balances within FARS ledgers consistent with grant award documentation.

2007-55b Reconcile FARS ledger activity to the State’s accounting system (RIFANS) on at least an annual basis. Complete the State’s required federal grant information schedule to document that federal reports are consistent with amounts reported in the State accounting system.

Finding 2007-56

WIA CLUSTER

WIA Dislocated Workers – CFDA 17.260

Administered by: Department of Labor and Training (DLT)

ELIGIBILITY

An individual must meet various requirements to be eligible for services through the Dislocated Worker portion of the WIA cluster including a determination that the client is “unlikely to return to a previous industry or occupation” (29 USC 2801). Eligibility for services is determined by case-workers at the various NetWorkRI offices throughout the State. Workers utilize a questionnaire with a series of “yes” or “no” questions designed to determine whether a client is eligible for services. In most cases, an affirmative answer indicates eligibility. One of the questions on the form is “Is (the client) unlikely to return to a previous industry or occupation.” As written, a “no” answer would indicate that a client is likely to return to a previous occupation and would therefore be ineligible. We found four instances in our sample of ten clients where the question was answered “no” but the client was still deemed eligible for services. Supervisors did not note the inconsistency between the questionnaire and the resulting eligibility determination.

Questioned Costs: None

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RECOMMENDATION

- 2007-56 Provide additional training to staff regarding the objectives of the questionnaire. Enhance supervisory review over the eligibility process including specific review of the questionnaire used to assess eligibility.

Finding 2007-57

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 procedure which requires that a labor compliance check be performed at least once a month to ensure 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 active construction contracts 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 25 projects tested had at least one labor compliance checklist missing, and
- overall, 31 of 179 total checklists were missing (18%).

Control procedures should be enhanced to ensure labor compliance monitoring is performed at regular intervals and documentation of the monitoring procedures is retained within project files.

Federal regulations require verification that the contractors and subcontractors submit weekly certified payrolls. As part of our review of contractor payroll supporting documentation, we noted RIDOT did not have 87 contractor or sub contractor certified payrolls on file. RIDOT should strengthen controls to ensure contractor submission of certified payroll documentation is timely and complete.

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Questioned Costs: None

RECOMMENDATION

2007-57 Strengthen oversight of the labor compliance monitoring procedures to ensure contractor compliance with Davis Bacon Act requirements. Enforce completion of labor compliance checklists and receipt of certified payrolls.

Finding 2007-58

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

SPECIAL TESTS AND PROVISIONS - MATERIALS TESTING

RIDOT should strengthen internal procedures to ensure that all required material testing is performed and documented in accordance with federal regulations and its departmental policy manual. Federal regulations (23 CFR 637.205) requires that state transportation departments must have a sampling and testing program for construction projects to ensure that materials and workmanship generally conform to approved plans and specifications. RIDOT's policies, procedures and employee responsibilities relating to material sampling and testing are outlined in its *Procedures for Uniform Recordkeeping* (PURK) manual.

RIDOT utilizes the Federal Highway Administration's (FHWA) approved *Master Schedule for Sampling, Testing and Certification of Materials* to develop a materials test book for each construction project. Materials test books are unique to each project based on the construction materials to be used, the types of tests required for each item and the minimum number of tests to be conducted.

We selected a sample of 115 items from 25 different projects to determine whether RIDOT completed the required materials testing as specified in each project's material test book. We noted exceptions for 15 (60%) of the 25 projects as follows:

- Contractors are required to provide a Certificate of Compliance to ensure that all materials used on a project meet standard specifications. Items requiring these certificates are detailed in the materials test book. RIDOT's PURK manual requires the resident engineer to obtain the appropriate Certificates of Compliance in duplicate from the contractor. One copy should be retained in the field records and one copy should be submitted immediately to the RIDOT's Materials Section. RIDOT could not provide 11 contractor Certificates of Compliance.
- RIDOT's PURK manual specifies procedures to be followed when materials are deemed unacceptable based on the testing performed. These procedures include documenting that corrective action has been taken or that a decision was made to leave the nonconforming materials in place. A decision to leave nonconforming materials in place should not be made solely by the resident engineer. If a joint decision is made to leave nonconforming materials

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in place, the pertinent information must be documented and approved by the Administrator of Construction Operations. In one instance, RIDOT testing identified an unacceptable material. RIDOT received a credit from the contractor for the material; however, RIDOT was unable to provide documentation of the corrective action taken, or the decision and approval to leave the rejected material in place.

- Documentation of test results for certain types of various required tests were not on file at either the project field office or RIDOT's materials laboratory.
- We identified 17 instances where it was not clear that the test results documentation related to the materials submitted for testing.
- RIDOT's policy requires the materials test results be documented and then signed by the individual approving the test results. We identified 3 instances where the test results were not documented and 2 instances where the required signatures were missing.
- The RIDOT "Procedures for Uniform Record Keeping" (PURK) manual states, "The Construction Operations Section will prepare and provide the Project Materials Test Book for each project ... the Resident Engineer must insure that the required tests for each item are performed." In one instance the materials test book was not available at the worksite at the time of our field site inspection.
- RIDOT policy requires all materials test results to be documented in the materials test book and cross referenced to the test result documentation. In 7 instances the materials test book did not contain the required testing documentation. It should be noted that the materials lab was able to provide documentation that the tests were completed and the materials passed the required tests.
- Federal regulation 23 CFR 637.207 Quality Assurance Program states that each State transportation quality assurance program provides for an acceptance program and independent assurance program. In order to comply with this regulation RIDOT prepares an "Annual Independent Assurance Sampling and Testing Report." Part of this report includes a list of plants that are approved to distribute materials. We noted that materials was received and used from an unapproved plant on three different contracts.

The Federal Highway Administration has cited the Rhode Island Department of Transportation for deficiencies in its materials testing quality assurance program and has determined certain construction project costs ineligible for federal participation. The State has adjusted its fiscal 2007 financial statements to reflect the costs disallowed by the federal government.

RIDOT should improve its quality assurance program with respect to materials testing consistent with federal regulations and guidelines and the specific recommendations made by the Federal Highway Administration resulting from a recent review of the Department's materials handling policies and procedures.

Questioned Costs: None

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RECOMMENDATIONS

- 2007-58a Improve the RIDOT quality assurance program for materials testing consistent with federal regulations and guidelines and the specific recommendations made by the Federal Highway Administration.
- 2007-58b Ensure all required certificates of compliance have been received and recorded in the materials test book prior to contractor payment for the materials.
- 2007-58c Improve documentation for tests completed to comply with the FHWA approved *Master Schedule for Sampling, Testing and Certification of Materials*. Ensure that “unacceptable materials” test results are documented in accordance with PURK manual procedures and decisions to leave nonconforming materials in place are authorized consistent with those procedures.
- 2007-58d Communicate the approved plant list to all vendors and RIDOT personnel to ensure that only materials from approved plants are utilized in construction projects.

Finding 2007-59

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

FEDERAL REIMBURSEMENT FOR EXPENDITURE CREDITS

RIDOT did not have procedures in place to reimburse the federal government, in a timely manner, for its share of project expenditures credits processed during the year. This information was processed in the State accounting system but not relayed in a timely manner to the Federal Grants Unit to adjust billings to the federal government for reimbursement of project costs. RIDOT identified approximately \$530,000 of federal expenditure credits processed during fiscal 2007. Federal regulations require that requests for federal reimbursement be net of applicable credits and that the federal government be reimbursed for its share of program expenditures credits on a timely basis. RIDOT reimbursed the FHWA for its share of the appropriate credits in November 2007.

Questioned Costs: None

RECOMMENDATION

- 2007-59 Establish procedures to identify the federal share of expenditure credits and process reimbursements to the Federal Highway Administration in a timely manner.

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Finding 2007-60

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

SPECIAL TESTS AND PROVISIONS - PROJECT EXTENSIONS AND APPROVALS

RIDOT should strengthen internal controls to ensure that all required federal approvals are obtained for projects requiring FHWA oversight in accordance with federal regulations.

Title 23 106(a)(1) of the United States Code requires the submission of plans, specifications, and estimates. Except as otherwise provided in this section, each State transportation department shall submit to the Secretary for approval such plans, specifications, and estimates for each proposed project as the Secretary may require.

Identification of projects requiring FHWA oversight is outlined in an agreement letter between FHWA and RIDOT. We identified a RIDOT project with change orders that did not obtain the required FHWA approval. The required approval was not obtained by RIDOT because the resident engineer was not aware that the project changed from RIDOT to FHWA oversight based on a new Oversight Agreement for federal Aid Projects letter dated August 15, 2006.

Questioned Costs: None

RECOMMENDATION

2007-60 Strengthen controls to ensure that all projects subject to FHWA oversight are appropriately identified and all required federal approvals are sought.

Finding 2007-61

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)

REPORTING – CHILDREN’S CENSUS

One of the key federal reporting requirements for the Special Education Cluster programs is reporting the number of children with disabilities receiving special education and related services. Federal regulation (34 CFR 300.645(c)) requires state educational agencies to “obtain certification from each Local Education Agency (LEA) 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.

Local Education Agencies (LEA) submit their information via RIDE’s web site. Once obtained, the information is reviewed by RIDE staff for duplications and then transmitted to the US

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Department of Education. The LEA must then submit a certification of the final count to RIDE. We found three instances where the required certification was either incorrect or not received.

Questioned Costs: None

RECOMMENDATION

2007-61 Obtain the required certifications regarding the census count of children receiving special education and related services. Resolve any discrepancies between certification forms and data submitted.

Finding 2007-62

STUDENT FINANCIAL ASSISTANCE CLUSTER:

CFDA - Various

Administered by: Rhode Island College

CASH MANAGEMENT

OMB Circular A-122, Cost Principles for Not for Profit Organizations, sets forth the requirements for appropriate controls over requests for reimbursements of grant expenses (drawdowns). Supervisory review of prepared cash requests, prior to submission to the Federal agency, should be performed and evidenced. The College does not have an effective supervisory review control in this area.

Questioned Costs: None

RECOMMENDATION

2007-62 The College should design and implement effective policies and procedures to properly review and authorize requests for reimbursements of funds prior to submission.

Finding 2007-63

STUDENT FINANCIAL ASSISTANCE CLUSTER:

CFDA - Various

Administered by: Rhode Island College

REPORTING

For 2 out of a sample of 10 students, Smart/ACG disbursements made to students were not reported timely to the Department of Education, under their periodic reporting requirements.

Questioned Costs: None

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RECOMMENDATION

2007-63 The College should design and implement effective policies and procedures to ensure reporting is completed timely and accurately.

Finding 2007-64

STUDENT FINANCIAL ASSISTANCE CLUSTER:

CFDA - Various

Administered by: Rhode Island College

SPECIAL TESTS AND PROVISIONS

For 5 out of a sample of 5 students with FFEL PLUS loans, notification letters after disbursement of loan proceeds were not sent to parents (families).

Questioned Costs: None

RECOMMENDATION

2007-64 The College should design and implement effective policies and procedures to ensure timely notification is completed timely.

Finding 2007-65

STUDENT FINANCIAL ASSISTANCE CLUSTER:

CFDA - Various

Administered by: Rhode Island College

SPECIAL TESTS AND PROVISIONS

For 9 out of a sample of 30 students with change in their enrollment status, student status changes were not submitted timely to NSLDS.

Questioned Costs: None

RECOMMENDATION

2007-65 The College should design and implement effective policies and procedures to ensure timely notification is completed timely.

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Finding 2007-66

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

Administered by: Rhode Island Department of Health (DOH)

PAYROLL CERTIFICATION/ACTIVITY REPORTS

During fiscal 2007, DOH did not require employees who worked solely on the Centers for Disease Control and Prevention – Investigations and Technical Assistance (CDC) program, or their supervisors, to sign certifications to that effect for the period covered by the certification. In addition, personnel activity reports were not prepared on a monthly basis for employees working on multiple activities.

Subsequently, in February and March 2008, the Department obtained certifications for employees relating to state fiscal 2007. As a result of this process, we identified that some of the salary and fringe benefits of three employees, totaling \$25,472, were charged to the federal program erroneously. Accordingly, federal program expenditures were overstated for the fiscal year ended June 30, 2007.

In addition, DOH had determined that a portion of the salary and fringe benefits paid in fiscal 2007 of another employee, totaling \$15,803, should have been transferred out of the CDC program account to another federal program, but the adjustment was not posted until November 2007 of the next state fiscal year. Accordingly, federal program expenditures were overstated by \$15,803 at June 30, 2007. However, DOH appropriately accounted for the adjustment when reporting expenditures on the Financial Status Report at grant close-out as of August 30, 2007.

OMB Circular A-87 requires that charges for salaries and wages for employees who are expected to work solely on a single Federal award or cost objective will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications are to be prepared at least semi-annually and should be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

The federal regulations also 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. The regulations allow for budgeted allocations, but the budgeted amounts must be compared to actual at least quarterly, and adjustments must be made if differences of more than ten percent are found. Otherwise, the adjustment may be recorded annually.

Several adjustments were recorded in the State accounting system to transfer personnel costs in or out of the CDC program accounts. We tested five adjustments which transferred \$187,174 of personnel costs to the CDC programs and four adjustments which transferred \$183,714 out of the CDC programs. DOH could not provide adequate supporting documentation to substantiate \$187,174 of costs transferred to the CDC program accounts. The rationale for the adjustments

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appeared appropriate; however, the amounts were not substantiated by time sheets or other similar supporting documentation.

Questioned Costs: \$228,449

RECOMMENDATIONS

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| 2007-66a | 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. |
| 2007-66b | Require employees working on multiple activities to complete personnel activity reports, on at least a monthly basis, showing actual distribution of activity. |
| 2007-66c | Perform quarterly comparisons between budgeted salary allocations to actual time and effort and prepare adjustments for variances greater than ten percent. Prepare final adjustments for any variances remaining at year end. |

Finding 2007-67

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

SUBRECIPIENT MONITORING

DOH should strengthen its monitoring of subrecipient activities. The department does not have formal policies and procedures for monitoring its subrecipients, which identify the scope, frequency, and timeliness of monitoring activities based on the number, size, and complexity of awards to subrecipients and the types of documentation that should be maintained.

The Single Audit Act Amendments of 1996 (the Single Audit Act) requires the pass-through entity to monitor subrecipients' use of federal awards through site visits, limited scope audits, or other means. Because the pass-through entity is held accountable for federal awards administered by their subrecipients, the pass-through entity needs to establish an appropriate subrecipient monitoring process and to decide what, if any, additional monitoring procedures may be necessary to ensure the subrecipients' compliance with laws, regulations, and the provisions of contracts and grant agreements. Arrangements for subrecipient monitoring should be made by the pass-through entity in its agreements with subrecipients.

We tested eleven CDC contracts with ten subrecipient providers whose combined expenditures totaled \$2,222,645 in state fiscal 2007. For each subrecipient, DOH obtained and reviewed copies of paid vendor invoices or written requests for payroll before approving the requests for reimbursement. We reviewed some progress reports, minutes of meetings and written logs of activities, such as site visits. We found that DOH should enhance the documentation of monitoring activities performed. For example, written documentation identifies that a site visit occurred but

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

does not identify the specific activities performed or the results of such activities. In addition, the specific monitoring activity and degree of documentation varied from grant to grant. DOH should develop a written policy for monitoring CDC grants to provide guidance on the type of monitoring activities and written documentation that should be prepared.

OMB Circular A-133 requires DOH to (1) ensure that subrecipients expending \$500,000 or more in federal awards have met applicable audit requirements, (2) issue a management decision on any audit findings within six months after receipt of the subrecipients' audit reports, (3) ensure that the subrecipients take timely and appropriate corrective action, and (4) evaluate whether the subrecipient audits necessitate adjustment of DOH's records or impact its ability to comply with applicable federal regulations.

DOH included a standard language audit requirement in all their contracts but, in most cases, did not request or receive subrecipient single audit reports. In a few cases, where a subrecipient audit was obtained (at the request of another federal program administered by DOH), there was no evidence that the audit had been subjected to a review for the CDC program.

Questioned Costs: None

RECOMMENDATIONS

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| 2007-67a | Establish appropriate policies and procedures to monitor subrecipients, utilizing site visits, audits or other means as considered appropriate and enhance documentation of such activities. |
| 2007-67b | Obtain and review subrecipient audit reports. Issue timely management decisions on any audit findings and ensure that the subrecipients take appropriate corrective action. |
| 2007-67c | Evaluate whether the subrecipient audit reports necessitate adjustment of DOH's records, or impact its ability to comply with applicable federal regulations. |

Finding 2007-68

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

REJECTED EXPENDITURE TRANSACTION

Total program expenditures reported for fiscal 2007 inappropriately included a rejected expenditure transaction for \$22,259. The correcting offsetting credit was not recorded until February 2008 and, as a result, fiscal 2007 federal program expenditures were overstated by this amount. This resulted from control weaknesses impacting the handling of cancelled transactions within the RIFANS accounts payable module which is more fully described in financial statement Finding 2007-9.

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

Questioned Costs: \$22,259

RECOMMENDATION

2007-68 Adjust federal reports for the questioned cost resulting from inclusion of a rejected transaction in fiscal 2007 reported program expenditures.

Finding 2007-69

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, 2006 to June 2007 expenditures recorded in the State accounting system were approximately \$5.2 million more than reported on the TANF ACF-196 Financial Reports for the same period. This appears to be primarily a timing difference as the \$3 million of the variance reversed itself in the succeeding quarter.

Questioned Costs: None

RECOMMENDATION

2007-69 Reconcile and document timing differences which result in variances between the reported expenditures on the quarterly ACF-196 TANF Financial Report and amounts reflected in the State accounting system.

Finding 2007-70

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558

CHILD CARE CLUSTER:

 Child Care Development Block Grant – CFDA 93.575

 Child Care Mandatory and Matching Funds of the Child Care and Development Fund – CFDA 93.596

Administered by: Department of Human Services (DHS)

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

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Section III – Federal Award Findings and Questioned Costs

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 50 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:

- ❑ Three instances where the required hard copy documentation (e.g. application, income documentation, etc.) could not be located.
- ❑ Two instances 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 system calculated family share co-payment and provider payment amounts were slightly in error.
- ❑ Two instances where application questions concerning certain federal prohibitions were not answered by the applicant.
- ❑ 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 this case sample 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

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RECOMMENDATIONS

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| 2007-70a | 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. |
| 2007-70b | Ensure that the proper family shares are utilized to determine child care eligibility and to calculate client's co-payment and provider payment amounts. |
| 2007-70c | Identify policies and procedures regarding supervision of individual job search activities. |
| 2007-70d | Include child care cases in the sample case review process. |

Finding 2007-71

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

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resulting from the IEVS data matches is posted in the case record. Our testing involved randomly selecting 40 TANF cases from three quarters of state fiscal year 2007 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 the first three quarters of state fiscal year 2007. We compared this file to another file containing all TANF benefit payments made during the corresponding quarters in state fiscal years 2006 and 2007. 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 40 of these cases for testing.

We identified the following exceptions during our testing:

- Twenty (20) cases with discrepancies resulting from data matches were not investigated or resolved. Based on our evaluation of electronic case file data, two (2) discrepancies could have been easily resolved by the caseworker and would not appear to have impacted eligibility or the household's benefit level. Thirteen (13) cases with discrepancies may impact eligibility or the household's benefit level. The remaining five (5) cases were closed before the date of the interface and indicated discrepancies for periods prior to case closure. The Department maintains the closures may have prevented these cases from being assigned to a worker's caseload for review. The Department could not determine if these interface discrepancies had ever been assigned to workers for review and indicated that they may involve a programming deficiency.
- Eight (8) 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 the propriety of 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 and indicated that the potential programming deficiency will be researched.

Questioned Costs: None

RECOMMENDATIONS

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| 2007-71a | 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. |
| 2007-71b | Maintain documentation supporting the resolution of data match discrepancies. Initiate modifications when discrepancies impact eligibility and/or amount of benefit levels and research the potential programming deficiency involving closed cases. |

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

Finding 2007-72

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

PERFORMANCE REPORTING

Controls over preparation of the ACF 199, TANF Data Report (OMB No. 0970-0199) and the ACF 209, SSP–MOE Data Report (OMB No. 0970-0199) require strengthening to ensure the accuracy of the data reported. These reports are submitted on a quarterly basis to the Administration for Children and Families, U.S. Department of Health and Human Services and contain various information on TANF cases, including the number of hours each adult recipient spent in activities that count towards meeting federal work participation requirements.

Federal regulations 45 CFR Part 261 requires States to develop internal controls and procedures that are sufficient to verify and validate the accuracy of the work participation rates and underlying data.

Our testing of a sample of 25 cases included in the March 2007 ACF199 TANF Data Report and another 25 cases from the March 2007 ACF 209, SSP–MOE Data Report resulted in the following exceptions:

- ❑ The hours reported for employment/non-employment activities did not agree to case file documentation in three cases (i.e., paystubs, employer verification letters, vendor attendance verification forms).
- ❑ No vendor attendance verification form could be located for one case.
- ❑ In six instances, due to a programming error, item 28 on the ACF 199 TANF Data Report was miscoded a 1 (Family is not exempt from Federal Time Limits) when according to HHS instructions it should be coded 2 (Family is exempt from Federal Time Limits - child only case).

Additionally, the department has implemented work activity verification procedures, but does not have adequate controls to ensure that all applicable vendors are submitting their work activity attendance verification forms as required. The InRhodes system is not designed to allow corrections to non-employment work activity hours when actual attendance report data is subsequently received and indicates errors in information previously recorded and possibly reported. The department should enhance controls to ensure the accuracy and reliability of the information it reports to the federal government with the ACF199 TANF Data Report and ACF 209, SSP–MOE Data Report.

Questioned Costs: None

RECOMMENDATIONS

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

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| 2007-72a | Enhance controls to ensure the accuracy and reliability of the information included in the ACF 199 TANF Data Report and the ACF 209 SSP-MOE Data Report. |
| 2007-72b | Implement procedures to ensure that all applicable vendors are submitting their work activity attendance verification forms as required. |
| 2007-72c | Develop the capability to correct system information for non-employment work activities when actual attendance data is received indicating errors in data previously recorded and/or reported. Submit revised reports with the corrected data. |
| 2007-72d | Correct the INRHODES programming error for item 28 on the ACF 199 TANF Data Report. |

Finding 2007-73

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. 0970-0248*). This report is submitted on an annual basis to the Administration for Children and Families, U.S. Department of Health and Human Services and contains information on the TANF program and the State Maintenance of Effort program(s) for that year.

We found deficiencies in the accuracy of the reported number of families served for various programs. Deficiencies included computational errors, inaccurate or incomplete information reported and discrepancies between amounts reported in the ACF-204 and supporting documents. The inaccuracies were as follows:

- ❑ For the R.I. Refundable Earned Income Tax Credit Program the number of families served was understated by 28,099.
- ❑ A question regarding prior program authorization was not answered when it should have been answered “yes” for the Cash Assistance for Families Working Thirty or More Hours Per Week Program.
- ❑ The average number of children was reported for the Child Care Assistance Program rather than the average number of families as required, resulting in an overstatement of 2,562 for the number of families served.
- ❑ The average number of families served was overstated by 182 for the Emergency Assistance Program

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

Many of these errors could have been avoided by 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 and is supported by appropriate data and calculations.

Questioned Costs: None

RECOMMENDATIONS

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| 2007-73a | Strengthen supervisory review and approval procedures to ensure that all necessary information is included in the report and the information is accurate and is supported by appropriate data and calculations. |
| 2007-73b | Correct the federal fiscal year 2006 ACF-204 report and resubmit it to the federal government. |

Finding 2007-74

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

ACTIVITIES ALLOWED OR UNALLOWED

The Department of Human Services (DHS) utilizes a contractor to maintain the INRHODES computer system which is used to administer numerous federally funded programs. The contractor bills the department on a bi-weekly basis for its services. The billing detail identifies the allocation of the contractor's fee to the programs benefited including the specific amounts and accounts to be charged for each program. DHS uses the detail billing report as the basis for recording the charges in the State accounting system for financial statement purposes, preparation of federal financial reports, and to initiate payment to the contractor.

We found that the department charged the TANF program for amounts billed as other programs costs by the vendor-- the contractor identified \$28,757 as Department of Children Youth and Families program costs and \$267,026 as Child Care Program costs. DHS could not satisfactorily demonstrate the appropriateness of charging these other program costs to the TANF program.

Questioned Costs: \$295,783

RECOMMENDATION

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| 2007-74 | Revise federal reports to properly charge the appropriate programs for the amounts indicated on the contractor's billing. |
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2007-75

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.

45 CFR Section 95.621 requires State agencies to review the ADP system security of installations involved in the administration of DHHS programs on a biennial basis. At a minimum, 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 utilizes two primary systems, INRHODES and the Medicaid Management Information System (MMIS), to administer DHHS federal programs. Benefit payments disbursed (or determined) through these two systems during fiscal year 2007 totaled over \$2 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. In addition to its eligibility determination functions, INRHODES also determines benefit amounts for federal programs such as TANF and Food Stamps. DHS currently employs separate risk assessments and security review processes over these systems.

During fiscal year 2006, DHS contracted with its fiscal agent to provide specific HIPAA security remediation services for the MMIS. These services included detailed analysis and review of:

- security control risk assessment and analysis,
- network technical evaluation and vulnerability scanning,
- development of a formal systems security plan (specific to the MMIS),
- review of facility security for the new operations center,
- creation and installation of a new Intrusion Detection System (IDS), and

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

- review, test, and update disaster recovery/contingency plan policies and procedures.

The analysis and review of the information system security policies and procedures for the MMIS were conducted in accordance with guidance from the National Institute of Standards and Technology (NIST). This review and evaluation of the MMIS was a significant improvement over reviews conducted in prior years. Although we found the review conducted by the fiscal agent to be adequate, we recommend that DHS utilize an information technology (IT) audit contractor who is independent of the fiscal agent for future reviews.

As part of our fiscal 2007 audit, we reviewed certain general and application controls relating to the MMIS. Our review noted a number of deficiencies in internal control relating to IT security over the MMIS. We have communicated the specific deficiencies that we believed collectively represented moderate risks to the overall IT security of the MMIS confidentially to DHS. These deficiencies continue to support DHS's need for more resources relating to IT security over all information system resources administered by the department.

The review of the INRHODES system performed during fiscal 2006, however, was unchanged from the process conducted in past years. This process, as previously reported, did not address all of the security concerns outlined by standards governing security of federal ADP systems. Also, past security reviews of the INRHODES system, conducted by DHS personnel, 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 modifications, service continuity, and incident response capability were not tested for operational effectiveness. The department's security reviews of the INRHODES system are not considered adequate to comply with federal regulations relating to ADP risk analysis and system security review.

While DHS's efforts to improve its assessment of information system security controls over the MMIS are notable, the department 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. DHS should coordinate its efforts with the State's Division of Information Technology (DoIT), the division responsible for the coordinated security of all mission critical systems of the State. DoIT has recently adopted a comprehensive security plan which includes accepted industry standards in sufficient detail to assist the designated security officer in identifying security deficiencies. DoIT also has significantly more experienced information systems security staff and resources than DHS. By coordinating its efforts with DoIT, DHS will be able to utilize these additional resources while also ensuring that the MMIS and INRHODES (both mission critical to vital State operations) systems meet the mandated information system security policies promulgated by the State.

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 not been implemented by DHS.

Questioned Costs: None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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RECOMMENDATIONS

- 2007-75a Develop an enterprise-wide 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.
- 2007-75b 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.
- 2007-75c Coordinate information system security activities for the MMIS and INRHODES systems with the State’s Division of Information Technology to ensure compliance with the State’s newly mandated information systems security policies and procedures.
- 2007-75d Consider utilizing an independent IT audit contractor for future contracted information system security reviews to ensure the objectivity of the engagement’s results.

Finding 2007-76

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Administered by: Department of Administration – Office of Energy Resources (OER)

SUBRECIPIENT MONITORING - CONTRACTS WITH SUBRECIPIENTS

OMB Circular A-133 requires pass-through entities to identify to subrecipients certain federal award information at the time the award is made. The required information includes, but is not limited to, the name of the federal agency, CFDA number, CFDA title and applicable compliance requirements.

The standard language for subrecipient contracts used by the Office of Energy Resources does not identify the CFDA number and all applicable compliance requirements. Subrecipient contracts should be amended to include all necessary federal award information and applicable compliance requirements. Additionally, program management was unable to provide a contract related to the REACH program between the OER and subrecipient.

Questioned Costs: None

RECOMMENDATION

- 2007-76 Execute and/or amend contracts with subrecipients to include all necessary federal award information and applicable compliance requirements.

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

Finding 2007-77

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Administered by: Department of Administration – Office of Energy Resources (OER)

SUBRECIPIENT CASH MANAGEMENT

The Office of Energy Resources (OER) should continue to improve its procedures to ensure that payments of LIHEAP program funds to subrecipients are limited to their immediate cash needs, as required by federal regulations.

The Office of Energy Resources uses various non-profit agencies to carry out LIHEAP activities designed to assist low-income individuals with home energy costs. These non-profit agencies submit weekly LIHEAP funding reports to the Office of Energy Resources which identify the balance of program funds agencies have on hand each week. The Office of Energy Resources uses these reports to monitor agency cash balances and to determine if agencies require additional program funds.

We were informed that the amounts paid to subrecipients are based on the weekly LIHEAP fund reports submitted to the OER, program data from the OER's computer system, and other factors including State disbursement processing time and weather severity. However, program management was only able to provide documentation supporting 36 payments to subrecipients out of 200 such payments using the stated procedure. The reports used to determine the estimates were not attached to the payments making it difficult to match supporting documentation to specific payments to subrecipients.

We found that the Office of Energy Resources is not always sufficiently restricting subrecipient cash balances when distributing program funds. Some subrecipients reported excessive cash balances at various points during the year. For instance, one agency received \$930,000 in December 2006 and did not fully expend the funds until May 2007.

The Office of Energy Resources should continue to strengthen its procedures to ensure that it properly monitors subrecipient cash balances and distributes program funds in amounts designed to cover only the immediate cash needs of LIHEAP program subrecipients.

Questioned Costs: None

RECOMMENDATIONS

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| 2007-77a | Document the sources of data and process used to determine payments of LIHEAP funds to subrecipients. |
| 2007-77b | Restrict subrecipient funding to their immediate cash needs. |

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

Finding 2007-78

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Administered by: Department of Administration – Office of Energy Resources (OER)

PERIOD OF AVAILABILITY

The federal regulations relating to the period of availability for LIHEAP grants require that at least 90 percent of the block grant funds be obligated in the fiscal year in which they are appropriated. Up to 10 percent of the funds payable may be held available (or “carried over”) for obligation no later than the end of the following fiscal year. Funds not obligated by the end of the following fiscal year must be returned to Administration for Children and Families (ACF) – Department of Health and Human Services. There are no limits on the time period for expenditure of funds (42 USC 8626).

OER’s procedures to demonstrate compliance with period of availability requirements need to be improved. Accounts have not been established within the State accounting system to segregate expenditures and obligations by specific federal grant award. Additionally, subsidiary accounting records are not maintained to achieve this objective.

To monitor compliance with period of availability requirements, OER uses grant award expenditure data and obligations; however, we found both sources of data to be unreliable as detailed below:

- ❑ Total program expenditures are adequately reported in the State’s accounting system; however, expenditures are not segregated by federal grant award. Instead, grant drawdowns applied to a specific grant award are used as the basis for actual expenditures. Program personnel contend that drawdowns are a good indicator of expenditures because the federal funds are drawn on a reimbursement basis.
- ❑ The OER creates purchase orders to subrecipients to obligate program funds. The purchase orders do not identify the applicable grant year being obligated.

Because these data sources are imprecise, OER can improve its overall control process to ensure compliance with both earmarking and period of availability requirements.

Questioned Costs: None

RECOMMENDATIONS

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| 2007-78a | Maintain documentation to support the calculation of funds expended and obligated by grant award. |
| 2007-78b | Track expenditures by federal fiscal year grant award within the State accounting system. |
| 2007-78c | Identify the federal grant award year when obligating program funds by purchase orders with subrecipients. |

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

Finding 2007-79

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Administered by: Department of Administration – Office of Energy Resources (OER)

EARMARKING

The LIHEAP block grants have several earmarking requirements which include:

- ❑ No more than 10 percent of the LIHEAP funds payable to the State for a Federal fiscal year may be used for planning and administrative costs, including both direct and indirect costs. This limitation applies, in the aggregate, to planning and administrative costs at both the State and subrecipient levels (42 USC 8624(b)(9)(A); 45 CFR section 96.88(a)).
- ❑ No more than 15 percent of the greater of the funds allotted or the funds available to the grantee for a federal fiscal year may be used for low-cost residential weatherization or other energy-related home repairs. The Secretary may grant a waiver, and the grantee may then spend up to 25 percent for residential weatherization or energy-related home repairs (42 USC 8624(k)).
- ❑ No more than five percent of the LIHEAP funds payable to the State may be used to provide services that encourage and enable households to reduce their home energy needs and thereby the need for energy assistance. Such services may include needs assessments, counseling, and assistance with energy vendors (42 USC 8624(b)(16)).

These earmarking requirements are based on total program expenditures including expenditures made by subrecipients for administration, energy need reduction services and weatherization. OER identifies the specific purpose on purchase orders (e.g., administration, weatherization, etc.) for funds awarded to subrecipients. Program management maintains off-line spreadsheets allocating payments to subrecipients into the appropriate category.

The OER does not perform any review or analysis to ensure compliance with the earmarking requirement during the federal fiscal year. The OER relies on the specific category identified when the award (purchase order) is made to the subrecipient. Control procedures should be enhanced to ensure compliance with overall earmarking requirements including amounts expended by subrecipients and OER.

Questioned Costs: None

RECOMMENDATION

2007-79 Improve procedures and documentation to ensure compliance with the LIHEAP earmarking requirements.

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

Finding 2007-80

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Administered by: Department of Administration – Office of Energy Resources (OER)

ADMINISTRATIVE COSTS – PAYROLL CHARGES

The OER can improve controls and recordkeeping to ensure that payroll allocations to LIHEAP are adequately supported.

The majority of administrative functions relative to LIHEAP are performed by the OER; however, individuals within the State’s Central Business Office also administer aspects of the program. We noted the following regarding administrative costs charged to the program:

- ❑ *Office of Energy Resources (OER):* Staff completed random time studies for three weeks during the fiscal year indicating the hours worked on the various programs and activities within the Office of Energy Resources. Payroll was charged based on estimated allocation percentages; however, no adjustments were made to reflect the results of the random time studies. The random time studies were also not used as the basis for the initial estimated allocation percentages used in the State’s payroll system. Further, three employees of the OER did not complete the required three time studies during the fiscal year. Personnel costs allocated to LIHEAP by OER staff totaled \$960,158.
- ❑ *Central Business Office:* We found that the distribution of salary and fringe benefit costs to the program were not supported by personnel activity reports or equivalent documentation. These amounts, totaling \$49,527 are questioned due to insufficient supporting documentation.
- ❑ *Department of Elderly Affairs:* The Department of Elderly Affairs has been contracted by the Office of Energy Resources to perform specific monitoring services relating to the elderly recipients of the grant. The contract amount was \$45,000. Total fiscal year 2007 contract expenditures were \$67,264 which is \$22,264 more than the contract amount. Personnel costs continued to be charged to the contract award after the contract limit had been exceeded.

Questioned Costs: \$71,791

RECOMMENDATIONS

- | | |
|----------|--|
| 2007-80a | Allocate employee salary and fringe benefit costs to LIHEAP based upon personnel activity reports or equivalent documentation. Adjust estimated allocations on a timely basis after the completion of periodic time studies. |
| 2007-80b | Monitor the allocation of personnel costs to LIHEAP to ensure that only appropriate charges are made to the program. |
| 2007-80c | Ensure funding limitations in contract award amounts are observed. |

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Finding 2007-81

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Administered by: Department of Administration – Office of Energy Resources (OER)

REPORTING

Financial Status Report (SF-269A)

The State is required to prepare the Financial Status Report (SF-269A) for the LIHEAP block grant. We noted the following regarding the preparation of the SF-269A report:

- ❑ The OER reports the funds not obligated on the SF-269A report for purposes of demonstrating compliance with the period of availability requirement. As discussed in Finding 2007-78, because of insufficient supporting documentation we could not verify the amounts reported as expended or obligated at September 30, 2006 for the FFY 2006 LIHEAP grant award.
- ❑ The OER did not submit separate SF-269A reports for “regular” block grants and emergency contingency funds as directed by guidance included in *Action Transmittal No. LIHEAP-AT-2001-1*, dated 10/18/00 issued by Administration for Children and Families, Department of Health and Human Services.

Questioned Costs: None

RECOMMENDATIONS

- | | |
|----------|---|
| 2007-81a | Comply with LIHEAP Action Transmittal No. LIHEAP-AT-2001-1 and submit separate SF-269A reports for Block Grant funds and Emergency Contingency Grant funds. Implement revised reporting guidance for federal fiscal 2007 as provided in LIHEAP AT-2008-1. |
| 2007-81b | Complete a revised final SF-269A financial report for both "Regular" block grants and Emergency Contingency funds in accordance with the requirements outlined in the LIHEAP Action Transmittal No. LIHEAP-AT-2001-1, Dated 10/18/00. |

Carryover and Reallotment Report

Grantees must submit a report no later than August 1 indicating the amount expected to be carried forward for obligation in the following fiscal year and the planned use of those funds. Funds in excess of the maximum carryover limit are subject to reallotment to other LIHEAP grantees in the following fiscal year and must also be reported (42 USC 8626).

Section 2607(b)(2)(B) of the LIHEAP statute requires that at least 90% of funds available must be obligated in the year in which they are appropriated. Not more than 10 percent of the amount payable for a fiscal year may be held for obligation in the succeeding fiscal year.

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Since an amended report was submitted October 11, 2006, actual expenditure and obligated amounts were available. Program personnel did maintain documentation supporting the amounts reported. However, we determined that the amounts reported on the amended Carryover and Reallotment report did not agree to the supporting documentation or the RIFANS accounting system.

Line 1 of the report should include “Regular” block grant, Contingency funds and oil overcharge funds, if applicable. We found that the 2006 report included the Leveraging Incentive grant on Line 1 causing an overstatement of that line item by \$105,051.

Questioned Costs: None

RECOMMENDATIONS

2007-81c Ensure that the Carryover and Reallotment report is supported by sufficient documentation.

2007-81d Submit a revised Carryover and Reallotment Report for the 2006 grant awards as required.

Finding 2007-82

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

SOCIAL SERVICES BLOCK GRANT – 93.667

Administered by: Department of Human Services (DHS)

PROVIDER CONTRACTS

The Department did not have contracts covering fiscal 2007 for twelve of the thirteen multi-site, center-based child care vendors we reviewed. These child care vendors were paid approximately \$15.4 million during fiscal 2007. We were informed that approximately 400 center based contracts were due for renewal simultaneously starting in fiscal 2006. Due to this large volume of contracts requiring renewal, the Department was unable to process all of the multi-site center based contract renewals during fiscal years 2006 and 2007. A portion of these Child Care vendor contract expenditures were charged to the SSBG Social Services Block Grant program.

The Department should strengthen its control procedures to ensure that all contracts are renewed on a timely basis. This is important to ensure that providers are cognizant of all specific program requirements to which they must comply and to enable the Department to legally enforce contract provisions as required.

Questioned Costs: None

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RECOMMENDATION

2007-82 Strengthen internal controls to ensure that all contracts are renewed on a timely basis.

Finding 2007-83

FOSTER CARE – TITLE IV-E - CFDA 93.658
Administered by: Department of Children, Youth, and Families (DCYF)

ELIGIBILITY

DCYF can obtain federal funding for certain costs of caring for children in foster care such as room and board, day care and clothing allowances (known as maintenance costs). Federal participation is allowable for those cases that meet specific eligibility criteria, including such as whether the foster child was removed from his or her home by means of a judicial determination or pursuant to a voluntary placement agreement {42 USC 672 (f), 42 USC 672 (a), 45 CFR 1356.21, and 45 CFR 1356.22}.

We selected a sample of 25 maintenance payments and tested them for applicable eligibility requirements. The federal share of these costs totaled \$4,227,809 in fiscal year 2007, and the universe of payments in our sample was \$3,901.

We found that one of the 25 payments in our sample was not eligible for federal funding. The payment was made on behalf of a child for whom DCYF did not have evidence that the child was removed from the home by means of a judicial determination. The federal share of these unallowable costs totaled \$99.

Questioned Costs: \$99

RECOMMENDATION

2007-83 Adjust federal reports to reimburse the federal government for the unallowable maintenance costs.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Finding 2007-84

FOSTER CARE – TITLE IV-E - CFDA 93.658

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

ALLOWABLE COSTS/COST PRINCIPLES

Duplicated payroll and benefit costs

During the last two quarters of State fiscal year 2007, DCYF duplicated payroll and benefit costs totaling \$237,486 (federal share) for certain employees who are responsible for the operation of the Department's computer system known as RICHST which is used to administer the Foster Care program. These costs are reimbursable pursuant to 42 USC 674 (3) (D). Claims for reimbursement on the Foster Care financial report (IVE-1) inappropriately included these amounts twice.

Duplicated statewide information technology and human resource costs

During fiscal 2007, a number of new federal accounts were established within the State's centralized accounting system (RIFANS) to effect the allocation of certain costs (e.g., information technology and human resource) among federal programs. The new federal accounts were linked to specific federal programs without complete consideration as to how the costs would be reimbursable from the federal government, particularly when departmental cost allocation systems were involved. For the Foster Care program, such costs were included in DCYF's departmental cost allocation system and also reported as a direct program charge. Accordingly, we found \$987,564 in costs charged to the Foster Care program that are not reimbursable. These costs were reflected in the State's accounting system as applicable to the Foster Care program but were not claimed on IVE-1 reports submitted for quarters ended in state fiscal year 2007. The State intends to make a correcting adjustment during fiscal 2008.

The State needs to improve its controls over the creation and linkage of federal accounts to ensure that only allowable costs are charged to federal programs. Statewide cost allocation objectives must consider the unique aspects of each federal program regarding rate setting and departmental cost allocation procedures which would ultimately impact reimbursement from the federal government.

Questioned Costs: \$1,225,050

RECOMMENDATIONS

- | | |
|----------|--|
| 2007-84a | Adjust federal reports to reimburse the federal government for the \$237,486 of unallowable costs claimed during fiscal 2007. |
| 2007-84b | Correct accounts linked to the Foster Care program for statewide cost allocation purposes to ensure that the state accounting system reflects the appropriate share of federally-reimbursable program costs. |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Finding 2007-85

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); (2) the Title XVI Supplemental Security Income program {42 USC 673 (a)}; or (3) is a child whose costs in a foster family home or child care institution are covered by the foster care maintenance payments being made with respect to his or her minor parent {42 USC 673(a)};
- DCYF must determine that the child has special needs as defined by 42 USC 673 (c);
- A subsidy agreement must be prepared and signed before the final decree of adoption {45 CFR 1356.40 (b) (1)}; and
- DCYF must conduct a criminal records check on the prospective adoptive parent(s){45 CFR 1356.30}.

We selected a sample of 35 adoption subsidy payments and tested them for applicable eligibility requirements. The federal share of these costs totaled \$6,385,214 in fiscal year 2007, and the universe of payments in our sample was \$4,314.

We questioned the eligibility for federal funding of eight of the 35 payments in our sample. 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. For two cases, DCYF could not provide records to support the judicial determination or voluntary placement agreement. In the remaining six cases, documentation supporting a criminal records check for the prospective adoptive parents was not available.

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 eight unsupported payments totaled \$1,020.

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 various inconsistencies in documentation supporting eligibility for the program. For example, the State must determine that a specific factor or condition exists in order for a child to be considered one with special needs. In some cases, DCYF indicated on the adoption subsidy agreements that a specific factor or condition existed, but neither the department's computer

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system nor other records indicated that such a factor or condition was present. In other cases, conversely, the factor or condition was indicated in the department's computer system but not in the subsidy agreements or other records.

Questioned Costs: \$1,020

RECOMMENDATIONS

- | | |
|----------|--|
| 2007-85a | Adjust federal reports to reimburse the federal government for the unallowable adoption subsidy charges. |
| 2007-85b | Develop written policies and procedures regarding Title IV-E adoption assistance eligibility determinations and record retention practices to ensure consistent application. |
| 2007-85c | Create a central repository for all records that support the Adoption Assistance eligibility determination. Consider electronic imaging of these critical documents to facilitate storage and retrieval. |
| 2007-85d | Conduct random reviews of Adoption Assistance eligibility determinations as part of an appropriate quality control system to ensure that all claims meet federal eligibility requirements. |

Finding 2007-86

SOCIAL SERVICES BLOCK GRANT – CFDA 93.667
MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

CONTROLS OVER HOME HEALTH SERVICES BILLINGS

Payments for a variety of services provided by home health agencies are processed through the State's Medicaid Management Information System (MMIS) for both Medicaid and non-Medicaid sources of funding. Home health agencies provide comprehensive community support services, such as homemaker services, nursing services, meal preparation services, etc., to elderly and disabled individuals living in the community. Approximately \$25 million (state and federal share) was charged to the Medicaid program and \$1 million was charged to the Social Services Block Grant (SSBG) program. Our review of the controls over these expenditures found that only certain homemaker services required prior authorization. We also noted that there was little distinction in many cases between the services billed that required prior authorization and those that did not.

For home health services provided to Medicaid recipients, prior authorization of services requires the completion of a Provider Authorization Panel in INRHODES by a DHS case worker. The Provider Authorization Panel includes general client information, the service provider's name, a description of approved services, the allowed hours of service per day, the authorized days of service per week, and the maximum number of units of service approved per month. Once completed, DHS forwards a copy of the Provider Authorization Panel to the home health agency provider as

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authorization for services. DHS, however, does not provide this form (either manually or electronically) to its fiscal agent to ensure that payments are only made for authorized home health services.

For services provided to eligible individuals under SSBG, prior authorization of services includes department personnel completing an HS-3 *Authorization of Homemaker / Home Health Aide Services Adult Day Care* form for each client. This form is also not communicated to the fiscal agent to improve overall control over the processing of home health services through the MMIS.

Controls over home health services paid through the MMIS should be improved to ensure that payments are only made for authorized services. Systemic controls within the MMIS that review the frequency and duration of specifically authorized services would be the most effective control over this service group.

Questioned Costs: None

RECOMMENDATION

2007-86 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 2007-87

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 the federal and state share of program expenditures.

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 charged. Instead, all collections of co-pay amounts are 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 the 2007 federal financial participation rates (52.35% for Medicaid vs. 66.65% for SCHIP). Cost sharing collections in fiscal 2007 approximated \$3.5 million (for approximately 13,700 individuals); however, the Department cannot determine the amount that should be applied to each program.

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At the end of fiscal 2007, DHS agreed upon a methodology with the Centers for Medicaid and Medicare Services (CMS) to allocate cost sharing collections between Medicaid and SCHIP based on the percentage of collections relating to the two programs. Based on this methodology, DHS will determine the percentage of Medicaid and SCHIP eligible individuals on a monthly basis subject to cost sharing and allocate the monthly collections between the two programs in accordance with those percentages. DHS has begun the necessary system modifications which will allow them to make this determination and plans to implement the agreed upon methodology during fiscal 2008.

Questioned Costs: None

RECOMMENDATION

2007-87 Implement approved CMS methodology for crediting the appropriate federal program for its share of cost sharing collections.

Finding 2007-88

STATE CHILDREN’S INSURANCE PROGRAM – CFDA 93.767
MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

FISCAL AGENT OVERSIGHT

DHS is highly dependent on the Medicaid Management Information System (MMIS) operated by its fiscal agent to process claims on behalf of eligible Medicaid beneficiaries and provide controls over disbursing state and federal funds and other aspects of Medicaid program administration. DHS has delegated many critical program operations to its fiscal agent such as billing for third party recoveries and drug rebates, administering provider enrollment and eligibility, and conducting surveillance and utilization reviews over paid claims activity. Oversight of these operations by DHS is essential to ensure that the fiscal agent complies with program regulations, and that related controls are in place and operating as designed. This is critically important considering the authority delegated to and dollar value of disbursements processed by the fiscal agent.

We have recommended in prior audit reports that DHS improve its oversight by monitoring the internal control procedures and financial activities employed by the fiscal agent. Monitoring is necessary to ensure that effective controls are in place over program disbursements, and that financial data is being accurately reported for presentation in the State’s financial statements and federal reports. Financial monitoring procedures have not been fully developed, and responsibility for financial monitoring has not been centralized or well coordinated. DHS may need additional resources to fully accomplish these objectives.

We noted the following matters:

- *DHS should ensure that the fiscal agent has adequate internal control policies and procedures in place to pay claims in accordance with program regulations and to control cash disbursements made on behalf of the State. The internal control structure through which the fiscal agent processes Medicaid claims is totally separate and distinct from the*

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State’s accounting system and related control procedures used to disburse other state expenditures. During fiscal 2006, the State’s fiscal agent contracted for and completed a Type I “SAS 70” review. This review documented the design and operation of key internal controls utilized by the fiscal agent. No review of the fiscal agent’s internal control structure was performed during fiscal 2007. A Type II “SAS 70” review, which includes testing the operating effectiveness of the fiscal agent’s documented controls over Medicaid claims processing, should be performed annually.

- *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.

The above issues in conjunction with control deficiencies noted in Finding 2007-75 relating to DHS’s overall IT security over the MMIS and Finding 2007-96 relating to fiscal agent procedures relating to provider eligibility must be addressed to better safeguard Medicaid operations delegated to the State’s fiscal agent. Performance of an annual Type II “SAS 70” examination of the fiscal agent’s internal control would provide the State with additional assurance regarding the sufficiency of control procedures over Medicaid program expenditures which totaled in excess of \$1.7 billion in fiscal 2007. Such assurance is particularly important considering that the operations of the State’s fiscal agent are completely separate and distinct from any of the State’s other centralized control processes.

Questioned Costs: None

RECOMMENDATIONS

- 2007-88a Obtain an annual Type II “SAS 70” examination performed by independent certified public accountants of the fiscal agent’s internal control policies and procedures.

- 2007-88b 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.

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Finding 2007-89

STATE CHILDREN’S INSURANCE PROGRAM – CFDA 93.767
Administered by: Department of Human Services (DHS)

CONTROLS OVER THE DETERMINATION OF SCHIP 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. SCHIP expenditures for fiscal 2007 totaled in excess of \$81 million (federal - \$54 million).

Eligibility for both the Medicaid and the SCHIP programs is determined through the Department’s INRHODES computer system; however, specific SCHIP eligibility criteria have 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 (designed by the State’s contracted fiscal agent) against the Medicaid Management Information System (MMIS), identify claims paid on behalf of individuals that also meet the eligibility criteria for SCHIP. These queries are designed to identify claims (both capitation and fee-for-service) for individuals that meet the specific age and income criteria deemed eligible for SCHIP and also determine whether the Medicaid recipient has verified third party insurance coverage, a characteristic that would disqualify them from meeting SCHIP eligibility requirements. This process is normally done monthly to isolate individuals meeting the SCHIP eligibility so that the related expenditures (both fee-for-service and capitation payments) can be shifted to SCHIP and the additional federal match can be claimed.

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. Accordingly, DHS’s current process of determining SCHIP eligibility through queries of MMIS data on a monthly basis appears to be the only cost-effective manner in which to conduct SCHIP claiming.

The fact that the State’s SCHIP eligibility determination process is completely performed by consultants places more importance on the need for a quality control review process over SCHIP claiming. Controls over this process, could be improved by subjecting SCHIP claiming results to an eligibility quality control process similar to the process in place over all Medicaid claims. Such a process should provide additional control over the determination of SCHIP eligibility by evaluating eligibility based on the specific income and insurance criteria mandated for the program instead of relying solely on an individual’s coding characteristics within the MMIS.

Questioned Costs: None

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RECOMMENDATION

2007-89 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.

Finding 2007-90

STATE CHILDREN’S INSURANCE PROGRAM – CFDA 93.767
MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

FEDERAL REPORTING

Federal regulations require DHS to report expenditures for the Medical Assistance Program (Medicaid) on Form CMS-64. Expenditures for the State Children’s Health Insurance Program (SCHIP) are also reported on Form CMS-64 for the basic children’s population with all other eligible SCHIP populations reported on the CMS-21 report. While most of the information regarding claims paid is provided through the MMIS operated by the State’s fiscal agent, the State’s accounting system, RIFANS, is the official record for reported federal expenditures.

Quarterly Statements of Expenditures- Program Expenditures

Controls should be improved over the preparation of the quarterly reporting of Medicaid and SCHIP expenditures. We found that the process to accumulate information needed to prepare the CMS-64 report is complex and requires extensive manual effort. Although we were able to reconcile program expenditures reported for both federal programs to RIFANS for fiscal 2007, significant differences were noted for individual quarters, on both the CMS-64 and CMS-21 reports. These differences were mainly attributable to the timing of adjustments that reclassify expenditures from Medicaid to SCHIP for identified Medicaid recipients that also meet SCHIP eligibility requirements.

Although the reconciliation and reporting of Medicaid program expenditures has improved in recent years, 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 of 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.

Quarterly Statements of Expenditures- Administrative Expenditures

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’s 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. Based on interagency agreements between DHS and other State agencies, all Medicaid claiming initiated by other departments should be recorded in authorized accounts within the State accounting system demonstrating the appropriate State/Federal shares of the

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expenditures. Agency compliance with this mandated accounting would allow DHS to completely reconcile administrative expenditures reported in the State's accounting system with those reported on cost certifications filed by those agencies and ultimately Form CMS-64.

During fiscal year 2007, Medicaid administrative expenditures reported on Form CMS-64 totaled \$47,175,323 (federal share) while expenditures reported in the State accounting system totaled \$56,905,558. Most of the difference was attributable to administrative expenditures for other State agencies. Ideally, expenditures reported on the State's SEFA which is prepared from data reported by the State's accounting system should be reconciled with amounts claimed on federal reports to explain reporting differences. Although DHS reconciles reported program expenditures to amounts recorded in the State's accounting system, no such reconciliation is performed for reported administrative expenditures.

Federal Cash Transaction Report

DHS is also required to complete Form PMS-272 Report for the Medical Assistance and SCHIP Programs. The main function of the PMS-272 is to detail both administrative and program grants authorized for the programs and actual expenditures reported on the related federal expenditure reports (Forms CMS-64 and CMS-21). For most quarters, DHS estimates federal expenditure amounts when Form CMS-64 is not completed in time to determine the actual amount of federal expenditures for the quarter. Our analysis of expenditure amounts reported on quarterly PMS-272 reports concluded that, for most quarters, the reported amounts varied significantly from those reported on federal expenditure reports. For several quarters, expenditures reported on the PMS-272 report exceeded amounts reported on the federal expenditure reports by more than \$10 million and the difference was not caused by previously unreported expenditures from prior quarters. Significant differences were also noted when these amounts were considered collectively over the entire fiscal year. DHS should improve its federal reporting process to ensure that accurate Medicaid and SCHIP expenditure amounts are reported on the PMS-272 report.

Questioned Costs: None

RECOMMENDATIONS

- | | |
|----------|---|
| 2007-90a | Align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS. |
| 2007-90b | Completely reconcile administrative expenditures reported on the CMS-64 with those reported in the State's accounting system. |
| 2007-90c | Report cumulative disbursements accurately on the PMS-272 based on actual expenditures in accordance with report guidelines. |
| 2007-90d | Improve controls over federal reporting by consistently reporting expenditure amounts that have been recorded in the State's accounting system. |

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Finding 2007-91

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

CONTROLS OVER RATE SETTING FOR PRIVATELY OPERATED COMMUNITY
PROVIDER AGENCIES - SERVICES AND SUPPORTS FOR ADULTS WITH
DEVELOPMENTAL DISABILITIES

The Division of Developmental Disabilities within the Department of Mental Health, Retardation, and Hospitals (MHRH) is responsible for planning and administering a system of community-based services and supports for adults with developmental disabilities in Rhode Island. The Division contracts with a variety of provider agencies for service delivery with funding mostly provided through the State's Medicaid program. Services can be broadly categorized into: residential services (group homes), day/employment services, and family supports. Total costs for community based services to developmentally disabled individuals approximated \$200 million in fiscal 2007.

The Department of Human Services (DHS), the agency responsible for the administration of the Medical Assistance Program, has entered into an interagency agreement with MHRH that delegates responsibility and authority for administering certain elements of the Medicaid program to MHRH. Included within that delegated authority is oversight of service providers to adults with developmental disabilities and establishment of reimbursement rates. MHRH adopted formal rate setting methodologies and oversight procedures for the developmental disabilities provider group, as required by the interagency agreement during fiscal 2007.

We reviewed MHRH's policies, procedures, and available supporting documentation for its oversight of this provider group. We reviewed financial information for 10 of the largest providers which represent approximately 70% of Medicaid payments to this provider category. The information available for review included audited financial statements and supplementary financial data as required by the department's policies and procedures. For most of these providers, Medicaid revenue accounted for 90% or more of their total revenues.

MHRH requires each provider to submit financial data in accordance with its "Reporting and Funding Guidelines". This financial data is the basis (along with audited financial statements) for MHRH's fiscal oversight procedures. MHRH's "Audit Specifications" document for provider agencies does not require the supplementary information required by the "Reporting and Funding Guidelines" to be audited. The "Audit Specifications" document, however, does require the auditor to determine whether the agency has complied with MHRH's "Reporting and Funding Guidelines". The "Audit Specifications" require the auditors to conduct tests of transactions and such other procedures necessary to provide the auditor sufficient evidence to support an opinion on compliance. In 9 of the 10 provider filings that we reviewed, no opinion was rendered on the provider's compliance with MHRH's "Reporting and Funding Guidelines". Furthermore, MHRH did not follow-up on the missing auditor's opinion on compliance.

In reviewing the provider's financial data (accumulated by MHRH for purposes of assessing the reasonableness of provider reimbursement rates) we noted the following:

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- Two providers reported overpayments from the State on their audited financial statements. Federal regulations require provider overpayments to be repaid and credited to the federal government within 180 days. The questioned costs identified in relation to these two instances totaled \$285,222 (federal share - \$149,314). Subsequent to our inquiry, MHRH recovered \$63,612 (federal share - \$46,993) from one of the providers during fiscal 2008 and credited the federal government for its share.
- Several provider financial statements included significant amounts of cash, investments, and stockholder's equity / net assets, which in many instances appear to be gradually increasing over time. This appears potentially inconsistent with MHRH's policy of providing annual advances for cash flow purposes and the nature of the reimbursement methodology which is essentially cost based. Most of these entities provide services almost exclusively to developmentally disabled individuals eligible under the Medicaid program.
- Providers are generally organized as either "S" corporations or not-for-profit corporations. Some "S" corporation providers reported significant stockholder distributions on their financial statements. MHRH had not documented its follow-up regarding these reported distributions and whether they were consistent with the Department's "Reporting and Funding Guidelines".
- MHRH did not document its follow-up on related party transactions reported in provider financial statements to learn more about the reported inter-relationship and to assess the propriety of the costs from a reimbursement perspective.
- One provider's financial statements noted proceeds from the disposal of property and equipment in the amount of \$298,681 and a related gain of \$158,000. MHRH did not conduct any follow-up to determine if the related property and equipment had been purchased with Medicaid funds and if any of the proceeds were due back to the State or federal government. Additionally, the provider's submission of supplementary information required by MHRH's reporting and funding guidelines classified this revenue as unrelated to services reimbursable through Medical Assistance thereby excluding it from MHRH's evaluation of funding to the provider.
- MHRH did not obtain several management letters or other related audit reports issued in conjunction with provider audits as required by the Department's "Audit Specifications". When control weaknesses or other issues were cited in the reports, follow-up with the provider regarding the reported deficiencies was not documented.

Residential, day/employment, and family support services are provided under the Home and Community Based Services Waiver for People with Developmental Disabilities (Section 1915 (c) Waiver) within the Medical Assistance program and are subject to federal reporting requirements (Form HCFA-372(S)) designed to monitor the overall cost neutrality of the waiver program. Generally, the federal government participates in the funding for these community-based services if it can be demonstrated that, overall, costs are less than an institutional based service model. DHS has complied with these federal reporting requirements and demonstrated the cost neutrality; however, further development of reimbursement principles and more extensive auditing requirements are needed to ensure that providers are only reimbursed for allowable Medicaid costs. By contrast, the Medicaid rate setting process for nursing homes is subject to significantly more oversight. DHS and MHRH should consider subjecting this provider category to more extensive rate setting procedures

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and audit requirements similar to those mandated for nursing home providers participating in the Medical Assistance program.

Questioned Costs: \$149,314

RECOMMENDATIONS

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|----------|--|
| 2007-91a | Formalize more specific guidelines and principles of reimbursement relating to private providers of community services for adults with developmental disabilities. |
| 2007-91b | Implement more extensive auditing requirements relating to private providers of community services for adults with developmental disabilities. |

Finding 2007-92

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

MEDICAID SERVICES PROVIDED BY LOCAL EDUCATION AGENCIES

School-based health services reimbursable under the Medicaid program are provided by Local Education Agencies (LEAs) to students with special needs pursuant to an Individualized Education Plan (IEP). Services are provided in the school setting or at another site in the community and include speech therapy, physical therapy, occupational therapy, audiological services, counseling, and other medical services.

During fiscal years 2005 and 2006, DHS developed and communicated formal policies and procedures in the form of a special education services guidebook designed to improve overall LEA compliance with Medicaid regulations. The guidebook established the specific medical service and record keeping requirements for special education services provided by LEAs. During fiscal 2007, DHS further refined these policies and procedures to clarify certain compliance requirements outlined in the special education services guidebook. DHS also improved its monitoring of LEA compliance during fiscal 2007 by conducting several claiming reviews at local education agencies across the State.

The focus of our audit work for fiscal 2007 was to evaluate LEA compliance to determine the effectiveness of the policies and monitoring procedures implemented by DHS. We tested 70 claims for special education services provided by two local education agencies that were reimbursed by the Medicaid program during fiscal 2007. We made site visits to the LEAs and evaluated each claim for compliance with policies mandated within DHS's special education guidebook. Our testing found 12 out of 70 claims (17.1%) with one or more missing compliance features. The federal share of questioned costs identified in our sample totaled \$524 (8.4%) out of total federal claims of \$6,247 included in our sample. When projected to the \$1.2 million of claims paid for the two LEAs reviewed, estimates of likely questioned costs exceeded \$100,000. Most instances of non-compliance related to:

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- discrepancies with reported student attendance on the date(s) of service;
- services provided were not documented in the student’s IEP;
- failure to provide evaluation reports documenting services provided; and
- incorrect number of units billed for service provided.

As part of our testing, we verified that the individuals providing services at the LEA were licensed in accordance with Medicaid regulations. DHS’s policies require that the service be conducted by an individual licensed by either the State Department of Health (DOH) or certified by the State Department of Education (RIDE). Our follow-up on federal requirements relating to this issue with the Centers for Medicare and Medicaid Services (CMS) indicated that all providers need to be licensed by the DOH just as if they were providing services outside of LEAs. DHS’s special education services guidebook in effect for fiscal 2007 considered certain special education services (e.g., psychological counselors, occupational therapists, physical therapists, day program providers) to be allowable for Medical Assistance if the providers were certified by RIDE only, a policy that still appears inconsistent with guidance provided by CMS.

Local education agencies are also reimbursed by Medicaid for certain administrative costs associated with school-based health services. Most LEAs utilize a third-party contractor to determine the amount of administrative reimbursement the agencies are due from the Medicaid program on a quarterly basis. The LEAs provide the third party contractor with employee time sheets, salary related data, and expenditure reports on a quarterly basis and additional budget and capital asset data on an annual basis. The contractor utilizes a random moment time study analysis to determine costs allocable to school-based health services that are ultimately reimbursable through Medicaid. The contractor reports the amounts to be reimbursed through Medicaid to DHS and the LEA each quarter. DHS reimburses LEAs for administrative costs as determined by the contractor and the contractor is paid a rate contingent on the amount reimbursed by Medicaid from the LEA. Although DHS has included policies outlining allowable administrative claiming in the special education services guidebook, no specific procedures have been implemented to ensure that administrative claiming determined by the LEA’s contractor are accurate and in compliance with these policies.

DHS needs to supplement the implementation of the policies and procedures outlined in the special education services guidebook with enhanced monitoring and controls to evaluate compliance by LEAs and to ensure that only services meeting Medicaid regulations are being reimbursed. DHS should also consider requiring the pre-authorization of Medicaid eligible special education services based on a child’s IEP. The Medicaid Management Information System (MMIS) could then apply edits to ensure that submitted claims are consistent with services outlined within the IEP.

Questioned Costs: \$524

RECOMMENDATIONS

2007-92a Consider pre-authorization within the MMIS for special education services specified in student’s individualized education plans. Subject special education claims to edits for pre-authorization as a requirement for payment approval.

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|----------|--|
| 2007-92b | Expand post audit/monitoring procedures of special education claims to ensure compliance with DHS’s “Medicaid Direct Services Guidebook for Local Education Agencies”. |
| 2007-92c | Ensure that licensure requirements for LEA providers claiming Medicaid reimbursement meet federal regulations. |
| 2007-92d | Implement review procedures for administrative claiming determinations being conducted by a third party contractor on behalf of local education agencies. |

Finding 2007-93

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

HOSPITAL SETTLEMENTS

The RI General Laws require inpatient hospital providers to file cost settlement reports to DHS within two years from the end of the hospital’s fiscal year. DHS uses these settlement reports to determine amounts owed to or due from participating hospitals. During fiscal 2007, most hospitals should have submitted cost reports for their fiscal years ended in 2004 and prior.

At June 30, 2007, ten out of fourteen hospitals were current with their required cost settlement reports through fiscal 2004. Of the remaining hospitals, one hospital had submitted cost reports through fiscal 2003, two hospitals had submitted through 2002, and one was further delinquent having submitted cost reports only through fiscal 2001.

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 over-reimbursed hospitals, this will allow timely credit of these amounts to the federal government.

Questioned Costs: None

RECOMMENDATIONS

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|----------|---|
| 2007-93a | Recover identified hospital settlements from providers in a timely manner and credit the federal government for its share within 60 days. |
| 2007-93b | Utilize the enforcement provisions of the Rhode Island General Laws to ensure hospitals submit year-end settlement reports within required time frames. |

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Finding 2007-94

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

CONTROLS OVER MEDICAID EXPENDITURES ADMINISTERED BY OTHER STATE AGENCIES

In addition to the DHS, the Medicaid program is administered through several other State departments, the Departments of Mental Health, Retardation, and Hospitals (MHRH), Elderly Affairs (DEA), Health (DOH), and Children, Youth, and Families (DCYF). Medicaid administrative and benefit expenditures administered by other State agencies during fiscal year 2007 exceeded \$600 million. In recent years, DHS, the single State Medicaid agency, executed new interagency agreements with all other state agencies administering portions of the program. These new agreements were designed to improve controls over Medicaid expenditures administered by other State agencies by outlining specific allowable Medicaid activities. The interagency agreements required the other State agencies to:

- seek approval of any contract or subcontract, including any purchase of goods, software, or equipment, with a value of \$25,000 or greater in advance by DHS;
- seek approval of any contract or subcontract involving the transfer or use of data concerning Medicaid expenditures or eligibility in advance by DHS;
- obtain a benefit and administrative claiming review certifying that all agency Medicaid claiming complies with the terms of the interagency agreement, the Medicaid State Plan, and applicable federal requirements;
- develop and submit a provider contract rate setting and cost assignment methodology for DHS approval if applicable to any allowable service (e.g., MHRH hospital per diem rate, group home per diem rates, DCYF contracted placement per diem rates); and
- submit plans for the transition of any Medicaid benefit claims to the MMIS from their current process (if applicable).

We evaluated significant Medicaid activities performed by other State agencies in conjunction with current interagency agreements and noted the following:

- Several agencies had not complied with interagency agreement requirements to have benefit and claiming reviews conducted for purposes of providing assurance to DHS that agency claiming was allowable under Medicaid.
- During fiscal 2007, the State modified the manner in which it accounted for centralized costs relating to facilities and maintenance, human resources, and information technology. The State's new methodology charged total centralized costs within pooling accounts within the Department of Administration (DOA) and then allocated the amount applicable to a specific federal program to accounts linked to that program. Six federal accounts totaling \$6 million were linked to the Medical Assistance program for MHRH's share of centralized costs

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related to the Eleanor Slater Hospital and State-operated group homes. We found that MHRH was already considering these costs in their determination of all-inclusive per-diem rates billed to Medical Assistance for individuals residing in the hospital and group home facilities. These costs should not be reported as Medicaid expenditures to prevent duplicate claiming. DHS did not report these expenditures on federal reports nor did it draw federal funds relating to these expenditures during fiscal 2007. However, these amounts were included in the State's accounting system as Medicaid expenditures. The State intends to correct the reporting of these expenditures in fiscal 2008. (Questioned costs - \$6 million)

- MHRH charged the Medical Assistance program for eligible individuals that resided at two State-operated substance abuse facilities. The total reimbursement for the seven month period was in excess of \$800,000 (federal share - \$440,000). While these costs appear to be allowable under Medicaid, DHS should have required MHRH to process these claims through the MMIS subject to all the controls and edits designed within the system.
- Our review of DCYF's Medicaid benefit claiming also noted several issues relating to the allowability of several aspects of their claiming for contracted placements. See Finding 2007-100 for complete details of the issues noted.

Medicaid interagency agreements were designed to improve overall oversight and monitoring of substantial Medicaid activities administered by other State agencies. Compliance with these agreements would provide additional controls over the allowability and eligibility of significant Medicaid operations administered by other State agencies. In addition, it would document established rate-setting methodologies for long-term care and group home facilities administered by other state agencies that, once approved, will require evaluation and monitoring for compliance.

DHS should ensure that other State agencies contract for administrative and benefit claiming reviews that provide a written certification to DHS that the agency has complied with both the interagency agreements and Medicaid program requirements. These reviews should be performed by DHS or DHS approved contractors to ensure that both administrative and benefit claiming reviews are conducted by professionals with the necessary knowledge and experience with the Medical Assistance program to conclude that all charges meet program regulations.

DHS should continue efforts to have all Medicaid benefit claims processed through the MMIS. Completion of these efforts will ensure that all claiming is subject to the control edits designed in the MMIS and would significantly reduce the risk of duplicate payments within the program.

Contracting by Other Departments - 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.

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We observed that the Department of Elderly Affairs continued to utilize a vendor for Medicaid eligible services in excess of \$100,000 where the contract supporting the services did not include the required certifications for suspension and debarment.

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 with other departments. These requirements should be included in the memorandum of understanding that the Department of Human Services has with each state department which participates in the Medicaid program.

Questioned Costs: \$6,000,000

RECOMMENDATIONS

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|----------|---|
| 2007-94a | Ensure that other state agencies responsible for administering Medicaid services comply with the terms of the interagency agreements and provide DHS with all required mandates. |
| 2007-94b | Once approved, develop a review process to ensure compliance with authorized rate setting procedures for long-term care and group home facilities administered by other State agencies. |
| 2007-94c | Process claims for Medicaid eligible individuals residing at State-operated substance abuse facilities through the MMIS. |
| 2007-94d | Review and strengthen procedures to ensure current agreements containing the required suspension and debarment certifications are in place for all providers. |
| 2007-94e | Reevaluate all centralized billing costs charged to Medical Assistance by the Department of Administration to ensure the allowability of these expenditures. |

Finding 2007-95

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

TIMELY IDENTIFICATION OF CLAIMS PAID ON BEHALF OF INELIGIBLE INDIVIDUALS

DHS utilizes an integrated computer system (INRHODES) as the official database used to determine and track eligibility for Medicaid. Transactions affecting eligibility are transmitted daily from INRHODES to update the MMIS recipient subsystem. As designed, Medicaid eligibility data from INRHODES should be replicated in the MMIS. In a limited number of instances, differences occur between the two databases. These differences can be summarized into three categories:

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- cases active in INRHODES, but inactive in the MMIS;
- cases active in the MMIS, but closed in INRHODES; and
- other differences, such as personal data, recipient income, category codes, etc.

A monthly variance report identifying the differences between the two systems is generated by the MMIS, and forwarded to DHS for review. DHS is responsible for making the appropriate corrections to ensure the accuracy and reliability of the two systems. Variances occur in about 1,000 cases each month. DHS is now researching and making corrections on a relatively timely basis. However, when investigation of the case indicates that a case should have been considered ineligible, DHS is not quantifying, on a timely basis, the amount of claims paid on behalf of the ineligible individual.

In conjunction with DHS's fiscal 2007 investigations of variances relating to eligibility criteria reported in the MMIS and INRHODES system, DHS provided us with 62 instances where individuals remained eligible on the MMIS for periods subsequent to when INRHODES determined them to be ineligible. DHS had not formalized the results of other investigations and had not determined the amount of claims that had been paid for individuals ineligible for Medicaid. Additionally, DHS's documentation of its follow-up on eligibility variances reported between INRHODES and MMIS was not adequate to determine its completeness. We reviewed the 62 reported variances provided by DHS and found that 8 instances had claims paid during periods of ineligibility totaling \$20,914 (federal share - \$10,949) that should have been quantified and credited back to the federal government.

DHS believes that these eligibility variances will continue to occur due to the design of both INRHODES and the MMIS and further, any solution to completely eliminate these variances would require substantial and costly redesign of either or both systems. Accordingly, DHS's investigation of eligibility variances must be performed timely to minimize the likelihood and effect of payments made on behalf of ineligible individuals. Additionally, a complete resolution of eligibility variances must include determination of claims paid for ineligible individuals. Documentation should be maintained to support the complete investigation of cases determined to be ineligible and any quantification of claims paid during the period of ineligibility.

Questioned Costs: \$10,949

RECOMMENDATIONS

- | | |
|----------|---|
| 2007-95a | Determine, on a timely basis, the amount of claims paid on behalf of ineligible individuals and reimburse the federal government for its share. |
| 2007-95b | Credit the federal government for questioned costs identified. |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Finding 2007-96

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

PROVIDER ELIGIBILITY

Federal regulations relating to provider eligibility require that all providers, as a condition of enrollment in the Medicaid Program, complete the following documentation:

- Provider Enrollment Form – Includes all identifying provider information such as name, address, licensure information, ownership information, etc.
- Provider Agreement Form – Provider contract that outlines the duties of each participating provider to inform the RI Medicaid Program of changes in licensure or ownership.
- Provider Agreement Form Addendum I – Certification Regarding Suspension and Debarment From Participation in the Medicaid Program.
- W-9 Form – Internal Revenue Form delineating the providers Taxpayer Identification Number (TIN).
- Documentation of Current Licensure – Medical licensure by the RI Department of Health is mandatory for most provider groups.

DHS has delegated, to its fiscal agent, the responsibility for ensuring that the above mandatory documentation is maintained for each provider participating in the Medicaid Program, a key control over provider eligibility. Our review of approximately 100 provider files maintained by the State's fiscal agent noted the following documentation deficiencies:

- 43 instances where Addendum I of the provider agreement had been obtained from the provider after our request for documentation was provided to the fiscal agent.
- Three instances where W-9 forms were not included in the provider files.
- 27 instances where documentation of provider licensure was not included in the file.
- One provider agreement was not included in the provider file.

Although our follow-up of the above noted deficiencies relating to licensure documentation found all Medicaid providers in our sample to be properly licensed by the RI Department of Health (DOH), controls were not deemed adequate to ensure compliance with provider licensing requirements. Controls over provider licensing could be improved by matching licensure information obtained within the MMIS with information obtained by the DOH.

Other deficiencies noted relating to the documentation of provider enrollment including suspension and debarment certifications are indicative of inadequate controls to ensure that updated

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provider information is maintained. DHS needs to better monitor the fiscal agent’s policies and procedures relating to provider eligibility and should require its fiscal agent to re-enroll all medical providers periodically to ensure that current and accurate information is maintained on file.

Provider Licensing – Privately-operated Group Homes and Service Agencies
Providing Contracted Placements for Children Placed in the State’s Custody

Privately-operated group homes and service agencies providing contracted placements for children placed in the State’s custody constitute two of the larger provider groups reimbursed through the Medicaid program. These unique provider groups are not licensed by the Department of Health as are most providers reimbursed through the Medical Assistance Program. Instead, licensing authority for these providers is established through State law. The Department of Mental Health, Retardation, and Hospitals (MHRH) is the State agency responsible for licensing providers of services to developmentally disabled adults and the Department of Children, Youth, and Families (DCYF) is responsible for licensing providers of children’s behavioral health services which includes the contracted services provider group.

In conjunction with our tests of claims reimbursed to these providers, we requested documentation of provider licensing, each department’s licensing procedures and requirements, especially those designed to ensure Medicaid eligibility for services rendered (i.e., inclusion of licensed medical professionals on staff, adequacy of clinical documentation for medical services provided at each facility, etc.). Neither department was able to produce documentation of licensing procedures and requirements pertaining to Medicaid eligibility. Further, documentation of current provider licensure by both departments was lacking in some instances.

DHS, as the Single State Medicaid Agency, should ensure that licensing procedures conducted by other State agencies are compliant with federal requirements for provider eligibility within the Medical Assistance Program. DHS should also implement monitoring procedures to ensure that current provider licensing by these other State agencies is maintained on an on-going basis.

Questioned Costs: None

RECOMMENDATIONS

- | | |
|----------|---|
| 2007-96a | Improve fiscal agent oversight of provider enrollment and licensing to ensure that all providers enrolled in the Medical Assistance program are eligible to participate. |
| 2007-96b | Develop procedures to electronically match DOH licensure data with active Medicaid providers to periodically update licensure status. |
| 2007-96c | Provide specific guidance to other State agencies with responsibility for licensing provider groups to ensure the eligibility of all providers being reimbursed through the Medical Assistance Program. |
| 2007-96d | Consider centralizing all medical licensure responsibility within one department to ensure consistent application of Medicaid licensing requirements. |

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Finding 2007-97

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

FEDERAL MATCHING REQUIREMENTS - FISCAL AGENT CONTRACT

Section 433.15(b)(4) of Title 42 of the Code of Federal Regulations allows federal reimbursement of 75% of certain costs associated with the operation of mechanized claims processing and information retrieval systems. In conjunction with this federal requirement, DHS charges the majority of costs associated with its fiscal agent contract at the 75% FFP rate within the Medical Assistance program. We noted the following issues relating to DHS's charging of the fiscal agent contract:

- ❑ DHS mistakenly charged the majority of June 2007 services at 90% FFP resulting in questioned costs of \$226,097. Subsequent to our inquiry, DHS corrected the recording of June services during fiscal 2008 to credit the federal government for the overcharge.
- ❑ DHS's fiscal agent contract includes several support services where DHS has delegated certain program operations to its fiscal agent. Examples of these services include the verification of third party coverage, various prior authorization (PA) services, and hotline operations to arrange transportation for Medicaid eligible individuals. While most of these services do lend support to aspects of the claims processing function, they do not specifically represent the costs associated with processing medical claims which is derived by an overall basic service component and separate per transaction costs outlined in the fiscal agent contract. One service included in the contract relates to clinical PA consultants which were originally contract employees paid by DHS that were subsequently transferred to a preferred staffing firm of the fiscal agent. These costs are now paid through the fiscal agent contract and claimed at an enhanced rate.

Based on our review of DHS's current fiscal agent contract, we recommend that the services outlined in this contract be reviewed to ensure that they meet the requirement for enhanced federal participation in the Medical Assistance program. In conjunction with this review, DHS should obtain specific guidance from CMS regarding the allowability of services outlined in the contract for enhanced federal participation.

Questioned Costs: \$226,097

RECOMMENDATION

2007-97 Review fiscal agent contract services to ensure their allowability for reimbursement at federally enhanced rates. Obtain specific guidance from CMS outlining the allowability of enhanced federal participation for services performed by the fiscal agent.

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Finding 2007-98

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

UNALLOWABLE COSTS

We noted the following instances where expenditures charged to the Medical Assistance program were potentially unallowable:

- The Office of Inspector General (OIG), Department of Health and Human Services (DHHS) reviewed certain transportation expenditures charged by DHS for the period from March 1, 2004 through May 31, 2005 and provided a draft audit report to DHS on November 26, 2007. The OIG found that DHS had overcharged the federal government by charging transportation expenditures relating to non-Medicaid eligible individuals. The OIG also concluded that DHS had not provided medical related transportation services to Medicaid eligible individuals in a cost effective manner. The OIG took exception to DHS's purchase of monthly public transportation passes for Medicaid eligible individuals when most individuals required Medical transportation only a few times each month. The OIG concluded that DHS could have more cost effectively provided these services through the purchase of a smaller booklet of public transportation passes.

We found no instances during fiscal 2007 where DHS charged public transportation costs for individuals who were not eligible for Medical Assistance. However, DHS's practice of purchasing monthly passes continued. Using the same methodology outlined in the OIG's draft report, DHS's purchase of 313,284 public transportation passes at a cost of \$44 per pass compared to a more limited pass costing \$15 per month would result in federal questioned costs of \$4,777,581 for fiscal 2007.

- Certain staff training costs were over allocated to Medical Assistance by \$10,580 (federal share - \$5,539) during fiscal 2007.

Questioned Costs: \$4,783,120

RECOMMENDATION

2007-98 Reimburse the federal government for all costs deemed to be unallowable by CMS.

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Finding 2007-99

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.

Rite Share Program

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. For fiscal 2007, Rite Share expenditures approximated \$40 million covering nearly 14,000 individuals under their respective employer health insurance coverage. Since the inception of the Rite Share program, DHS has accumulated a receivable balance totaling \$655,823 (federal Share - \$343,323) relating to payments made to individuals whose employer health insurance coverage had terminated. As part of our review of these program overpayments, we found that DHS was not crediting the federal government for its share of these unallowable costs.

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 periodically confirms that individuals have remained employed and covered by the employer's health coverage. In most instances, because Medicaid pays individuals prospectively for employer coverage, individuals will usually receive one or two months of payments before DHS identifies terminated employment and/or health coverage. In addition to paying premiums to these individuals, DHS also 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.

Although DHS has improved its monitoring of the employment and sustained health insurance coverage requirements of the Rite Share program, program overpayments to individuals that terminated employment coverage should be credited back to the federal government in a timely manner.

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Managed Care Contracts – Risk Share Provisions

DHS contracts with three separate Health Maintenance Organizations (HMOs) to administer the Rite Care program for Medical Assistance. The administration of Rite Care involves the actuarial determination of monthly capitation rates designed to reimburse the HMOs for the cost of providing covered medical services to Rite Care eligible recipients based on gender and age. DHS has incorporated certain Risk Share provisions into contracts with HMOs designed to limit the amount of losses or gains that the HMOs can experience during a stipulated contract period.

Risk Share provisions basically allow HMOs a medical loss ratio (MLR) equal to 88%, which provides for a 12% cushion over actual claim expenditures to cover the costs associated with administering the contract. HMOs can generate a profit on managed care contracts if they are able to control their administrative costs within 12% of the contract. Risk Share provisions require DHS to reimburse HMOs for 70% of medical costs that exceed a MLR of 89% and if the MLR is below 86%, risk share requires the HMO to reimburse DHS for 50% of the expenditures below 86%. In short, risk share is designed to limit the risk exposure assumed by the HMO and also limits DHS's risk that actuarially determined rates would result in significant overpayments to HMOs.

Our review of risk share settlement provisions for contract periods ending December 31, 2005 which, per contract provisions, results in final settlement after a one-year claim run-out period, noted that one HMO owed DHS \$594,415 (federal share - \$311,176) as of December 31, 2006 based on the risk share calculation performed by DHS's managed care consultant. DHS had not recovered this amount from the HMO nor had it credited the federal government for its share of the overpayment.

DHS should ensure that all risk share overpayments are credited to the federal government when identified in accordance with federal regulations.

Questioned Costs: \$654,499

RECOMMENDATION

2007-99 Reimburse the federal government for program overpayments within 60 days of discovery.

Finding 2007-100

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

MEDICAID CLAIMS FOR CHILDREN IN FOSTER CARE

The Department of Children, Youth, and Families (DCYF) is responsible for providing a wide array of services to children in its care. Since most children in the State's care are eligible for Medicaid, the costs of some of these services are reimbursed through Medicaid. Some children are placed in a residential facility (non-foster home) that is intended to provide comprehensive services

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which may include case management, treatment and assessment, room and board, and personal care. Examples of residential facilities include the following:

- foster care placements through private agencies,
- independent living placements,
- supervised apartments,
- high-end residential treatment placements,
- group home placements, and
- emergency shelter placements.

DCYF contracts with these providers either (1) by securing a set number of placements within an annual contract amount, or (2) on an as needed, purchased service basis. DCYF claims all or a portion of these placement costs as specialized rehabilitation services under the Medicaid program.

42 CFR section 483.45 requires specialized rehabilitation services such as mental health rehabilitation services to be performed by or under the supervision of a qualified medical professional. Section 483.45 also requires specialized rehabilitation services to be provided under the written order of a physician. Although most contract placement agreements have requirements relating to treatment plans, clinical services, transportation to medical services, behavior management, etc. – all services that if provided by a licensed medical professional and adequately documented in accordance with Medicaid regulations would be allowable services, no specific or formalized monitoring of provider licensure and/or documentation of medical services within these provider agencies is currently being performed to ensure that Medicaid requirements are being met.

DCYF uses its RICHIST computer system to administer services provided to children in foster care. RICHIST maintains a funding hierarchy to allocate payments for services to the appropriate funding sources based on the nature of the service provided and the child's eligibility characteristics. Many of the residential placement services highlighted above are reimbursed, in whole or in part, through Medicaid. Once RICHIST has determined that the service is to be reimbursed by Medicaid, the claim is "processed" through the Medicaid Management Information System (MMIS) operated by the State's fiscal agent. The MMIS subjects these claims to a more limited edit and control process than most provider claims paid through the system.

We tested 20 residential placement payments totaling \$50,528 (out of similar payments totaling in excess of \$100 million) which were reimbursed to DCYF through Medicaid for verification of the following:

- recipient Medicaid eligibility,
- provider accreditation {Joint Commission on Accreditation of Healthcare Organizations (JCAHO), Council on Accreditation (COA), Commission on Accreditation of Rehabilitation Facilities (CARF)},
- facility licensure by DCYF,
- evidence of provider contract and consistency of payment with contract terms,
- documentation supporting DCYF's allocation of contract amounts among room and board, case management, treatment and assessment, and personal care categories ,
- the RICHIST system funding hierarchy appropriately determined the amount billed to Medicaid, and
- the child was not absent during the dates of service billed to Medicaid.

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Our testing highlighted the following exceptions relating to Medicaid billing of DCYF residential contracted placements:

- Although DCYF is responsible for licensing providers in accordance with Title IV-E requirements, the department did not have any specific policies and procedures designed to ensure that all services billed were performed by adequately licensed professionals as required by Medical Assistance. We further found that 6 out of the 20 claims in our sample were paid to either private foster care agencies or foster families that did not have active licenses within RICHIST during the dates of service of the claims paid by Medical Assistance; a minimum requirement for reimbursement. Questioned costs relating to reimbursement for services provided by unlicensed foster care providers totaled \$6,648 (federal share - \$3,480). *See finding 2007-96 for further details regarding the State's responsibility for ensuring the eligibility of these providers to participate in the Medical Assistance program.*
- 4 out of the 20 claims included in our sample were paid to unaccredited facilities. These claims were allocated 100% as treatment and assessment services to Medicaid with no amounts being allocated to room and board charges. No evidence supporting the accreditation of these facilities was provided. Questioned costs for services provided by unaccredited providers totaled \$8,716 (federal share - \$4,563).
- 12 out of the 20 claims related to portions of foster care (10) and adoption assistance (2) placement payments being allocated to Medical Assistance. In 11 out of the 12 cases, the Medicaid eligible individuals also received managed care coverage through the State's Rite Care program. 6 of the 10 foster care placements were contracted through private agencies of which 4 of the 6 were charged 100% to Medicaid because the agency contracting with the foster family was deemed to be an accredited provider. We consider the reimbursement of these claims through Medical Assistance to be questionable due to any lack of evidence of services being provided by a licensed medical provider. Questioned costs additional to those reported above relating to these claims totaled \$3,120 (federal share - \$1,633).
- Contracts supporting annual provider payment amounts and per-diem rates (included within the RICHIST system) could not be provided for 3 of the 20 payments tested.
- A claim for adolescent independent living services was billed to Medicaid for the same period that the RICHIST system indicated that the individual was at the Rhode Island Training School. DCYF was unable to explain the discrepancy within RICHIST. This claim is included in the questioned costs noted above.

We observed that if the residential placement facility was accredited, 100% of the all-inclusive per diem rate was charged to Medicaid. No adjustment was made for the room and board portion of the rate. For facilities lacking accreditation, there was no documentation to support the breakout of the all-inclusive per diem rate into components (e.g., treatment and assessment, room and board, case management and personal care). In most of these instances, all components excluding room and board were billed to Medicaid.

DCYF had significant Medicaid claim adjustments subsequent to year end. In many instances, the original claim amount almost doubled when readjudicated through the MMIS. We

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determined that DCYF changed the rates charged in RICHIST based on the facility's actual occupancy during the year. DCYF enters into annual contracts with contracted placement providers for a certain number of placements at a fixed contract cost. DCYF initially submits claiming to Medicaid based on a per diem rate that assumes full occupancy of contracted placements. Once the year closes, RICHIST recalculates the per-diem rate based on actual occupancy and retransmits the claims to the MMIS for readjudication. Charging additional amounts to Medical Assistance as a result of underutilization of contracted placements is questionable.

In general, controls over Medicaid claims for children in foster care, which originate through DCYF's RICHIST system, should be enhanced to match controls in place for all other Medicaid claims processed through the State's MMIS. MMIS processing for these claims includes recipient eligibility edits but not many of the other specific claim controls designed in the MMIS. Controls over residential placement services are particularly deficient because DCYF is reimbursed for the amount requested -- approved provider rates for DCYF providers are not maintained within the MMIS. Further, controls within the MMIS to detect duplicate billings are ineffective since services could be billed under a comprehensive per diem rate and also on a fee-for-service basis. Lastly, policies regarding the Medicaid allowability of specific items and the determination of appropriate provider rates have not been established.

Controls over the claiming of DCYF contracted placements needs to be improved to ensure that only eligible claims are reimbursed through Medical Assistance. DHS, as the single State Medicaid Agency, in conjunction with DCYF should develop more formalized policies and procedures relating to provider eligibility and licensing, clinical documentation, allowable services, etc. In addition, DHS should adopt rate setting methodologies or procedural fee schedules that serve to standardize the reimbursement for similar services provided to children in the State's custody. The State should consider requiring providers to submit claims for Medicaid reimbursement directly to the MMIS. Submitting these claims directly to the MMIS as enrolled providers would greatly enhance the controls over medical services provided to children placed in the State's custody.

Questioned Costs: \$9,676

RECOMMENDATIONS

- | | |
|-----------|---|
| 2007-100a | Formalize a claiming methodology for DCYF residential placements which utilizes either an all-inclusive or prorated per diem rate that is consistent with federal regulations. Alternatively, reimburse providers on a fee-for-service basis or include residential placements as in-plan services through Rite Care. |
| 2007-100b | Enhance controls over Medicaid claims originating from DCYF's RICHIST system to be equivalent to controls in place over all other Medicaid claims paid through the MMIS. |
| 2007-100c | Move towards processing all Medicaid claims through the Medicaid Management Information System. |

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Finding 2007-101

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

MEDICAID ELIGIBILITY QUALITY CONTROL (MEQC) PROGRAM

42 CFR 431.800 establishes State plan requirements for a Medicaid eligibility quality control (MEQC) program that must be designed to reduce erroneous expenditures by monitoring eligibility determinations and claims processing operations. The regulations require that federal financial participation (FFP) be disallowed for erroneous Medicaid payments due to ineligibility and recipient liability errors as detected through the MEQC program. The agency must collect and verify all information necessary to determine the eligibility status of each individual included in the State's MEQC sample.

42 CFR 431.816 requires the Medicaid agency to complete eligibility case reviews and report the findings electronically through the system prescribed by CMS for 100 percent of all cases selected in the MEQC sample. Our inquiry of MEQC review activity for fiscal 2007 found that DHS was not able to comply with this 100% requirement due to a significant percentage of cases where Medicaid recipients were not cooperating with the MEQC unit's review. We noted that one hundred five (105) of four hundred ninety-four (494) positive cases, or 21.3% of cases selected for MEQC review could not be reviewed due to participants' refusal to provide the required information. DHS indicated that these cases are not included in the error rate communicated to CMS.

We questioned how the large number of non-cooperative cases impacted the statistical validity of the MEQC sample results communicated to CMS and whether exclusion of the non-cooperatives cases from the error rate calculation was consistent with federal requirements. DHS was unable to provide documentation to support that its handling and reporting of the non-cooperative cases selected for MEQC review was consistent with federal regulations and/or guidelines.

Both DHS's application for benefits and Code of Rules indicate that as a condition of eligibility, the Medical Assistance applicant/recipient must cooperate with State and Federal personnel conducting quality control reviews. Failure to cooperate may result in a denial of eligibility or case closure. In instances where recipients have not cooperated with MEQC reviews, DHS has continued Medicaid benefits. DHS has not explained the inconsistency between its stated policies regarding applicant/recipient cooperation and the actual non-cooperation of certain recipients evidenced during the MEQC sampling process.

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

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RECOMMENDATIONS

- 2007-101a Re-evaluate MEQC policies and procedures to ensure compliance with federal regulations and/or guidelines for conducting MEQC reviews.
- 2007-101b Revisit the continuing eligibility of recipients who fail to cooperate during MEQC reviews.

Finding 2007-102

HOMELAND SECURITY CLUSTER:

Homeland Security Grant Program - CFDA 97.067

State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program) - CFDA 97.004

Administered by: Rhode Island Emergency Management Agency (RIEMA)

PERIOD OF AVAILABILITY

Federal regulations require the State to liquidate all obligations made under Homeland Security Cluster grants within 90 days after the respective grant periods. We found that the State has not paid for certain obligations charged to the 2003 supplemental State Homeland Security Grant Program (SHSGP) to date – even though the grant period ended October 31, 2007, and the end date for payment was January 31, 2008.

The 2003 supplemental SHSGP expenditures included certain equipment and program supplies that cost \$538,942. The State has not paid for these items to date due to various administrative and accounting system issues.

RIEMA also posted some expenditures in fiscal 2007 to an account in the state accounting system that had been established to record expenditures for certain federal grants that had previously been closed. Specifically, RIEMA posted \$305,626 to an account that was used to record expenditures for the 1999-2002 Department of Justice grants – even though these grants were closed prior to fiscal 2007. As a result, RIEMA cannot draw federal funds for these expenditures if they, in fact, pertained to the 1999-2002 federal grants.

RIEMA should investigate the foregoing issues and determine if it has drawn federal funds for those expenditures under any other federal grants and/or reported the expenditures on any federal financial status reports pertaining to other federal grants. It should also close all federal accounts after the related grants have expired.

Questioned Costs: Unknown

RECOMMENDATIONS

- 2007-102a Liquidate all obligations before the end of the period of availability.

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- 2007-102b Investigate expenditures charged in fiscal 2007 to the account linked to federal grants that had been closed. Determine if RIEMA has drawn federal funds for those expenditures under any other federal grants and/or reported the expenditures on any federal financial status reports pertaining to other federal grants.
- 2007-102c Close accounts in the State accounting system that are linked to federal grants that have expired.

Finding 2007-103

HOMELAND SECURITY CLUSTER:

Homeland Security Grant Program - CFDA 97.067

State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program) - CFDA 97.004

Administered by: Rhode Island Emergency Management Agency (RIEMA)

CASH MANAGEMENT

Cash management requirements applicable to federal awards included in the Homeland Security Cluster vary based on the year of award. For example, federal regulations allow RIEMA to draw federal funds for Homeland Security Cluster programs up to 120 days prior to expenditure/disbursement. The 2005 regulations allowed RIEMA to place these funds in an interest-bearing account and treat the interest earnings as program income. Fiscal 2006 awards contain similar provisions; however, interest is to be remitted to the federal government consistent with the interest calculation applicable to programs subject to the federal Cash Management Improvement Act.

RIEMA has not adopted procedures or controls to comply with the specific cash management requirements applicable to each of its federal awards. RIEMA drew federal funds in advance of the corresponding disbursements on several occasions in fiscal 2007, but it has not treated the interest earned as program income or remitted interest earnings to the U.S. Treasury. These funds are commingled with other funds in certain state accounts and, therefore, this would require RIEMA to estimate the amount of interest earned on Homeland Security Cluster funds drawn in advance of disbursements.

RIEMA often draws federal funds on a reimbursement basis but, as noted above, we found several instances where it drew the funds prior to the related expenditures. For example, RIEMA drew \$1,430,312 on March 23, 2007 -- which was 31 days before the related invoices were paid. We also found several other instances where RIEMA drew federal funds in advance of the related expenditures. These cash draws were up to 10 weeks in advance of the related expenditures.

RIEMA should either (1) comply with the specific cash management requirement applicable to the Homeland Security Cluster by requesting the General Treasurer to establish a separate interest-bearing account for receipt of federal funds and then remit interest earnings to the federal government, or (2) draw funds to coincide with actual program disbursements. Practically, drawing funds on a reimbursement basis or to coincide with actual program disbursements would comply in

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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all instances, regardless of grant specific requirements, and simplify cash management administration. Accordingly, this cash management technique should be strongly considered.

Questioned Costs: Unknown

RECOMMENDATION

2007-103 Implement procedures to comply with the unique cash management compliance provisions applicable to each Homeland Security Cluster grant award.

Finding 2007-104

HOMELAND SECURITY CLUSTER:

Homeland Security Grant Program - CFDA 97.067

State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program) - CFDA 97.004

Administered by: Rhode Island Emergency Management Agency (RIEMA)

REPORTING – FEDERAL FINANCIAL STATUS REPORTS

Federal regulations governing the Homeland Security Cluster programs require RIEMA to submit quarterly Financial Status Reports (SF-269A forms) for each grant award. These reports outline quarterly and cumulative program outlays, unliquidated obligations and the unobligated balance of federal funds.

The regulations also require RIEMA to submit a final SF-269A report within 120 days after the end of the grant period. The 2003 supplemental State Homeland Security Grant Program period ended on October 31, 2007 and RIEMA submitted the final report on December 28, 2007. RIEMA reported no unliquidated obligations at that time when, in fact, some obligations applied to the supplemental grant totaling \$538,942 have not been paid to date (as more fully described above in the Period of Availability finding 2007-102).

RIEMA was required to submit nineteen SF-269A reports relating to five grant awards during fiscal 2007. We reviewed these reports and found deficiencies that indicate appropriate controls were not in place to ensure that the reports were complete and accurate.

For example, we were unable to trace the quarterly expenditures reported on all but one of the nineteen reports to the expenditure data recorded in the State's accounting system. This was due to a number of factors but, in most cases, RIEMA did not obtain the expenditure data from the official state accounting system source (the general ledger).

We could not verify the reported expenditures in some other instances because RIEMA included certain expenditures in the federal financial reports that had not yet been posted to the state accounting system (and RIEMA did not maintain support for these adjustments). We were also unable to verify the data in five instances because RIEMA could not locate the original supporting documentation.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Finally, we found that fourteen of the nineteen SF-269A reports were not reviewed by a supervisor before submission to the federal government. RIEMA should have a supervisor familiar with the state accounting system review and approve these reports to obtain reasonable assurance that the reports are complete and accurate.

Questioned Costs: Unknown

RECOMMENDATIONS

- 2007-104a Submit an amended final SF-269A for the 2003 supplemental State Homeland Security Program Grant to report that some obligations have not been liquidated.

- 2007-104b Prepare SF-269A reports utilizing expenditure data recorded in the state accounting system's general ledger, and retain all supporting documentation.

- 2007-104c Ensure that all SF-269A reports and supporting documentation are reviewed and approved by an individual familiar with the state accounting system. Maintain evidence of these reviews.

Finding 2007-105

HOMELAND SECURITY CLUSTER:

Homeland Security Grant Program - CFDA 97.067

State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program) - CFDA 97.004

Administered by: Rhode Island Emergency Management Agency (RIEMA)

QUESTIONED COSTS

RIEMA spent a total of \$18,180 in fiscal 2007 for two construction projects that were charged to the 2005 Emergency Management Performance Grant (EMPG). The EMPG was included as part of the Homeland Security Grant Program in 2005. According to the Department of Homeland Security's 2005 *Program Guidelines and Application Kit*, EMPG funds cannot be used for any type of construction or renovation.

Questioned Costs: \$18,180

RECOMMENDATION

- 2007-105 Adjust federal reports and credit the federal government for amounts determined to be unallowable under the Homeland Security Cluster programs.

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

Finding 2007-106

HOMELAND SECURITY CLUSTER:

Homeland Security Grant Program - CFDA 97.067

State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program) - CFDA 97.004

Administered by: Rhode Island Emergency Management Agency (RIEMA)

ALLOWABLE COSTS/COST PRINCIPLES

RIEMA did not maintain documentation required by federal regulations to support payroll costs charged to the Homeland Security Cluster programs. Office of Management Budget Circular A-87 (A-87) stipulates that when employees work solely on a single federal award or cost objective, charges for their salaries and wages must be supported by periodic certifications that the employees worked solely on that program for the period covered by that certification. These certifications must be prepared at least semi-annually and must be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

In addition, A-87 stipulates that when employees work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation. These reports must reflect an after the fact distribution of the actual activity and account for the total activity for which each employee is compensated.

RIEMA did not maintain semi-annual certifications for those employees whose payroll costs were charged to a single program. It also did not maintain appropriate personnel activity reports for those employees whose payroll costs were charged to multiple programs. The payroll costs for these employees were allocated to various programs based on an estimate of the amount of time the employees spent working on these programs.

Questioned Costs: Unknown

RECOMMENDATION

2007-106 Prepare semi-annual certifications for those employees whose payroll costs are charged to a single program, and utilize personnel activity reports to allocate payroll costs for those employees who work on multiple programs.

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Finding 2007-107

HOMELAND SECURITY CLUSTER:

Homeland Security Grant Program - CFDA 97.067

State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program) - CFDA 97.004

Administered by: Rhode Island Emergency Management Agency (RIEMA)

EQUIPMENT MANAGEMENT

Federal regulations require RIEMA to use, manage, and dispose of equipment that was purchased with federal funds in accordance with the state's laws and procedures. These procedures require RIEMA to submit a *Capital Asset Acquisition Report* (form SFA-12) to the State Controller's Office after purchasing certain assets. This information is used by the State to maintain asset inventory records.

RIEMA has not consistently reported the equipment it purchased with Homeland Security Cluster funds in accordance with the foregoing procedures. As a result, neither the State nor RIEMA has a complete inventory record of these assets. RIEMA has started to reconstruct these records, but it has not completed this task to date.

The inventory records should include the purchase price, date of acquisition, and the federal grant under which the equipment was purchased. Once the inventory records are complete, RIEMA should conduct a physical inventory of equipment at least once every two years.

Questioned Costs: None

RECOMMENDATIONS

2007-107a Complete compilation of inventory records. Include all pertinent data such as purchase date, acquisition cost, and grant under which the equipment was funded.

2007-107b Conduct a physical inventory of equipment at least once every two years.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Finding 2007-108

HOMELAND SECURITY CLUSTER:

Homeland Security Grant Program - CFDA 97.067

State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program) - CFDA 97.004

Administered by: Rhode Island Emergency Management Agency (RIEMA)

SPECIAL TESTS AND PROVISIONS – SUBGRANT AWARDS

Federal regulations require RIEMA to obligate federal funds for subgrants under the State Homeland Security Program (SHSP) and Law Enforcement Terrorism Prevention Program (LETPP) within 60 days after the date of the grant award. The regulations require RIEMA to establish a firm commitment for these obligations which must be unconditional. RIEMA must also have documentary evidence of the commitment, and the award terms must be communicated to the subgrantee and, if applicable, accepted by the grantee.

RIEMA advised us that it did not obligate the 2006 SHSP and LETPP grants within the 60 day time frame because it was unaware of the requirement (these grants were awarded on June 30, 2006). Our tests found that these grants were generally obligated between 6 and 13 months after the date of the grant awards.

Questioned Costs: None

RECOMMENDATION

2007-108 Obligate SHSP and LETPP funds for subgrants within 60 days after the grant award.

Finding 2007-109

HOMELAND SECURITY CLUSTER:

Homeland Security Grant Program - CFDA 97.067

State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program) - CFDA 97.004

Administered by: Rhode Island Emergency Management Agency (RIEMA)

SUBRECIPIENT MONITORING

OMB Circular A-133 requires RIEMA to (1) ensure that its subrecipients expending \$500,000 or more in federal awards have met applicable audit requirements, (2) issue a management decision on any audit findings within six months after receipt of the subrecipients' audit reports, (3) ensure that the subrecipients take timely and appropriate corrective action, and (4) evaluate whether the subrecipient audits necessitate adjustment of RIEMA's records or impact its ability to comply with applicable federal regulations.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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RIEMA has instituted policies requiring subrecipients that are subject to audit requirements to submit their audit reports. As a result, RIEMA has received some audit reports, but it has not reviewed them to determine if there were any audit findings. It also did not assess whether or not all subrecipients expending more than \$500,000 had, in fact, had audits performed.

Questioned Costs: None

RECOMMENDATIONS

- | | |
|-----------|--|
| 2007-109a | Review subrecipient audit reports. Issue timely management decisions on any audit findings and ensure that the subrecipients take appropriate corrective action. |
| 2007-109b | Evaluate whether the subrecipient audit reports necessitate adjustment of RIEMA's records, or impact its ability to comply with applicable federal regulations. |

Finding 2007-110

STATE CHILDREN'S INSURANCE PROGRAM – CFDA 93.767

Administered by: Department of Human Services (DHS)

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778

Administered by: Department of Human Services (DHS)

MEDICAID ELIGIBILITY FOR QUALIFIED NON-CITIZENS

Federal law (the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 - PRWORA) restricts eligibility for certain qualified non-citizens applying for Medicaid benefits for a period of five years after establishing legal residence in the United States. Various exceptions to the five-year ban apply based on immigration status and country of origin. Additionally, non-citizens, regardless of qualified status may receive emergency services under the Medicaid program. Further, pursuant to the State Plan for the State Children's Health Insurance program, non-citizen pregnant women are eligible for prenatal, delivery and post-partum care services as coverage for unborn children.

During fiscal 2007, the Department of Human Services' policies and procedures (to determine Medicaid eligibility) were not adequate to comply with the federal requirement restricting Medicaid eligibility for a period of five years after establishing legal residence in the United States (unless exempt from the five-year ban). Data regarding the immigration status of applicants was collected and recorded within the Department's INRHODES computer system to allow determination of qualified non-citizen status; however, the five-year ban provision for qualified non-citizens had not been programmed into the INRHODES computer system.

We assessed the fiscal 2007 impact of the State's noncompliance with the five-year ban for certain non-exempt qualified non-citizens by utilizing data obtained from both the State's INRHODES computer system which contains Medicaid program eligibility information and the State's Medicaid Management Information System (MMIS) which contains Medicaid paid claims

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

data. The INRHODES system data identified individuals meeting qualified non-citizen status as of December 2006 who were not exempt from the five-year ban and had not met the five-year residency requirement as of December 2006.

The Medicaid eligible population at December 2006 totaled 180,063 individuals. Our analysis identified 3,606 qualified non-citizens (2,061 adults and 1,545 children) that were deemed eligible for Medicaid during the month of December 2006 but were not exempt from the five-year ban nor had they met the five-year residency requirement as of our test month (December 2006). This group of 3,606 individuals was considered potentially ineligible in accordance with PRWORA provisions but required further analysis of claims paid on their behalf due to the allowability of emergency services under Medicaid (e.g., qualifying inpatient and outpatient hospital services) regardless of compliance with the five-year residency requirement. Additionally, certain claims for prenatal and related health services for unborn children also could be federally reimbursable.

Using MMIS claims data, we determined the State paid \$5,771,040 in fee for service type claims and \$6,691,767 in managed care capitation payments for these individuals during fiscal year 2007 (amounts represent total claim amount – federal and state share). Further analysis identified the following:

- ❑ Of the 3,606 non-citizens identified, 161 were either pregnant or post-partum during the month reviewed. Certain claims for these individuals could be eligible as emergency services under Medicaid, or additionally qualify for SCHIP reimbursement based on the State's approved SCHIP State Plan which covers prenatal care and associated health services for children from conception.
- ❑ Of the \$5,771,040 in identified fee-for-service claims, \$2,116,282 relates to inpatient hospital claims which, based on our analysis, include emergency services allowable under Medicaid. Additionally, fee-for-service payments on behalf of pregnant or post-partum non-citizen women totaled \$619,383 which may qualify under SCHIP as prenatal and associated health care services for unborn children. Fee-for-service claims totaling \$3,035,375 (federal share - \$1,589,019) do not appear to meet the emergency or pregnancy related criteria and are thereby not considered Medicaid reimbursable.
- ❑ Fee-for-service claims of \$5,771,040 include approximately \$700,000 of outpatient service claims which may also be related to emergency services. No quantification of the amount of outpatient services representing emergency services was performed due to the difficulty of correlating the specific outpatient claim to a qualifying emergency event or service. However, any outpatient claims meeting the emergency service criteria would reduce the amount of questioned costs identified herein.
- ❑ Within the \$6,691,767 in managed care capitation payments, \$300,273 related to pregnant or post-partum non-citizen women that may qualify under SCHIP as prenatal care for unborn children. The remaining \$6,391,494 appear to be payments that would be ineligible for Medical Assistance or SCHIP (federal share - \$3,345,947).
- ❑ Managed care capitation payments are for comprehensive health coverage provided through a health maintenance organization (HMO). Consequently, capitation payments to an HMO include coverage for emergency-type services. While encounter data is provided by the HMO to the State, we did not attempt to quantify the amount of

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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emergency services provided through an HMO that may meet Medicaid allowable criteria. However, any such amounts would reduce the amount of questioned costs identified herein.

After considering potentially allowable claims paid for these individuals during fiscal 2007, we estimate unallowable Medicaid expenditures resulting from noncompliance with the five-year ban provision of PRWORA to be \$4,934,966 (federal share) for fiscal 2007. We believe that our analysis results in a reasonable estimate of the extent of non-compliance with PRWORA provisions during fiscal 2007; however, an exact determination of unallowable costs would require complete review of application data and underlying supporting documentation as well as a medical determination as to whether medical claims were paid for “emergency services” as defined by federal regulation. Further, the 3,606 individuals identified as potentially ineligible impact both Medicaid and SCHIP. The State first establishes Medicaid eligibility and then “allocates” specific claim expenditures to SCHIP based on program participant criteria. It was impractical to specifically estimate questioned costs for each federal program, therefore our estimate of the federal share of questioned costs assumes the Medicaid federal financial participation (FFP) rate of 52.35% for fiscal 2007. The fiscal 2007 FFP rate for SCHIP was 66.65%.

We performed limited procedures to validate the reports from the State’s INRHODES computer system which identified the 3,606 non-citizens whose eligibility codes indicated non-exempt status under PRWORA. The validity and completeness of this report is dependent upon the controls over data entry, the accuracy of coding of application data within the system and other system related controls. Our limited procedures included testing a sample of cases to ensure that the case specific data contained within INRHODES was consistent with the report generation criteria (e.g., non-citizens identified did not qualify as exempt status under PRWORA and had not met the five-year residency requirement).

Our analysis evaluated eligibility status as of December 2006 and applied that eligibility status across all claims paid for an individual during the year. This method has the potential of overstating questioned costs for individuals that met the five-year waiting period during the last six months of the fiscal year and understating questioned costs for those non-exempt individuals that entered the program after the month of eligibility evaluated during our test work. We do not believe these factors significantly impact our audit results or our estimate of questioned costs.

During fiscal 2007, the Department of Human Services revised its policies and requested modifications to the programming of its INRHODES computer system to more fully implement the provisions of PRWORA as it relates to Medicaid eligibility for qualified non-citizens. The programming modifications to the INRHODES computer system were implemented subsequent to June 30, 2007.

Enhancements in controls over eligibility should ensure that revisions to policy and eligibility determination procedures are applied consistently by eligibility technicians. These particular eligibility provisions should be included within the State’s required Medicaid Eligibility Quality Control sampling procedures.

Questioned Costs: \$4,934,966 (the amount of questioned costs specifically identifiable to Medicaid and SCHIP was impractical to estimate)

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

RECOMMENDATIONS

- 2007-110a Ensure that recent enhancements to controls over eligibility for qualified non-citizens are being implemented appropriately and consistently by eligibility technicians. Include such provisions within required Medicaid Eligibility Quality Control sampling procedures.
- 2007-110b Credit the federal grantor for questioned costs relating to claims paid on behalf of individuals ineligible for Medical Assistance.

Finding 2007-111

IMMUNIZATION GRANTS – CFDA 93.268
Administered by: Rhode Island Department of Health (DOH)

PAYROLL CERTIFICATION/ACTIVITY REPORTS

OMB Circular A-87, requires 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.

Federal regulations also 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. The regulations allow for budgeted allocations, but the budgeted amounts must be compared to actual amounts at least quarterly, and adjustments must be made if differences of more than ten percent are found. Otherwise, the adjustment may be recorded annually.

During fiscal 2007, DOH did not require employees who worked solely on the Immunization Grants program, or their supervisors, to sign certifications to that effect for the period covered by the certification. In addition, personnel activity reports were not prepared for employees working on multiple activities.

Several adjustments were recorded in the State accounting system to transfer personnel costs in or out of the Immunization Grants program accounts. We tested three adjustments which transferred \$119,407 of personnel costs out of the Immunization program. We also noted several small adjustments which transferred personnel costs into the program. The adjustments of personnel costs were not substantiated by time sheets or other similar supporting documentation.

Questioned Costs: Unknown

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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RECOMMENDATIONS

- 2007-111a 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.

- 2007-111b Require employees working on multiple activities to complete personnel activity reports, on at least a monthly basis, showing actual distribution of activity.

- 2007-111c Perform quarterly comparisons between budgeted salary allocations to actual time and effort and prepare adjustments for variances greater than ten percent. Prepare final adjustments for any variances remaining at year-end.

Corrective Action Plan



Corrective Action Plan
Findings Included in 2007 Single Audit Report

Finding 2007-1 *Corrective Action*

2007-1a

The centralization of the Accounts Payable function during FY 2008 resulted in a redesign of agency hierarchies that improved segregation of duties for the agencies that were part of the centralization. For those agencies that were part of the A/P centralization, their RIFANS hierarchies will be re-evaluated.

Anticipated Completion Date: September 30, 2008

Contact person: Wayne Hannon, Associate Controller-Operations
Phone: 401.222.2704

2007-1b

The centralization of the Accounts Payable function during FY 2008 resulted in the establishment of an "approval only" access in RIFANS such that agency approvers have access limited to approving transactions only.

Anticipated Completion Date: Complete

Contact person: Wayne Hannon, Associate Controller-Operations
Phone: 401.222.2704

2007-1c

The centralization of the Accounts Payable function during FY 2008 resulted in formal procedures that ensure agency hierarchy modifications are properly authorized. New service desk software is used for agency hierarchy modifications that insures an adequate documented audit trail of access changes.

Anticipated Completion Date: Complete

Contact person: Wayne Hannon, Associate Controller-Operations
Phone: 401.222.2704

2007-1d

We will develop a new workflow/approval hierarchy in the Oracle GL module (and written procedures) that will route daily cash transfer transactions ("CSH") to the Treasurer's Office for final approval and transfer of cash between bank accounts. Posting to the General ledger will not occur until Treasury approves the transaction.

Anticipated Completion Date: August 1, 2008

Contact person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

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2007-1e

The action outlined above under 2007-1d will address this control issue.

2007-1f

The current hierarchies will be reviewed and thresholds for supervisory approval reassessed for appropriateness. However, we do not concur with the recommendation that all entries, no matter how small, be subjected to another review.

Anticipated Completion Date: November 30, 2008

Contact person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

Finding 2007-2 Corrective Action

The Department of Administration will be implementing the Oracle E-Business suite. This implementation will provide the State with a comprehensive fully integrated accounting system. A rollout schedule has been developed. Schedule: FY09 - HR and Time Attendance, 2 Year Rollout; FY10 - Grants; FY11 - Cash Management; FY12 - Enterprise Asset Management. Originally, a budget module was purchased with the Oracle E-Business Suite. However, the module was not implemented due to functionality issues. The Department is seeking alternatives to the Oracle Budget module. When an alternative is determined, it will be incorporated in the release schedule.

Anticipated Completion Date: June 30, 2012

Contact person: John Landers, Chief Information Officer
Phone: 401.222.4444

Finding 2007-3 Corrective Action

2007-3a

The Division of Information Technology (DOIT), in conjunction with the Office of Accounts & Control and the Division of Purchases, is developing an automated edit to withhold payment to suppliers for all invoices without authorized purchases orders.

Anticipated Completion Date: June 30, 2008

Contact person: Wayne Hannon, Associate Controller-Operations
Phone: 401.222.2704

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2007-3b

The Division of Information Technology (DOIT), in conjunction with the Office of Accounts & Control and the Division of Purchases, is developing a standardized report to identify invoice transactions processed without an underlying purchase order.

Anticipated Completion Date: June 30, 2008

Contact person: Wayne Hannon, Associate Controller-Operations
Phone: 401.222.2704

2007-3c

The Division of Purchasing has enhanced the existing bid tabulation data verification procedures utilized by the assigned buyer. As the buyer is the owner of the specified bid and resulting tabulation, official signoff is now given on the tabulation before it is officially posted to the appropriate medium (i.e. RIVIP). The buyer must review the tabulation a minimum of two times before posting. At the outset, the buyer will analyze the tabulation in its initial format (i.e. Excel) after the data has been extracted from RIFANS. If any errors are identified, the buyer will then work with the support staff to ensure that the data is correctly entered into RIFANS. Regardless of whether the first step in the process uncovered any data errors, the buyer is responsible for reviewing the tabulation a second time once it has been converted from the initial format to its final, posting format (i.e. PDF). The buyer will again review the tabulation for data errors and if any are found, the respective buyer will work with the support staff in order to get the error corrected. Once the buyer has officially reviewed the tabulation in both its initial and posting formats, and confirmed that all the tabulation data is accurate when compared against the vendor bids, the buyer will provide a sign-off for the tabulation thereby allowing it to be officially posted.

Anticipated Completion Date: April 14, 2008

Contact person: Lorraine Hynes, Purchasing Agent
Phone: 401.574.8100

2007-3d

Effective July 1, 2007, the Division of Purchasing implemented a procedure where each bid award must be accompanied by the Procurement Determination Form. The Procurement Determination Form was developed to ensure compliance with RI General Law section 37-2-6. The completed form is filed with each respective bid award and depending upon the applicable bid requirements, the form must be signed by several key officials within the Division of Purchasing. The form also allows for a more detailed determination memo to be attached which may apply in the case of a Request for Proposal *evaluation/award*.

Anticipated Completion Date: Complete

Contact person: Lorraine Hynes, Purchasing Agent
Phone: 401.574.8100

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2007-3e

The Division of Purchasing has implemented formal authorization procedures in the cases where the Administrator serves as the buyer for procurements. In all cases originating with the Administrator, including but not limited to a procurement, change order or purchase order, the Purchasing Agent will give final approval and sign-off on any and all of the aforementioned purchasing actions. As a point of clarification, the Division of Purchasing requests confirmation of the title outlined in the Auditor General's document, dated 3/28/2008, containing Audit Finding 2007-3e. For the purpose of this response, the Division of Purchasing assumes that the Purchasing Agent will be the final approver of the Administrator's purchasing actions. However in the audit document, the finding refers to the Chief Purchasing Agent. Please confirm whether the intended position is the Purchasing Agent or Chief Purchasing Agent.

Anticipated Completion Date: Complete

Contact person: Lorraine Hynes, Purchasing Agent
Phone: 401.574.8100

2007-3f

In order to improve the administering and documenting of delegated purchasing authority, the Division of Purchasing has implemented functionality within RIFANS that allows technology to be utilized in managing the process. The RIFANS workflow has been modified such that departments and agencies must select Delegated Authority as the type of requisition. Additionally, the Division of Purchases' modified Business Processes require that agencies attach the delegated authority letter to their requisition. Before the new controls were formally implemented within RIFANS, the Division of Purchases revised the existing business processes in order to design improved delegated authority procedures. Upon finalization of the processes, the functionality within RIFANS was changed to match the new workflow created by the updated delegated authority procedures contained within the Division's business processes. The new procedures provide a better infrastructure for the managing and reporting of delegated purchasing authority usage by the various departments and agencies.

Anticipated Completion Date: Complete

Contact person: Lorraine Hynes, Purchasing Agent
Phone: 401.574.8100

2007-3g

The Division of Purchasing has improved its policies and procedures, related to the documentation of noncompetitive procurements, through the implementation of the Procurement Documentation Form. The Division has recognized that more stringent documentation is necessary in order to appropriately document noncompetitive procurements. Effective July 1, 2007, the Division began using this form not only for competitive procurements but also for noncompetitive procurements. In the case of noncompetitive procurement awards, the appropriate category will be selected and justification will be attached as specified on the form. This documentation includes, but is not limited to, the Division's Sole/Single Source Justification form or the Emergency Justification Form. Each of these respective forms must be completed

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and signed by the requesting department or agency as well as sign-off must be provided by the appropriate personnel within the Division of Purchasing including the Purchasing Agent. In many instances, a formal “noncompetitive” letter justifying the noncompetitive action will also accompany the documentation.

Anticipated Completion Date: Complete

Contact person: Lorraine Hynes, Purchasing Agent
Phone: 401.574.8100

2007-3h

A policy and procedure will be developed to require the approval by agency chief financial officers or agency chief executive officers prior to enrolling suppliers in RIFANS for purchase transactions delegated to state agencies.

Anticipated Completion Date: June 30, 2008

Contact person: Wayne Hannon, Associate Controller-Operations
Phone: 401.222.2704

2007-3i

Supplier records in RIFANS will be periodically updated to ensure vendors are still active, their information is current and all information is on file.

Anticipated Completion Date: December 31, 2008

Contact person: Wayne Hannon, Associate Controller-Operations
Phone: 401.222.2704

Finding 2007-4 Corrective Action

A number of processes are currently in place to accumulate relevant financial reporting information from agencies. An additional process will be developed to require agencies to submit data to the Controller’s Office concerning material disallowances of federal claims and other unusual contingencies that are not captured through the attorneys’ inquiry letter process.

Anticipated Completion Date: August 1, 2008

Contact person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

Finding 2007-5 Corrective Action

Using Oracle functionality a separate full accrual set of books will be used to generate GASB 34 compliant entity wide financial statements for FY 2008.

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Anticipated Completion Date: November 15, 2008

Contact person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

Finding 2007-6 Corrective Action

A formal process will be developed for the Division of Taxation to communicate to the Controller's Office information concerning *significant* tax related judgments, disputes, refunds.

Anticipated Completion Date: August 1, 2008

Contact person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

Finding 2007-7 Corrective Action

2007-7a

In FY2006 and FY 2007 aggressive follow-up action was initiated to insure the FGIS forms were submitted to the Controller's Office. These actions have resulted in a significant increase in the number of forms submitted. We will reassess and update our review process for the FGIS.

Anticipated Completion Date: December 31, 2008

Contact person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2007-7b

The FGIS schedule was redesigned in FY 2006. We will again review the Form's design to insure it meets the intended objectives.

Anticipated Completion Date: December 31, 2008

Contact person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2007-7c

We will develop and implement procedures to insure that CFDA numbers in Oracle are accurate. These will include cross referencing our data to the CFDA web site, periodic review of CFDA numbers for "00.000's" and annual certification by agency CFO's.

Anticipated Completion Date: September 30, 2008

Contact person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

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2007-7d

In the future the unique procedures of individual departments and agencies will be considered when modifying statewide cost allocation processes.

Anticipated Completion Date: June 30, 2008

Contact person: Bernard Lane, Chief of Central Business Services
Phone: 401.222.5707

Finding 2007-8 *Corrective Action*

2007-8a

We will research available verification services, select a service and implement a matching program.

Anticipated Completion Date: December 31, 2008

Contact person: Wayne Hannon, Associate Controller-Operations
Phone: 401.222.2704

2007-8b

The Department of Administration will develop a report that provides discrepancies between the State's payroll system and HR system. DOIT will work with HR and Accounts and Control to identify the critical data in both systems and determine the definition of a "discrepancy" in order to develop the report.

Anticipated Completion Date: October 31, 2008

Contact person: John Landers, Chief Information Officer
Phone: 401.222.4444

2007-8c

The Office of Accounts & Control will work with DoIT to establish a procedure to identify missing or incomplete data in the payroll system and update it.

Anticipated Completion Date: September 30, 2008

Contact person: Wayne Hannon, Associate Controller-Operations
Phone: 401.222.2704

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Finding 2007-9 *Corrective Action*

2007-9a

We will meet with the limited number of agencies that have been problematic to reemphasize the process for recording payables and the search criteria will be reassessed and expanded as needed.

Anticipated Completion Date: July 31, 2008

Contact person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2007-9b

Procedures are being developed to clear suspended and invalid transactions every thirty days, beginning July 1, 2008. Adequate documentation of transactions subsequently cancelled will be maintained.

Anticipated Completion Date: June 30, 2008

Contact person: Wayne Hannon, Associate Controller-Operations
Phone: 401.222.2704

Finding 2007-10 *Corrective Action*

2007-10a

For the component units that have transactions of concern, directions will be provided before year end on how to account for and report transactions with the primary government.

Anticipated Completion Date: June 30, 2008

Contact person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2007-10b

A focused review of draft financial statements of component units of concern will be performed.

Anticipated Completion Date: September 30, 2008

Contact person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

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Finding 2007-11 Corrective Action

2007-11

The Department of Administration started and completed the conversion of most of the subsidiary accounting systems. The two major systems pending completion are payroll and HR. System changes have been made on the payroll system with HR currently undergoing system changes. This project was started in FY2006 and has taken longer to complete than originally anticipated.

Anticipated Completion Date: June 30, 2008

Contact person: John Landers, Chief Information Officer
Phone: 401.222.4444

Finding 2007-12 Corrective Action

2007-12a

During the implementation phase of the Oracle FA module this was considered and it was determined that the Oracle capital asset module was not able to track assets under construction. The Office of Accounts and Control will continue to account for project-based capital projects in EXCEL spreadsheets until the Oracle project accounting module is implemented.

2007-12b

A communication will be sent to all FA Coordinators reminding them about the importance of reporting FA disposals on a timely basis. In addition, a new inventory by agency report is being developed from the Oracle FA module. This will then be used to perform physical inventories of all F&E assets reported in the financial statements. These inventories will be done on the frequency cycle recommended in the Auditor General's report.

Anticipated Completion Date: July 31, 2008

2007-12c

New guidelines for recording such acquisitions have been developed and communicated to the agencies involved.

Anticipated Completion Date: Complete

2007-12d

The capitalization threshold was recently evaluated and set at a level that was deemed appropriate to insure that all material investments in buildings were captured in the entity wide financial statements. In addition, a careful review of all projects was performed to insure that those that were capital in nature were capitalized and those that were primarily repair type

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projects were appropriately expensed. The dollar amount of the project and the nature of the expenditures were both considered in this review.

2007-12e

Procedures will be developed to perform physical inventories, including creation of necessary Oracle reports. See 2007-12b for more information.

Anticipated Completion Date: July 31, 2008

2007-12f

The capitalization threshold was recently evaluated and set at a level that was considered appropriate to insure that all material investments in buildings were captured in the entity wide financial statements.

Contact person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

Finding 2007-13 Corrective Action

Currently rental payments for equipment under capital leases are expensed as paid. The State does not enter into a significant number of such leases. Further, much of the equipment is returned to the lessor at the conclusion of the lease term. We do not believe that the current practice, which is simple and cost effective to maintain, materially distorts the entity wide financial statements.

Contact person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

Finding 2007-14 Corrective Action

2007-14a

The current access of the limited number of employees that appear in excess of what is required for their duties and functions will be reviewed.

Anticipated Completion Date: September 30, 2008

2007-14b

The Controller's Office will establish a schedule to compare RIFAN users' attendance records with transaction approvals.

Anticipated Completion Date: September 30, 2008

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2007-14c

The principles of “separation of duties” and “least privilege” are and will be used when establishing an individual’s RIFANS access privileges, based on known job duties and responsibilities of the employee seeking access.

Anticipated Completion Date: September 30, 2008

2007-14d

The Controller's Office will establish a schedule to review RIFAN users' access.

Anticipated Completion Date: September 30, 2008

2007-14e

A DoIT compliant password policy that is enforceable by the RIFANS system will be developed and implemented in conjunction with DoIT.

Anticipated Completion Date: September 30, 2008

2007-14f

A new procedure will be implemented to remove terminated employees as quickly as possible. Usually access of transferred employees is adjusted upon transfer.

Anticipated Completion Date: June 30, 2008

2007-14g

The Office of Accounts & Control and DoIT Security Officer will develop and implement a security awareness training program.

Anticipated Completion Date: September 30, 2008

Contact person: (Recommendations a through g)
Wayne Hannon, Associate Controller-Operations
Phone: 401.222.2704

2007-14h

The Department of Administration will identify a RIFANS security officer. This officer will identify non-compliance issues with the RIFANS and develop a corrective action plan to address areas of noncompliance.

Anticipated Completion Date: August 2008

Contact person: John Landers, Chief Information Officer
Phone: 401.222.4444

Corrective Action Plan
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Finding 2007-15 Corrective Action

Current transmission of data over the state network of batch payments is secure over SFTP. The issue at hand is data at rest and checks and balances of files leaving host systems to RI-FANS. There currently is no DoIT policy on data encryption and formal procedures to address transmission of batch files. Batch files are produced from many different systems and are transmitted via FTP service. Before developing policies and procedures, DoIT will identify the systems transmitted data and develop a complete inventory of these systems in order to develop policies and procedures for data transmission.

Anticipated Completion Date: September 30, 2008

Contact person: John Landers, Chief Information Officer
Phone: 401.222.4444

Finding 2007-16 Corrective Action

Investment activity is currently recorded on a daily basis but posted to the Oracle GL Module once a month. The feasibility of daily posting will be reviewed. However implementation of this must be weighted against other competing priorities of the limited DOIT resources assigned to support the Oracle modules currently in place.

Anticipated Completion Date: December 31, 2008

Contact person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

Finding 2007-17 Corrective Action

Activity is now posted on a monthly basis by DOT staff for GARVEE accounts. Also, the Controller's Office has posted activity for COPS accounts. Regular reconciliation of accounting records to Trustee statements are also performed by those offices. In addition, those two offices maintain all back-up documents for the respective Trustee accounts they are responsible for. The Office of Accounts and Control, the General Treasurer and the Budget Office will work together to enhance controls over funds on deposit with the fiscal agent.

Anticipated Completion Date: December 31, 2008

Contact persons: Lawrence C. Franklin, Jr, State Controller
Phone: 401.222.6731
Frank Caprio, General Treasurer
Phone: 401.222.2397

Finding 2007-18 Corrective Action

The process to gather the needed data from Treasury will be enhanced. Also, quality assurance steps will be implemented to insure data in the disclosure is correct. The Office of Accounts and

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Control and the General Treasurer will establish a work group to accumulate all information needed for GAAP disclosures for deposit and investment risk. While the Office of the General Treasurer currently provides reports used for this disclosure, the working group will review the process once the disclosure statements are completed by the accounting section of the Office of Accounts and Control. This will take place for the audit of the FY2008 financials.

Anticipated Completion Date: August 31, 2008

Contact person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

Finding 2007-19 Corrective Action

A process to insure that significant data that is entered in the DBC system by others is accurate will be established. We will work with Budget Office and Treasury to ensure that sufficient controls are in place to verify accuracy and perform regular reconciliation.

Anticipated Completion Date: September 30, 2008

Contact person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

Finding 2007-20 Corrective Action

Due to the increased management security requirements required by the Auditor General for Taxation's Main Frame systems, the EFT automated logging system failed. Taxation worked with DoIT and IBM to resolve this issue. As of April 1, 2008 the EFT automated logging system is back on-line.

Anticipated Completion Date: Complete

Contact person: Gary Sasse, Director, Department of Revenue
Phone: 401.574.8999

Finding 2007-21 Corrective Action

2007-21a

As noted in the findings, the accounts receivable corrections (ARCs) for fiscal year 2007 were in excess of \$50 million. This increase was primarily due to the 2006 Amnesty Program which caused abatements of large penalty assessment to individuals and businesses. However, the majority of personal income tax ARCs are performed using the Main Frame online correction system. To establish supervisory approvals, the Main Frame system would require a major redesign.

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2007-21b

As noted in the findings, the accounts receivable corrections (ARCs) for fiscal year 2007 were in excess of \$50 million. This increase was primarily due to the 2006 Amnesty Program which caused abatements of large penalty assessment to individuals and businesses. However, improved managerial controls can be established with some procedural changes.

Contact person: Gary Sasse, Director, Department of Revenue
Phone: 401.574.8999

Finding 2007-22 Corrective Action

Division of Information Technology will assign a team to implement this capability using current available technology.

Anticipated Completion Date: April 30, 2009

Contact person: John Landers, Chief Information Officer
Phone: 401.222.4444

Finding 2007-23 Corrective Action

2007-23a

The DoIT Chief Information Security Officer (CISO) will work the Agency IT Managers to identify critical systems at each agency and determine its compliance with the new security standards. Initially, only key systems at each agency will be identified and reviewed. In addition, the CISO's office performed penetration testing of web devices to certain Departments and agencies. last year. The office released the penetration testing to the stakeholders. The core impact tool that was used has been made available to the agencies for testing.

Anticipated Completion Date: June 30, 2009

Contact person: John Landers, Chief Information Officer
Phone: 401.222.4444

2007-23b

The CISO will meet with the Agency IT Managers to identify systems to be monitored and develop a time line to modify those systems to meet system security standards. These standards are currently published on the DOIT's website. Responsibility for making changes to systems identified will rest with the Agency IT Managers. The CISO will meet periodically to ensure progress on system modification.

Anticipated Completion Date: June 30, 2009

Contact person: John Landers, Chief Information Officer
Phone: 401.222.4444

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Finding 2007-24 Corrective Action

See Corrective Action Plan for Finding 2007-88.

Finding 2007-25 Corrective Action

See Corrective Action Plan for Finding 2007-75.

Finding 2007-26 Corrective Action

2007-26a

A comprehensive monthly reconciliation process between RIDOT, FMS, and RIFANS was implemented on 07/01/2007.

2007-26b

Report modifications will be made to include the categories which were inadvertently excluded. These reports will be finalized, tested and ready for use prior to 06/30/08.

A new procedure for tax revenue was in the process of being developed. The new procedure will require RIDOT to post operating transfers to both the ISTEAs and GARVEE funds. The process will be finalized by 03/01/08.

The fund balance was reported as a reserved component of fund balance as a result of the FY'07 audit.

2007-26c

A process is in place to manage the federal receivable balance. This process includes monthly cash flow projections. A collection focus on aged balances and an accelerated project closeout schedule. The agency has established targets to further reduce the balance in a manner that is in accordance with the funding needs of the Highway Improvement Plan.

2007-26d

Corrective action will require the involvement of the Office of Accounts and Control. The respective parties will work toward developing a solution prior to 06/01/2008.

Contact person: Marc Leonetti, Associate Director
Phone: 401.222.6590

Corrective Action Plan
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Finding 2007-27 Corrective Action

2007-27a

A monthly reconciliation process was implemented on 07/01/2007. RIDOT is reconciling the Trustee statements to RIDOT FMS and RIFANS. Adjustments are posted to RIDOT FMS effective the last day of the month reconciled. Adjustment are posted to the RIFANS effective the following month.

2007-27b

The reconciliation process has been expanded as of 12/01/2007.

2007-27c

Due to the implementation of the monthly reconciliation process, controls over the financial reporting process have been strengthened.

Contact person: Marc Leonetti, Associate Director
Phone: 401.222.6590

Finding 2007-28 Corrective Action

2007-28a

The Administrator of MIS will do an assessment of the Security handbook policies and standards and will develop a risk based priority that will be put in place by June 30, 2008.

2007-28b

Mary E. Gelardi has been designated to serve as the Security Administrator for the FMS application. This will be in effect by 04/01/2008.

2007-28c

MIS will enforce the policy of resetting computer desktop passwords and FMS password every 90 days. This will be in effect by 04/01/2008.

2007-28d

New procedures will be in place before 06/30/2008 that will no longer require CMS to transmit PO files or AP payment files across an FTP address. The modifications to the CMS program will place files in a windows directory. Access to the directory will be granted to the appropriate PO and AP RIDOT personnel.

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2007-28e

Analysis of human intervention on CMS data files will begin immediately with interview with the PO/AP RIDOT staff. MIS will outline the current “hands on interventions” and address each one programmatically. The automated processes are schedule to be implemented by 06/01/2008.

2007-28f

Phase I of implementing management controls is to house both a Test and Production environment of the PMP/CMS application at DOA. Phase I is scheduled to be completed by 03/31/2008. A PMP Help Desk Team was established at RIDOT on 01/21/2008. This team is monitoring all changes and requested changes in CMS. They will serve as quality engineers that will place completed code changes in a test environment, develop and enforce test plans with the RIDOT users. Upon success testing, the completed code will migrate to a production environment.

Contact person: Mary E. Gelardi, Department of Administration DoIT, Administrator
Phone: 401.222.6935

Finding 2007-29 Corrective Action

The methods/processes used to accrue these taxes will be reviewed to insure they are materially correct.

Anticipated Completion Date: December 31, 2008

Contact person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

Finding 2007-30 Corrective Action

2007-30a

The number of video lottery terminals (VLTs) at both facilities totaled 5,671 at 6/30/2007 versus 4,672 at 6/30/2006. In addition to the increase in VLTs, there were significant changes in 2007 at the facilities for retrieving and processing the daily cash wagered and for payouts at the terminal level. As a result of the expansion, there were significant changes in central system generated reports. This resulted in changes to the Lottery’s procedures for monitoring daily cash wagered and the payouts. The central system and facility changes included new money room processing procedures, implementation of ticket in/ticket out technology, and change for partial sweeps. Procedures and controls over central system generated reports and facility operations were assessed by Rhode Island Lottery regulators to ensure the Lottery’s objectives for both the central system and the facilities over the video operation were met.

Having addressed the business objectives over the revised cash management process, the Rhode Island Lottery will look to the central computer gaming system operator to provide better exception reporting capabilities to identify anomalies that may occur in gaming activities as well

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as improve on analytical analysis to identify abnormalities that may occur at the terminal level and enable resolution in an efficient manner.

Additionally, the Rhode Island Lottery will implement formal procedures to appropriately document the resolution of significant variances that may occur at the VLT level or at the central system level of operation.

2007-30b

The Lottery is in agreement that internal controls over the central computer gaming system need to be continuously assessed and monitored, since the Lottery is dependent on the reliability of the transaction reporting of all VLT activity from its central system provider. The Lottery has been and will continue to consider independent, external and internal audits to provide reasonable assurance of complete, accurate, and timely reporting by the central system. The Lottery believes this is best accomplished by the performance of a SAS 70 audit of the VLT central system operations to ensure all transactions are properly accounted for and provided to the Lottery in systems generated reports. The SAS 70 audit objectives include audits of the central system software application development and roll-out procedures and controls over all applications that result in systems generated reports used by the Lottery for financial reporting. Additionally, the on-going annual audits by an independent Information Technology audit consultant will assess the completeness of financial transactions processed by the central system.

The Lottery believes that an independent Internal Control System (ICS) will not provide sufficient evidence on the completeness, accuracy and timeliness of reported financial transactions from the central system, since this independent system would most likely receive and store the same erroneous information, if any, which might be initially generated by the central system. Also at this time, the Lottery does not want to risk the stability of the system by interfacing it to an ICS system. However, the Lottery will investigate all available options in the requirements of the new video system.

Contact person: Gerald S. Aubin, Director
Rhode Island Lottery
Phone: 401.463.6500

Finding 2007-31 *Corrective Action*

The Rhode Island Lottery, an enterprise fund of the State, has maintained its own general ledger for financial reporting purposes and utilized the RIFANS system for its accounts payable and the State's volume purchasing for office supplies. Previously, the RIFANS could not accommodate the Rhode Island Lottery's general ledger accounts. The Lottery will research to determine if RIFANS can now accommodate the Lottery's general ledger accounts, and whether using the State's system for financial reporting will be a more efficient process.

According to §42-61-4(7) of RIGL, the Lottery must provide a monthly financial report to the State Budget Office, Auditor General, Permanent Joint Committee on State Lottery, the Legislative Fiscal Advisors, and the Governor no later than the 20th business day following the close of the month. Requests have been made to when at all possible, provide this monthly financial report sooner than is required by law. Because of this statutory requirement, the Lottery reconciles its accounts monthly to its own general ledger currently used for financial

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reporting. The Lottery also reconciles its payables to the payments designated in the RIFANS system and utilizes the State's volume purchasing. Reconciling other accounts currently maintained in the State's accounting system would result in significant time and is a duplication effort since the financial information reported by the Lottery must be supplied to the State in a timely fashion.

The Lottery will explore the efficiency and effectiveness of using the State's accounting system for its financial reporting and implement financial recording through the RIFANS system if advantageous.

Contact person: Gerald S. Aubin, Director
Rhode Island Lottery
Phone: 401.463.6500

Finding 2007-32 Corrective Action

2007-32a

Treasury-Finance concurs with the recommendation, and has initiated several new procedures, as well as a new position in order to enhance overall monitoring of the portfolios.

2007-32b

Treasury-Finance agrees with the recommendation, and has designated the monthly responsibilities to the aforementioned "new position".

2007-32c

Treasury-Finance is in the process of initiating several new procedures in order to better coordinate efforts with ERSRI. Once again the addition of the new position, we believe, will address any concerns with this finding.

2007-32d

Treasury-Finance has formal monitoring processes across all investment categories. Treasury-Finance will continue to enhance the existing processes.

Contact person: Zachary Saul, Assistant Director/Finance
Employees Retirement System of Rhode Island
Phone: 401.222.2203

Finding 2007-33 Corrective Action

2007-33a

ERSRI will continue with the reconciliation of prior period posting errors and anticipates completion of this project by the close of calendar year 2008.

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2007-33b

ERSRI concurs with the finding and will work to develop strategies that will improve the financial reporting of contributions receivable. ERSRI anticipates modifying the contribution posting configurations to require 100% postings, thereby mitigating impacts on controls over financial reporting.

Contact person: Zachary Saul, Assistant Director/Finance
Employees Retirement System of Rhode Island
Phone: 401.222.2203

Finding 2007-34 Corrective Action

Verbal Agreements with Vendors:

We agree that with the recommendation and will review procedures currently in place to provide that any deviations from the Vendor Agreements be documented in writing and arrangements be signed by representatives of both SMG and companies or individuals.

Fully Executed and Signed Event Settlements with Promoters:

We will be more diligent in requesting and requiring signed event settlements from promoters and clients. RICC (SMG) procedures currently provide that “fully executed, signed”- contracts be obtained for all events, as well as signed events estimates from promoters. We will review this policy with the appropriate personnel to ensure that it is followed. While we recognize the concern that the lack of executed event settlements “inhibits the ability to support valid claims...” we (SMG) do require promoters to pay their estimated costs 100% by move – in day, as stated in the signed contract. At the time of settlement, completed by mail, two copies of the event settlement are given to the promoter and we request that one copy be signed and returned to RICC for our event folder. With regards to public show settlements involving box office sales, RICC (SMG) requires a faxed confirmation by the promoter prior to settlement fund distribution. Copies of the faxed confirmation are retained in the event folder.

Contact person: James McCarvill, Executive Director
Rhode Island Convention Center Authority
Phone: 401-351.4295

Finding 2007-35 Corrective Action

Upon the recommendation of LGC&D, Authority management has instituted a defined process for monthly review and approval – the Authority’s Accountant shall compile monthly journal entries with appropriate backup documentation and submit to the Director of Financial Operations (DFO) the first week of the month for review and approval. The DFO shall confer with the Accountant and question any issues and resolve prior to entry in the General Ledger. This procedure was instituted prior to the 2007 audit.

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Contact person: James McCarvill, Executive Director
Rhode Island Convention Center Authority
Phone: 401.351.4295

Finding 2007-36 Corrective Action

The University and Colleges agree that, under existing conditions, it is extremely difficult to prepare year-end GAAP financial statements in a timely and accurate manner. However, due to the State's reporting requirements, the University and Colleges have no option but to maintain dual accounting systems. Continuing budget constraints also limit the University and Colleges' ability to increase staff in the respective controller's offices. The University and Colleges will address the issues raised by:

- Reviewing the year-end financial close and audit process to streamline procedures and reduce overall workload;
- Cross-training staff to free up more time for high-level management reviews of key information;
- Within budgetary constraints, seeking to increase the size and professional qualifications of the controller's office staff.

Contact persons: Paul Forte, Assistant Vice President for Finance and Controller
Rhode Island College
Phone: 401.456.8224

Sharon B. Bell, Controller
University of Rhode Island
Phone: 401.874.2378

Carl Toft, Controller
Community College of Rhode Island
Phone: 401.825.2150

Finding 2007-37 Corrective Action

Accounting staff do have the technical access to post journal entries without a second level of review. It would be impractical to restrict their system access. However, unwritten office procedures require that all journal entries with supporting data be reviewed and signed off by a second party, either the controller or an assistant controller. Written year-end procedures require that any GASB related journal entries be reviewed by the controller. The People Soft (URI and RIC) or Banner (CCRI) systems also provides an audit trail to identify who entered each journal entry. Combined with random tests of journal entries, daily account balancing, and periodic account reconciliations, management believes that internal controls are adequate to detect any significant unauthorized or erroneous journal entries within a reasonable period of time.

However, the University and Colleges need to improve internal controls, especially preventative controls. Therefore, additional written journal entry procedures are being prepared and will be

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used as the basis for staff training and monitoring of the journal entry process. The procedures will specify the number and frequency of random checks. The procedures will also address the need for adequate support documentation to either be attached to the journal entry form or, if the support documentation is too bulky, to clearly indicate the source/location of the supporting data.

Contact persons: Paul Forte, Assistant Vice President for Finance and Controller
Rhode Island College
Phone: 401.456.8224

Sharon B. Bell, Controller
University of Rhode Island
Phone: 401.874.2378

Carl Toft, Controller
Community College of Rhode Island
Phone: 401.825.2150

Finding 2007-38 Corrective Action

The Corporation's accounting department is being reorganized by areas of responsibility; general accounting and financial analysis. The tracking of the Methane Royalty Revenues will be assigned to an individual in the general accounting department who will ensure the accuracy of estimated royalties. The transfer of duties will be completed by December 31, 2007.

Contact person: Michael J. O'Connell, Executive Director
Rhode Island Resource Recovery Corporation
Phone: 401.942.1430

Finding 2007-39 Corrective Action

The reorganization of the accounting department will address the timely accurate account reconciliations. The tracking and reconciliation of banking and investment activities will be assigned to an individual in the general accounting department. Procedures will be in place to ensure timely reconciliations. The transfer of these duties will be completed by December 31, 2007.

Contact person: Michael J. O'Connell, Executive Director
Rhode Island Resource Recovery Corporation
Phone: 401.942.1430

Finding 2007-40 Corrective Action

The Corporation's Engineering Department will perform topography surveys of all stockpile material on a monthly basis and report them to the general accounting department.

Contact person: Michael J. O'Connell, Executive Director
Rhode Island Resource Recovery Corporation
Phone: 401.942.1430

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Finding 2007-41 *Corrective Action*

The Chief Financial Officer, when hired, will be responsible reviewing significant estimates on a regular basis.

Contact person: Michael J. O'Connell, Executive Director
Rhode Island Resource Recovery Corporation
Phone: 401.942.1430

Finding 2007-42 *Corrective Action*

The Corporation is currently performing a search for a Chief Financial Officer with an estimated hiring date of December 1, 2007.

Contact person: Michael J. O'Connell, Executive Director
Rhode Island Resource Recovery Corporation
Phone: 401.942.1430

Finding 2007-43 *Corrective Action*

Management will implement procedures to review and approve journal entries to ensure that proper controls are in place.

Contact person: Buddy Croft, Executive Director
Rhode Island Turnpike and Bridge Authority
Phone: 401.423.0800

Finding 2007-44 *Corrective Action*

2007-44a

When budgetary resources will allow, a staff position will be created to perform this function, as well as a sub-recipient monitoring function as previously recommended in previous years audit reports.

Anticipated Completion Date: June 30, 2009

2007-44b

RIFANS reports to assist program agencies in drawing cash for federal programs will be implemented as soon as possible. However implementation of this must be weighted against other competing priorities of the limited DOIT resources assigned to support the Oracle modules currently in place

Anticipated Completion Date: December 31, 2008

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2007-44c

When budgetary resources will allow, the staff position will be created to perform cash management and sub-recipient monitoring functions will perform this review.

Anticipated Completion Date: June 30, 2009

2007-44d

Procedures associated with calculating interest for the CMIA Annual Report will be modified to exclude those programs that comply with their funding techniques.

Anticipated Completion Date: December 31, 2008

2007-44e

Refund liabilities will be calculated in accordance with the terms outlined in the Treasury/State agreement.

Anticipated Completion Date: December 31, 2008

Contact person: Lawrence C. Franklin, Jr., State Controller
Phone: 401.222.6731

Finding 2007-45 Corrective Action

See Correction Action Plan for Finding 2007-12.

Finding 2007-46 Corrective Action

2007-46a

DHS has created specific roles for the current functions performed by the NG/IT contractor staff and will continue the work with NG/IT, to delineate the necessary changes to roles as necessary in the production environments of InRhodes. DHS will continue 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.

2007-46b

DHS should complete work to assign InRhodes system security functions to DHS personnel in the FAMIS Unit in order to control security access for all InRhodes users, including the contract vendor (NG/IT.). Procedures are being developed to formalize this process and will incorporate a review process on a periodic basis by DHS.

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2007-46c

DHS has turned on the monitor tool (PLOG) available for InRhodes Users is able to produce reports on system activity. DHS will work in conjunction with the Division of Information Technology to establish monitoring protocol to track security reports for InRhodes users.

2007-46d

The EBT contractor, eFunds, has installed OMNI 3200 PIN terminals, which will now be programmed to timeout after ten (10) minutes of inactivity by the user. This programming was completed March 27, 2008.

Anticipated Completion Date: Completed March 27, 2008

Contact person: Edward P. Sneesby, Associate Director - Management Services
Phone: 401.462.2424

Finding 2007-47 Corrective Action

RIDE agrees with these Findings. The Office of Finance, Child Nutrition Programs (CNPs) section has recently been through a unification of the program and financial staff members into one Office. In addition, the Nutrition staff has taken on additional projects to capitalize on funding and initiative opportunities to enhance the administration of CNPs. They include rolling out a web-based computer system for all five CNPs (^{CNP}*Connect*), procurement of a statewide food service management company in order to achieve statewide efficiencies, and establishing an interagency collaboration for electronic direct certification (eDC) for food stamp and Family Independence Program (FIP) recipients to all RI public schools. In addition the Nutrition staff is responsible for implementing and communicating all USDA Regulation changes for the CNPs. The most comprehensive is the Final Rule, Procurement Requirements (October 31, 2007) that directly impacts the NSLP sponsors that use the services of a food service management company, especially the 31 LEAs.

This unification is achieving consistency and has been streamlining many of the processes involved in the administration of the CNPs. However, RIDE is continuously reviewing these changes in conjunction with the “catch-up,” current, and additional workloads. While we are moving forward, we are still not where we expected to be in 2008. Our staff resources are finite and taxed. It must be noted that RI’s budget crisis has imposed a hold on all hiring requests, which has a direct effect on the contracted staff position working in Nutrition from becoming a permanent FTE. Contracted staff is limited in their scope of responsibilities.

2007-47a

In 2008, RIDE reassigned the SMI nutrition reviews to the responsibilities of another Nutrition Specialist. The Specialist will document the complete process, including developing a status log that clearly delineates review date(s), written report completion date, date of corrective action letter sent to sponsor, date corrective action due, date corrective action responses received, final determination status, date closure letter sent, and date review filed. Further, RIDE will do an

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assessment of the SMI process to aid in determining if selected segments or the process can be contracted to a vendor for 2009.

2007-47b

To assure that RIDE conducts follow-up visits within required federal timeframes, RIDE will appoint a support staff person to track review timelines. These timelines will include the date of the notification letter, date of review, date of review findings (follow-up), date response is due/withhold reimbursement, date of review closure. The support staff person will email the Nutrition Specialists for updates to the tracking system and reminders. The tracking system will be on the *School Food Service* shared drive for all to access and update as appropriate and in the Outlook Calendar of the Nutrition Specialists.

2007-47c

RIDE will enforce corrective actions when plans are not received timely. The Nutrition Specialists and the support staff person will utilize the tracking system mentioned in the response to 2007-47a and 2007-47b. The tracking system will ensure timelines are followed and that email notifications are sent to the appropriate finance support staff responsible for the specific CNP. The tracking process will produce an email notification to the appropriate finance support staff requiring them to hold program reimbursement until notified to release them via email.

Contact person: Adrienne DiMeo, Coordinator, Child Nutrition Programs
Phone: 401.222.4453
E-mail: adrienne.dimeo@ride.ri.gov

Finding 2007-48 Corrective Action

RIDE agrees with the Finding. To provide corrective action, by April 18, 2008, the Office of Network and Information Systems (ONIS) will have a meeting between its staff and the consulting eSNACS developer and Project manager in order to put in place a workable plan, that will allow to satisfy the report's recommendation.

By May 31, 2008, ONIS will submit and activate a plan to create a separation of duties within the development, Q&A, and production environments of eSNACS. This document will spell out protocol and procedures based on "best practices".

With the Plan in place, ONIS will then work with the Office of Finance to address the projected resources needed to provide in house staff support to the eSNACS project. RIDE's expectation is that by June 30, 2008, the recommendation will be implemented.

Contact person: Adrienne DiMeo, Coordinator, Child Nutrition Programs
Phone: 401.222.4453
E-mail: adrienne.dimeo@ride.ri.gov

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Finding 2007-49 Corrective Action

2007-49a

The Rhode Island Department of Education agrees with the finding. The FY06 subrecipient audits were reviewed during a period of transition for RIDE staff. Of the two staff members handling the FY06 Audit Oversight responsibilities, one left the Department for another position in the summer of 2007, and the second retired from the state later that year. The retired staff member, who had primary responsibility for audit oversight, was attempting to complete many tasks prior to her departure. This included the audit reviews. That staff member had initiated the follow up process for the audits detailed above.

The staff member now assigned to the Audit Oversight function has followed up on the outstanding matters. RIDE has closed all but two of the audits. RIDE is continuing to work with the other two districts to resolve their findings. We expect them to be fully resolved with the next two months. When those findings are completely resolved, those audits will also be closed.

With new staff assigned to the Audit Oversight function, RIDE anticipates that the collection and follow up process will be complete by September of 2008.

2007-49b

The Department partially agrees with the Finding. RIDE's auditors are correct that for one of the Nutrition audits, the Nutrition program was not listed in the consolidated organization's Schedule of Federal Financial Assistance. To assure that this does not recur, RIDE will follow up on this with the audit firm. However, RIDE feels that materiality should be an important consideration with this finding.

The goal of a sound system is to minimize errors to an immaterial level. Out of approximately 114 Nutrition subrecipients reviewed, auditors noted only a single oversight. RIDE feels that a single oversight in a review of 114 complex reports demonstrates that its process, while not perfect, is fundamentally sound.

Contact person: Carolyn Dias, Director of Finance
Phone: 401.222.4645
E-mail: carolyn.dias@ride.ri.gov

Finding 2007-50 Corrective Action

Beginning in March 2008 the final monthly 798 report and backup data will be processed three (3) weeks after the close of the month, all files (798 and backup data) will be saved to a PDF file and CD. In addition one hard copy will be filed in the WIC main files.

WIC personnel completed the required periodic time study. These showed the personnel costs for nutrition education, and breastfeeding were actually higher than those estimates reported on the 798A. A revised 798A will be submitted to FNS.

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Contact persons: Ann Barone, Acting Chief WIC Program
Phone: 401.222.4623

Charles White, Deputy Chief WIC Program
Phone: 401.222.5939

Anthony Manzi, Fiscal Manager WIC Program
Phone: 401.222.5885

Finding 2007-51 *Corrective Action*

The new time sheets instituted in November 2007 require staff to document actual time spent on WIC program work. WIC fiscal staff will then adjust budget allocations to the documented actual time spent on the program.

Contact persons: Ann Barone, Acting Chief WIC Program
Phone: 401.222.4623

Charles White, Deputy Chief WIC Program
Phone: 401.222.5939

Anthony Manzi, Fiscal Manager WIC Program
Phone: 401.222.5885

Finding 2007-52 *Corrective Action*

As noted in the finding, during the year ended June 30, 2007, Rhode Island Housing realigned the dates on which it performed Housing Quality Inspection for its section 8 Housing Assistance Reviews. Rhode Island Housing conducts multiple inspections on some Section 8 sites due to the fact that it is the contract administrator for several federal programs, including tax credit compliance and the portable voucher programs. The realignment was intended to synchronize these multiple inspections, streamline them and make them more comprehensive. This one-time realignment was based on the understanding that HUD handbooks allowed flexibility with respect to the timing of these inspections. Effective immediately, Rhode Island Housing has instituted a control plan requiring review of the inspection schedules for all Section 8 Housing Assistance Reviews by the multifamily Compliance Supervisor, the Assistant Director of Loan Servicing or the Director of Loan Servicing to ensure that inspections are conducted at least once in every 12 month period.

As noted in the finding, Rhode Island Housing failed to select a minimum of 25% of occupied units for 2 of the 12 developments selected for inspection. With respect to these two developments, Rhode Island Housing staff selected 20% of occupied units based on the corresponding Low Income Housing Tax Credit inspection requirement rather than following the inspection protocol required of the section 8 program. Effective immediately, Rhode Island Housing has instituted a control plan requiring review of the percentage of units selected for inspection by the Multifamily Compliance Supervisor, Assistant Director of loan Servicing or Director of loan servicing to ensure that the required number of units is selected for inspection for each program.

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Contact person: Kara Lachapelle, Controller
Rhode Island Housing
Phone: 401.457.1170

Finding 2007-53 Corrective Action

During calculation of an annual rent increase, an incorrect amount was applied to the 1- bedroom units of a site due to an input error. The discrepancy for this site resulted in an overpayment of \$1,820. The managing agent was informed and a corrected rent schedule (HUD-92458 form), and Exhibit A were issued. Accordingly, the rents were adjusted and the overpayment was returned to HUD on the July 2007 Assistance payment Request (HUD-52670 & HUD 52670-forms)

For accuracy assurance, a complete review of the files was performed and, as a result, the following quality control measures have been instituted as a safeguard: all letters pertaining to rent increase processing will be double-checked and initialed for accuracy prior to distribution.

Contact person: Kara Lachapelle, Controller
Rhode Island Housing
Phone: 401.457.1170

Finding 2007-54 Corrective Action

2007-54a

DLT concurs with the audit finding.

Federal guidelines for preparation of the reports necessitate maintenance and accumulation of the data from multiple sources. FARS provides actual/accrued expenditure figures for administration and benefit reports. A separate database provides accrued training expenditures for services received but not yet billed to DLT. Tracking and reporting of training expenditures in this manner facilitates compliance with 29 CFR 97.41(b)(2) and TEGL 6-03. Reconciliations will be expanded to ensure agreement between the State's RIFANS accounting system, DLT's FARS cost allocation system, and the federal reports for all sources of data on a quarterly basis beginning in SFY2008.

Contact person: Diane Gagne, Administrator, Financial Management
Phone: 401.462.8147
Email: dgagne@dlt.ri.gov

2007-54b

DLT concurs with the audit finding.

After submission of the TAPR report, additional exiters were identified. A corrected report was submitted and verification received. A more comprehensive review of the TAPR will be conducted quarterly prior to submission.

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Rhode Island Department of Labor and Training is presently negotiating a contract for a new management information system that will improve recordkeeping and reporting.

Contact person: Kim Weiss, Chief Administrator Dislocated Worker Unit
Phone: 401.462.8793
Email: kweiss@dlt.ri.gov

2007-54c

DLT concurs with this finding.

The ETA 563 report regarding Additional and Remedial TRA Benefits was corrected and an amended report submitted and verification received. A comprehensive review of the report will be conducted prior to submission. Rhode Island Department of Labor and Training is presently negotiating a contract for a new management information system that will improve recordkeeping and reporting.

Quarterly reconciliations between the ETA 563 report and the ETA-9130 (formerly SF-269) report will be conducted beginning in SFY2008 to ensure consistency in data on various federal reports.

Contact persons: Kim Weiss, Chief Administrator Dislocated Worker Unit
Phone: 401.462.8793
Email: kweiss@dlt.ri.gov

Denise Paquet, Administrator, Financial Management
Phone: 401.462.8178
Email: dpaquet@dlt.ri.gov

2007-54d

DLT concurs with this finding.

A data entry error was made, the report corrected and submitted. Verification was received. A quarterly comprehensive review of the ATAA report will be conducted by supervisory personnel before each submission.

Contact person: Diane Gagne, Administrator, Financial Management
Phone: 401.462.8147
Email: dgagne@dlt.ri.gov

Finding 2007-55 Corrective Action

2007-55a

DLT concurs with this finding and will implement corrective action effective SFY2009.

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SFY2008 FARS ledgers contain SFY2007 carry in amounts identified on a separate line within each ledger. DLT will establish authorized balances within FARS ledgers consistent with grant award documentation effective SFY2009.

Contact person: Diane Gagne, Administrator, Financial Management
Phone: 401.462.8147
Email: dgagne@dlt.ri.gov

2007-55b

DLT concurs with this finding.

A reconciliation between RIFANS and FARS was performed for the three WIA programs for SFY2007 subsequent to audit fieldwork. Reconciliations will be performed between the State's RIFANS accounting system, DLT's FARS cost allocation system, and the federal reports on a regular basis commencing with SFY2008. The FGIS is being prepared for the three WIA programs for SFY2007 and will be prepared on an annual basis as required by the State.

Contact person: Denise Paquet, Administrator, Financial Management
Phone: 401.462.8178
Email: dpaquet@dlt.ri.gov

Finding 2007-56 Corrective Action

DLT concurs with this finding.

The WIA Program Eligibility and Verification form will be revised as part of the ongoing work by the Common Measures System Integration Workgroup in order to ensure consistency and clarity. Staff training will also be conducted as needed.

The four case files mentioned have been reviewed and the customers were appropriately assessed based on use of the unemployment insurance printout which lists the reason for termination. This is an acceptable form of verification along with the applicant's signature on the application.

Contact person: Dottie Miller, Administrator, Greater RI Workforce Partnership
Phone: 401.462.8727
Email: dmiller@dlt.ri.gov

Finding 2007-57 Corrective Action

The winter training session stresses the performance of field audits to reinforce compliance. In addition, the department is working with FHWA on revisions to the PURK manual related to this procedure. Expected revision date is July of 2008. An internal review process will be established by the Director's office to monitor progress and ensure compliance.

Contact person: Frank Corrao III, Construction Management, Deputy Chief Engineer
Phone: 401.222.2468

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Finding 2007-58 Corrective Action

2007-58a

RIDOT is currently working with FHWA to approve the revised Materials Sampling and Testing manual. Expected date of revision is December of 2008. An internal review process will be established by the Director's Office to monitor progress and ensure compliance.

2007-58b

RIDOT has provided additional training during the past winter session to reinforce the procedure of requiring a certificate of compliance prior to payment. An internal review process will be established by the Director's Office to monitor progress and ensure compliance.

2007-58c

Additional training will be provided to reinforce compliance related to this procedure. RIDOT will continue to improve practices to ensure the applicable PURK manuals procedures are followed when dealing with rejected or unacceptable materials at the project site. An internal review process will be established by the Director's Office to monitor progress and ensure compliance.

2007-58d

RIDOT will forward the approved plant list to all vendors and field personnel by May of 2008.

Contact person: Frank Corrao III, Construction Management, Deputy Chief Engineer
Phone: 401.222.2468

Finding 2007-59 Corrective Action

Procedures have been implemented to identify and process federal credits in a timely manner.

Contact person: Marc Leonetti, Associate Director
Phone: 401.222.6590

Finding 2007-60 Corrective Action

Controls will be enhanced to notify the appropriate personnel of the oversight and non-oversight projects in our highway improvement program. This will be in place by May 2008.

Contact person: Frank Corrao III, Construction Management, Deputy Chief Engineer
Phone: 401.222.2468

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Finding 2007-61 Corrective Action

The Department partially agrees with the Finding. RIDE does have a signed correct copy of the certification described above as incorrect. That correct copy was obtained on a timely basis. However, we do concur that in two instances RIDE did not obtain signed certificates.

Washington requires that the special education census be the schools' counts as of December 1 of the census year. The organization's that did not have signed certifications submitted their census data into the RIDE electronic system after the required submission date. RIDE had already closed the data files. Despite numerous requests, RIDE could not persuade the organizations' authorities to certify their counts as of the required submission date. They wished to certify them as of their late submission date. Unfortunately, Federal mandates do not permit that.

Beginning with the 2007 census collection, RIDE will withhold the federal funds of organizations that do not certify their counts as of the required submission date.

Contact person: Carolyn Dias, Director of Finance
Phone: 401.222.4645
E-mail: carolyn.dias@ride.ri.gov

Finding 2007-62 Corrective Action

The College will institute a procedure to review and authorize for requests for reimbursements prior to drawdown of funds.

Contact person: Paul Forte, Assistant Vice President for Finance and Controller
Rhode Island College
Phone: 401.456.8224

Finding 2007-63 Corrective Action

The U.S. Department of Education opened the COD system for 2006 – 2007 Smart / ACG reporting on December 16, 2006. Due to the short implementation window for these two new programs, our information system updates for Smart/ACG reporting to CID were not installed in production until January 30, 2007. The U.S. Department of Education had previously advised institutions that they would provide some leeway on compliance in regard to meeting the 30 day reporting period.

Contact person: Paul Forte, Assistant Vice President for Finance and Controller
Rhode Island College
Phone: 401.456.8224

Finding 2007-64 Corrective Action

While the College had a process in place to generate "Right to Cancel" notifications to students receiving electronic disbursements of Stafford and Perkins Loans, the PLUS program was not

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included in the process because funds had previously been disbursed by individual checks which were signed by the borrowers. During the 2006 – 2007 award year, the College began receiving PLUD funds via electronic letters was not updated to include the EFT disbursements.

There were 167 PLUS recipients with EFT disbursements totaling \$1,236,206 during 2006-2007. This error has been fixed, and “Right to Cancel” notifications for PLUS loans were implemented as of August 10, 2007. The college does not anticipate future problems in this area.

Contact person: Paul Forte, Assistant Vice President for Finance and Controller
Rhode Island College
Phone: 401.456.8224

Finding 2007-65 Corrective Action

The College transmits enrollment reports to the National Student Clearinghouse on a monthly basis during the course of each semester. The Clearinghouse submits SSCR report to NSLDS on behalf of the college. Test work during the FY 2007 audit identified an error in the reporting process for students who withdrew after the end of the Add / Drop period (first two weeks) at the start of each semester. The Record Office at the college had defined these students as enrolled because they had been enrolled as of the census date and because they received a grade of “W” on their transcripts.

As a result, students who withdrew during the course of the semester were not correctly reported as withdrawn students until the start of the following semester when they did not return. This did not affect the way the office of Student Financial Aid identified semester withdrawals for “Return of Title IV” and exit counseling purposes.

The program for reporting enrollment status to the Clearinghouse was corrected as of September 2007.

Contact person: Paul Forte, Assistant Vice President for Finance and Controller
Rhode Island College
Phone: 401.456.8224

Finding 2007-66 Corrective Action

2007-66a

Health agrees with this finding and has implemented a process, which will meet this recommendation.

2007-66b

Health agrees with this finding and has implemented a manual time card process for all employees. This process was started in November of 2007 after several pilot attempts.

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2007-66c

Health understands what is being requested and will strive to accomplish this recommendation. This is going to require additional time to complete this process and could mean multiple adjustments being made on staff that result in no change over the total grant period. Health reviews the time cards regularly and will adjust the staff that will not self correct over the grant period.

Contact person: Doug Axelsen, Chief Financial Officer
Phone: 401.222.5112

Finding 2007-67 Corrective Action

2007-67a

Health has always monitored sub-recipients. What we haven't done is record our actions consistently. We will establish a document, which will identify what steps we have taken to monitor our sub-recipients.

2007-67b

This practice has been in place, but a written policy or document showing what has resulted from the review of the audit reports has not. This will be included in the document mentioned above.

2007-67c

Health will use the document mentioned above to monitor this process.

Contact person: Doug Axelsen, Chief Financial Officer
Phone: 401.222.5112

Finding 2007-68 Corrective Action

The correction was made in the 2008 year as soon as it was identified and balances out the grant expenditures.

Contact person: Doug Axelsen, Chief Financial Officer
Phone: 401.222.5112

Finding 2007-69 Corrective Action

The Department of Human Services agrees that timing differences associated with TANF reporting need to be thoroughly reconciled and documented. During fiscal year 2007 a fifth category (State Non-MOE) of spending was added further complicating a reporting process that has to conform to a still evolving array of rules and numerous and substantial penalties. On a quarterly basis five categories of spending are calculated including Federal, State, Separate State, Segregated State and now State Non-MOE which are reconciled and adjusted the subsequent quarter.

Corrective Action Plan
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The Department of Human Services currently reconciles total combined cash assistance expenditures internally on a monthly basis as part of an in-state reporting procedure with the General Assembly and the Budget Office. Also the Federal component is reconciled on a quarterly basis on the Federal Grants Information Reconciliation form. The Department is proposing that the state components (MOE and Non-MOE) also be reconciled with the state accounting system on a quarterly basis to provide a comprehensive system of tracking and correcting timing differences as they occur.

Anticipated Completion Date: May 31, 2008

Contact Person: Kevin McCarthy, Supervising Accountant
Phone: 401.462.6871

Finding 2007-70 Corrective Action

2007-70 a, b and c

Controls are in place as supervisors are required to monitor the work of their staff. DHS will correct the cases that the Auditor General's staff found to be deficient and will ensure that proper documentation is maintained in the case file. 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.

New procedures for supervisory reviews 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, will be developed by the Administrator of Field Operations.

Regarding the policies and procedures for individual job search, the Individual and Family Support Service staff will bring the Family Independence Program policy in line with the TANF State Plan submitted to HHS/Administration for Children and Families.

2007-70d

The plan to explore the expansion of the reviews of Child Care cases by the Quality Control Unit has not materialized this past year due to the severe fiscal restraints in Rhode Island. However, the federal agency, Health and Human Service/Administration for Children and Families has begun reviews of Child Care cases under the auspices of the Improper Payments regulations. Rhode Island Child Care cases will be reviewed in Cycle Year 2 beginning October 1, 2008. The Department will use this information to determine how best to include child care cases in the Quality Control reviews.

Anticipated Completion Dates: June 30, 2008 with respect to a, b and c
Undetermined for Corrective Action d.

Contact persons: Edward P. Sneesby, Associate Director – Management Services
Phone: 401.462.2424

Corrective Action Plan
Findings Included in 2007 Single Audit Report

Tina A. Janik, Administrator – Field Operations
Phone: 401.462.3019

Donalda Carlson, Administrator – Individual and Family Support
Phone: 401.462.6833

Finding 2007-71 Corrective Action

A combination of technology improvements and reallocation of personnel resources has been utilized to address the deficiencies identified in the Auditor General's review. The establishment of the IEVS Unit has begun to reduce the number of cases with discrepancies (from 30 in fiscal year 2006 to 20 in fiscal year 2007). The Department will continue its corrective actions to further reduce the number of discrepancies found in the IEVS review process. The following is a summary of those initiatives.

2007-71a and b

Review and correct the twenty (20) 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, 2008.

The establishment of the IEVS Unit composed of Senior Eligibility Technicians whose primary assignment is to review and resolve all SWICA interface discrepancies in FIP (TANF), has begun to reduce the discrepancies. This unit will continue to review and resolve all SWICA discrepancies and refer all overpayments to the Claims, Collections and Recoveries Unit. In addition, this unit will review and resolve New Hires matches as resources permit in order to focus on cases where there is possible employment. This is to both reduce overpayments and increase the work participation rates.

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.

Anticipated Completion Dates: See above

Contact persons: Edward Sneesby, Associate Director – Management Services
Phone: 401.462.2424

Tina Janik, Administrator - Field Operations
Phone: 401.462.3019

Finding 2007-72 Corrective Action

2007-72 a, b, c, and d

Effective October 1, 2007, the Department implemented the automated Family Independence Program's Education and Training Referral and Response (EARR) system. This was done in order to bring the Department into compliance with the federal TANF mandate to have a TANF

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work verification system in place no later than October 1, 2007. The federal fiscal year 2007 (10/1/2006 to 9/30/2007) was a transition year in which states had to finalize work verification plans and be prepared to be operational on 10/1/2007.

The controls for the information for the ACF-199 TANF Data report and the ACF-209 SSP-MOE Data report are continually being enhanced as reports from ACF on errors are reviewed and changes made to InRhodes to insure accurate reporting.

The implementation of the EARR system required new procedures for vendors. Vendors were trained during the initial implementation phase and direction to vendors is given on an on-going basis by Individual and Family Support Service staff.

All non-employment work activities are now reported via the EARR and are thus current and accurate information on which FIP social casework and eligibility technician staff base eligibility decisions. All reports will the actual attendance data rather than the anticipated data as in the past.

The programming error for Item 28 of the ACF-199 TANF Data Report has been corrected.

Contact persons: Donalda Carlson, Administrator – Individual and Family Support
Phone: 401.462.6833

Randy Rosati, Assistant Administrator – MIS
Phone: 401.462.3014

Finding 2007-73 Corrective Action

The Department of Human Services agrees that tightening current review and approval procedures would produce a more accurate and better documented report. It is also agreed that the errors are material enough to justify submitting a revised report.

The Department of Human Services is proposing that the final report be reviewed in the Office of Financial Management prior to submission. Also all documentation should be centralized in the Office of Financial Management. The fiscal year 2006 report will be resubmitted with corrections.

Anticipated Completion Date: May 31, 2008

Contact person: Kevin McCarthy, Supervising Accountant
Phone: 401.462.6871

Finding 2007-74 Corrective Action

The Department will prepare and process adjustments to both the State's accounting system and Federal financial reports transferring expenditures to the appropriate programs.

Anticipated Completion Date: June 30, 2008

Corrective Action Plan
Findings Included in 2007 Single Audit Report

Contact person: Timothy McCormick, Associate Director – Financial Management
Phone: 401.462.6856

Finding 2007-75 Corrective Action

2007-75a

The Department conducts a comprehensive ADP risk analysis and system security review of its Medicaid Management Information System. The Department will coordinate with the Division of Information Technology to examine and seek resources to enhance the risk analysis and system security review of its InRhodes system.

2007-75b

Within the MMIS, protocols have been developed regarding testing procedures for moving emergency code into production. Also, each Business Design Document has a formal security section that the system analysis must include as part of the design of any modifications to the system.

2007-75c

The Department continues to coordinate its system security activities with the Division of Information Technology (DoIT). Monthly IT status meetings are held with DoIT, Northrup Grumman and DHS staff. Additionally, meetings are scheduled as needed with other security officers of each of the Executive Office of Health and Human Services as well as the Department of Corrections.

2007-75d

The Department believes that the staffing within DoIT and each of its contractors is sufficient to conduct security reviews and does not need the assistance of an independent IT audit contractor. Additionally, funding for all administrative contracts has been reduced, such that there are no financial resources to purchase these services.

Contact person: Frank Spinelli, Associate Director
Phone: 401.462.1892

Finding 2007-76 Corrective Action

Accepted. The Office of Energy Resources and Central Business Office will include information regarding CFDA number, CFDA title, the funding agency, and applicable compliance requirements as required by OMB Circular A-133 for all contracts with sub recipients effective May 1, 2008.

Contact person: Matteo Guglielmetti, Program Manager
Phone: 401.574.9112

Corrective Action Plan
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Finding 2007-77 Corrective Action

2007-77a

Accepted. The Office of Energy Resources will document the procedures used to determine payments of LIHEAP funds to subrecipients by June 30, 2008.

2007-77b

Accepted. The Office of Energy Resources closely monitors cash and the implementation of a procedure manual within the Office of Energy Resources will reflect the programs attempts to reimburse for reasonable cash needs of the subrecipient.

Contact person: Matteo Guglielmetti, Program Manager
Phone: 401.574.9112

Finding 2007-78 Corrective Action

2007-78a

Accepted. The Central Business Office will establish the necessary process for tracking funds by grant award within the RI FANS system by May 30, 2008.

2007-78b

Accepted. The Central Business Office will establish the necessary process for tracking funds by grant award within the RI FANS system by May 30, 2008.

2007-78c

Accepted. The Central Business Office will establish the necessary process for tracking funds within purchase orders by utilizing cost centers within the RI FANS system effective July 1, 2008.

Contact person: Matteo Guglielmetti, Program Manager
Phone: 401.574.9112

Finding 2007-79 Corrective Action

Accepted. The Central Business Office will establish the necessary process for compliance with earmarking requirements by June 30, 2008.

Contact person: Matteo Guglielmetti, Program Manager
Phone: 401.574.9112

Corrective Action Plan
Findings Included in 2007 Single Audit Report

Finding 2007-80 *Corrective Action*

2007-80a

Accepted. The Office of Energy Resources will schedule a three week time study to correct the allocations in a timely manner, no less than quarterly. This will be implemented effective May 1, 2008.

2007-80b

Accepted. The Central Business Office within the Department of Administration will implement a time sheet under guidelines from the Bureau of Audits effective July 1, 2008 to record employee activity to adjust actual time and effort reports to the budget allocation quarterly.

2007-80c

Accepted. The Central Business Office within the Department of Administration will monitor expenditures to ensure that the contract awards are observed. In the event that a program exceeds its funding limitation the Central Business Office will work with the Office of Accounts and Control to correct the issue immediately.

Contact person: Matteo Guglielmetti, Program Manager
Phone: 401.574.9112

Finding 2007-81 *Corrective Action*

2007-81a

Accepted. Central Business Office will revise the SF269A reports by May 30, 2008.

2007-81b

Accepted. Central Business Office will submit the revised SF269A reports by May 30, 2008.

2007-81c

Accepted. The Central Business Office and the Office of Energy Resources will maintain supporting documentation as required by federal regulation.

2007-81d

Accepted. Central Business Office will submit a revised Carryover and Reallotment Report for the 2006 grant awards by May 30, 2008.

Contact person: Matteo Guglielmetti, Program Manager
Phone: 401.574.9112

Corrective Action Plan
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Finding 2007-82 *Corrective Action*

The Department has executed contracts with all of the center-based child care vendors cited in the finding. The Department has implemented controls to ensure contracts are renewed timely.

Anticipated Completion Date: Completed

Contact person: Gail Dunphy
Phone: 401.462.6865

Finding 2007-83 *Corrective Action*

The Department continues to make improvements in the quality control procedures surrounding these records. Out of the twenty-five payments selected, one was missing evidence that the child was removed by means of a judicial determination. This error rate of 1 out of 25 is a significant improvement from past reviews. The reengineering efforts mentioned above will further improve this process.

Federal reports will be adjusted to reimburse the federal government for the unallowable maintenance costs.

Contact person: Brian Peterson, Chief Financial Officer
Phone: 401.528.3630

Finding 2007-84 *Corrective Action*

The \$237,487 for duplicate charges for IT and HR personnel was an unintended consequence of change in the way centralized personnel are budgeted in the state. During the time period in question, certain HR and IT personnel were paid on "mirror accounts" that were included with DCYF's payroll reports, but were actually charged to the Department of Administration. The Department of Administration subsequently billed DCYF for the charges related to our Department. The cost allocation system subsequently picked up both the payroll charges from the mirror account and the billings from DCYF. This was discovered by the DCYF accounting staff and reported to the auditors. The actual adjustment to the IV-E-1 was made prior to the start of the audit.

Corrections have been made to prevent duplicate allocation of the IT charges in the future.

The \$987,564 appears to be a financial statement issue that may require a financial statement adjustment. This is being investigated further by the Department of Administration in conjunction with the Department and the Auditor General's office.

2007-84a

The Department adjusted the December 31, 2007 IV-E-1 claim to reimburse the federal government for \$116,916 of the total unallowable costs of \$237,486. The Department will adjust the remaining amount of \$120,570 on the March 31, 2008 IV-E-1 claim.

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2007-84b

The Department will work with the Office of Accounts and Controls to adjust the state financial statements to reflect accurate expenditures by CFDA number.

Contact person: Brian Peterson, Chief Financial Officer
Phone: 401.528.3630

Finding 2007-85 *Corrective Action*

These findings are consistent with the recently completed audit by the Office of Inspector General. DCYF has implemented changes to its recordkeeping procedures and will implement further improvements based on the recommendations of the OAG and OIG audits.

Based on the work with the Office of Inspector General, the Department has modified its procedures and is now keeping the legal documentation as part of the IV-E file and not relying on other units or branches of state government for these files. These files will be incorporated into the adoption file when/if the case proceeds to adoption.

Of the thirty-five cases reviewed, two failed because DCYF could not provide records to support the judicial determination or voluntary placement agreement. In the remaining six cases, documentation supporting a criminal records check for the adoptive parents was not available.

It is important to note that in the six cases cited for documentation supporting criminal records checks, the files could not be located. We were subsequently able to locate two files in the closed adoption records. In both of these files, the evidence of criminal records check was present.

It is significant that no case for which the file was located failed due to missing background checks.

2007-85a

Federal reports will be adjusted to reimburse the federal government for the unallowable adoption subsidy charges.

2007-85b

A new manual is being completed and will be in place by the end of fiscal year 2008.

2007-85c

As stated above, DCYF will modify its procedures to insure that the proper legal documents are part of the Finance/Benefits record and not rely on other units or branches of state government to maintain these records.

Corrective Action Plan
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2007-85d

The Department will be instituting a 100% review of all new adoption cases to insure that the following documentation is present before approving adoption subsidies:

- Adoption Subsidy Form;
- Original Removal Order;
- Legal Determination;
- IV-E Record;
- Criminal Background Check; and
- An indication that a financial eligibility check was done.

Contact person: Kevin Savage
Phone: 401.528.3629

Finding 2007-86 *Corrective Action*

The Department has implemented system modifications that ensure that the appropriate funding source is applied. Each waiver or Title XX individual is assigned a unique program indicator that is stamped to the claim when a provider bills for homemaker services. This program indicator is then mapped to the appropriate funding source.

Due to the nature of the service, home health/homemakers services fluctuate in a given month, which creates difficulty in designing an automated decrementing system. In order to verify that the authorized hours are billed within an authorized period, the Department audits a sample of homemaker/home health recipients each quarter. A component of this audit checks utilization to authorizations.

Contact person: Frank Spinelli, Associate Director
Phone: 401.462.1892

Finding 2007-87 *Corrective Action*

Because previous OAG audits raised questions about the appropriate manner in which to credit cost-sharing collections, the Department formally requested guidance from CMS on March 17, 2006 on whether the then current practice of allocating all collections to Medicaid was 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. On January 17, 2007, the Department received a response from CMS that raised additional questions. The Department, therefore, sought additional clarification from CMS. On May 17, 2007, the Department obtained an agreement with CMS that a prospective method to allocate cost-sharing collections between Medicaid and SCHIP would be put into place beginning State Fiscal Year 2008. The Department is proceeding with implementing the agreed-upon allocation method. No additional corrective action required

Contact person: Deborah Florio, Administrator
Phone: 401.462.0140

Corrective Action Plan
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Finding 2007-88 *Corrective Action*

2007-88a

The current contract with EDS requires a Type I SAS 70 be performed bi-annually, and the SAS 70 for FY2008 is scheduled to occur in May. The Department estimates that a Type II review would cost an additional \$100,000, which is not available within its currently appropriated budget.

2007-88b

DHS has an audit trail process in place that monitors the billing and collection of rebates and third party recoveries. All checks are logged within EDS and forwarded to the financial department where a deposit ticket is prepared by the Financial Specialist and verified by a second person within the financial team. The funds are deposited to the State's General Fund. The deposit ticket and the back up documentation is forwarded to the Drug Rebate Specialist, the TPL Specialist, or the Provider Refund Specialist where the payment is posted to the MMIS. These specialists update the appropriate screens. Updates to these screens are system stamped with the date the screen was updated, the type of transaction, and the clerk ID# who made the change.

In addition to the posting to the MMIS, the drug rebate specialist and the TPL specialist maintain MS Excel spreadsheets and/or MS Access database tools to log the payments. The Excel and Access data base tools are worksheets and changes to them are not tracked.

All payments are communicated to DHS via FACN with details of the individual check amounts and the total dollar amount of the deposit. Bank deposit tickets are attached to the FACN.

Drug Rebate Procedures/Controls: Drug rebate checks are received, logged, and deposited by the financial team. The drug rebate specialist receives the deposit slip, a copy of the check, and the back-up documentation from the manufacturer from the financial team. The drug rebate specialist communicates the deposit to the DHS via FACN with the original deposit slip attached. The FACN lists each individual check by payer (manufacturer) with the amount paid and the total deposit amount. The FACN also documents which calendar quarter the payment is allocated to.

Drug rebate payments are posted upon receipt against the original AR created in the MMIS. Payments are posted via the MMIS financial screens and they are also posted to the drug rebate access database. Posted information includes rate adjustments, disputed amounts, recoupments, and payments. Each posting to the MMIS AR is documented with the transaction type, the change date, and the clerk ID as evidenced in the attached screen shots.

After each financial cycle and at each quarter close, a drug rebate status report is generated through the MS access database and forwarded to DHS. The status report documents by both SFY and by calendar year the total amount invoiced, the total amount received, disputed amounts, and outstanding amounts. These reports are reviewed by DHS.

TPL Procedures / Controls: Facsimile claims for third party liability (TPL) are generated by MMIS as part of TPL Benefit Recovery functionality. The generation of the facsimile causes an account receivable account to be created.

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When a TPL payment is received the TPL specialist identifies the accounts receivable number by utilizing the TPAS (account summary) screen. The payment is posted in the TPRC (A/R reconciliation) screen. If the payment is paid in full, the posting will fully satisfy the A/R. If the payment is a partial payment, the A/R will remain open until settled. The TPWO screens are utilized to post write offs due to denials or partial payments. If a change is made in the TPRC or TPWO screen prior to the financial, a toll specialist would delete an entry and the cancelled entry would display in the TPAR (a/r history) screen. Once a financial is complete no changes can be made in those screens. The TPRC and TPWO display change date and clerk number.

A FACN is forwarded to DHS containing the check number, dollar amount, recipient information and any attached Explanation of Benefits from insurers.

Provider Refunds Procedures / Controls: Refunds received from providers are received, logged, and detailed for a deposit to the State's General Fund and communicated to DHS via FACN. To record the payments within the MMIS, an A/R is established in the MMIS via FNF1 screen. The payment is then posted to the FNF2 screen. The transaction date / change date and the clerk ID # posting the payment is system stamped on the screen for audit purpose.

DHS believes that these procedures are adequate, track changes and demonstrate fiduciary responsibility.

Contact person: Frank Spinelli, Associate Director
Phone: 401.462.1892

Finding 2007-89 Corrective Action

As noted in previous 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.

In addition, SCHIP eligibility is part of the Payment Error Rate Measurement (PERM) requirements established by CMS that became effective through regulation on November 4, 2005 with which the Department fully complies.

Effective January 1, 2006, reports have been warehoused by EDS and SCHIP was included in the State's PERM review for 2007.

Contact person: Deborah Florio, Administrator
Phone: 401.462.0140

Corrective Action Plan
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Finding 2007-90 Corrective Action

2007-90a

While the current procedures and methodologies result in accurate Federal financial reporting, the department will reevaluate the alignment of accounts and coding within the State accounting system to further improve the posting and reconciliation of MMIS reported data.

2007-90b

The department will reconcile administrative expenditures reported on the CMS-64 with amounts reflected in the State's accounting system, and document any timing differences between the CMS-64 report and underlying accounting data.

2007-90c

The department's current procedures require that expenditure totals as reported on the PMS-272 report be supported by the Federal expenditure totals on federal financial reports. Since the due date for PMS reports sometimes precedes the preparation of the financial report, the use of estimates is occasionally necessary. The department will continue to increase efforts to report cumulative disbursements based on actual expenditures totals as reflected in the financial status report.

2007-90d

The department will implement procedures to ensure that expenditure reported have previously been recorded in the State's accounting system.

Contact person: Timothy McCormick, Associate Director
Phone: 401.462.6856

Finding 2007-91 Corrective Action

2007-91a

Method Currently Used to Ensure that DD Negotiated Payment Rates for Medicaid Covered Services are "Reasonable":

The Division's reimbursement policy and method is not a cost-based reimbursement methodology, but rather is a negotiated rate for services. However, in order to ensure that the negotiated rate is in fact "reasonable provider reimbursement" under Medicaid, a post payment review is conducted of annual financial statements submitted by each agency along with a copy of their annual certified audit of the agency. The financial statements identify total actual allowable DD expenses in the fiscal year as well as total actual receipts for DD services in that fiscal year. Receipts for DD services include any Medicaid or other state payments, plus any income from sales of goods or services by the agency as a result of an activity where the clients are working (an example is an agency with a paper shredding business which provides clients with an employment opportunity – clients may be paid an hourly wage, but in addition, income from the business is considered a DD receipt). The total dollars from all DD receipts is then

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compared to the total agency expenditures for DD services allowable under Medicaid (room and board is not counted as a Medicaid allowed expense). The rate that provider was paid in that year is considered reasonable if the provider's actual DD receipts in that fiscal year were equal to or less than 105% of the total DD Medicaid allowable expenses. If the provider's actual DD receipts in that fiscal year were more than 105% of the total DD Medicaid allowable expenses (that is, the agency had more than a 5% annual "profit" on DD business), the rate in that year for that provider is considered to have not passed the Medicaid reasonable rate test. This occurs very infrequently. However, when this does occur, the agency is required to return the total dollar amount to DD that is in excess of 105% DD expenses. The payback method is then negotiated as a lump sum or monthly payments with the FMAP being returned to Medicaid. An alternative payment plan may be approved where the agency provides Medicaid covered services, submits bills to MHRH for such services, and MHRH denies approval of payment of these services, thus the agency foregoes Medicaid payment for services until the amount of payback is reached.

One agency was found to have had a total of \$103,612 in payments in excess of 105% of DD expenditures in one year. This agency is paying this back over 10 months. Payments will be complete in June 2008, and appropriate FMAP is being credited. Another agency was found to have had a total of \$181,610 in payments in excess of 105% of DD expenditures in 1999. At that time, the RI Bureau of Audits conducted financial reviews of DD agencies for the Division of Developmental Disabilities. Under payment plan rules in place at that time under the direction of the RI Bureau of Audits, the agency satisfied their payback requirement by providing services /expenditures. The Division is in receipt of all documentation of expenditures under that approved payback plan, and has provided this documentation to the OAG.

Since 2005, the Bureau of Audits no longer conducts financial reviews of DD agencies for the Division of Developmental Disabilities. The Division conducts these reviews on every DD agency every year under procedures approved by the Bureau of Audits.

DD Agency Net Assets

Subsequent to the site visit by the OAG, in response to OAG concerns about significant agency equity/net assets, MHRH reviewed the financial position of every DD agency, including assets, liabilities, revenue and expenses. No agency was found to have significant current assets (defined as current assets in excess of four months of typical ongoing expenses, e.g. staff and operating), and most agencies had significantly less than this amount of current assets. Some agencies did report larger amounts of long term assets not available as cash – in all cases, this was found to be property used by the agency to conduct business – either office space, day program space, or group homes.

S-Corporations

Two agencies operate as S-Corporations, one of which reported an annual distribution to the owners of the corporation. This had been investigated by the Division over a year ago. S Corporations do not pay taxes directly – the Corporation's owners must actually pay taxes on behalf of the corporation. The annual distributions were found to be an annual payment from the corporation to the owners so that the owners could then use this distribution to pay the annual taxes on behalf of the corporation.

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Disposal of Property

One DD provider's financial statements indicated a sale of property in the amount of \$298,681, with a related gain of \$158,000. This was from proceeds from the sale of an agency-owned group home that was sold by that agency.

Medicaid only pays DD providers for eligible services provided on behalf of eligible individuals, and Medicaid funds cannot be used to purchase property, such as a group home. Therefore, the proceeds from the sale of such property would not require a federal Medicaid payback.

Currently, there are several separate payment methods for DD services and supports under RI's HCBS waiver. MHRH will explore options, in partnership with stakeholders, for a more consistent payment methodology for DD services and supports delivered by providers to ensure that payments are adequate, reasonable and comparable in accordance with type and intensity of services.

Like many states did during deinstitutionalization of individuals with DD, RI initially created different classifications of group homes based on broadly defined differences in the support needs of the individuals. This is the payment system known as "per diems", when payments are made on a provider specific per diem or hourly rate, and is used to pay for supports for a portion of individuals served in the DD system. These payments are processed for each individual through the MMIS on a monthly basis, and paid directly to DD providers.

Along with many other state HCBS waiver programs for individuals with developmental disabilities, and as CMS HCBS waiver technical guidance allows (*CMS Application for a Section 1915(C) Home and Community based waiver [Version 3.3]: Instructions, Technical Guide, and Review Criteria*), RI has already transitioned a portion of its payment system for DD services and supports to a series of tiered payment levels based on the level of intensity of services and supports provided to the individual: i.e., 24 hour supports to daily living vs. less than 24 hour supports to daily living vs. Shared Living Arrangements vs. family supports. These tiered payment levels are then graduated into 5 acuity levels (1,2,3,4, and 4+), within each level of support to take into account individual characteristics, such as age and acuity and the person's need for support. The resulting graduated payment levels within each tier of support type correspond to the level of provider effort associated with serving the individual, principally with respect to the amount and type of direct support staffing that each individual might require. Each individual's needs for type of support and level of intensity is determined using two standard instruments, the Personal Capacities Inventory and Situational Assessment, which are either prepared or reviewed by state social workers and rated by both the Casework Supervisor and an Administrator in the Division.

MHRH is currently working with the DD provider community and other stakeholders to review the delivery system of services and supports for individuals with developmental disabilities. MHRH is planning to explore options, in partnership with stakeholders, for a more consistent payment methodology for DD services and supports delivered by private providers to ensure that payments are adequate, reasonable and comparable in accordance with type and intensity of services. One option which will be explored would be to utilize and further the transition to the payment system already in place in the DD Program which utilizes graduated, tiered payment levels in accordance with each individual's needs for support and acuity level, which corresponds to level of provider effort. Under this method of payment, each individual's payment level is

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based on a standardized assessment of each individual receiving supports. Under this payment method, services and supports are billed and paid for each individual through the MMIS on a monthly basis, and paid directly to each individual DD provider. The state will establish principles, methodology, and frequency for reviewing the graduated, tiered payment rates in order to ensure ongoing appropriateness and reasonableness of rates. This type of consistency in payment methodology is important in promoting consumer choice and portability as a “voucher”, as well as assuring reasonableness of payment rates from the point of view of both the state and the provider.

2007-91b

The Department concurs.

1. The Division of Developmental Disabilities will notify and educate all DD providers concerning compliance with “Audit Specifications” requirements, specifically that all future agency audits performed under these requirements must require auditors to conduct tests of transactions and such other procedures necessary to provide the auditors sufficient evidence to support an opinion on compliance of the supporting schedules by type of service required by the Division. Furthermore, the audit report must include the auditor’s written opinion on such compliance.
2. The Division of Developmental Disabilities will review each audit report when received for the auditor’s opinion on compliance and will send a written notice to each agency whose audit does not include such opinion, requiring the agency to obtain such an opinion.
3. In many cases the Division of Developmental Disabilities had conducted follow-up on missing audit report items, but had not maintained documentation of follow-up methods such as emails and phone calls in the agency’s audit file, as noted by the OAG. The Division of Developmental Disabilities will institute procedures immediately to document any and all notifications of deficiency concerning an audit report, and will document such notification in the file with the agency’s audit report. This documentation to the file will include copies of written correspondence, hard copies of emails, and documentation of any telephone calls to and from agencies related to this matter.

Contact person: Tricia Leddy, Deputy Director
Phone: 401.462.6005

Finding 2007-92 Corrective Action

2007-92a

The individualized education program (IEP) specifies all special education and related services for a child with disabilities. The IEP must be developed cooperatively by the parent and school personnel including: at least one regular education teacher of the child, at least one special education teacher *or* special education provider of the child, the child’s parent or guardian, a person designated as the LEA representative, an individual who can interpret evaluation results and others at the discretion of the parent or LEA. The State Medicaid Program can pay for those services within the IEP that the State Medicaid agency determines to be medically necessary.

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Pre-authorization within the MMIS can be an important tool in controlling costs. However, pre-authorization within the MMIS would require both significant additional systems modifications and additional personnel resources to administer. It is the Department's assessment that the expense of implementing and operating a pre-authorization system for special education services would not be cost-effective, and would not resolve any of the other deficiencies cited by OAG.

2007-92b

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 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.

In May 2006, the Office of Auditor General conducted site visits at the East Providence and Cranston LEAs as part of its financial and compliance audit of the Medical Assistance program. Department staff accompanied the auditors on these site visits.

In June-August 2006, DHS conducted site visits to eight LEAs. The LEAs reviewed were Barrington, Cumberland, Newport, Newport Regional (Little Compton, Portsmouth, Tiverton, and Middleton), West Warwick, Rhode Island School for the Deaf, Blackstone Academy, and Kingston Hill Academy Charter Schools. Based upon these reviews, all LEAs were notified of a mandatory DHS Medicaid training session which was held on October 13, 2006. At this session, LEAs were informed that each district would be required to submit to the Department an assurance letter and action plan by January 15, 2007. This action plan would demonstrate how each district certifies it complies with all Medicaid documentation requirements. The Department conducted a review of the action plans submitted by each LEA. In addition to the individual responses each LEA received from DHS, DHS identified and developed a "best practices" guide listing processes that assist LEAs comply with Medicaid documentation requirements.

Corrective Action Plan Findings Included in 2007 Single Audit Report

In May 2007, The Office of Auditor General conducted site visits at Woonsocket and Warwick LEAs as part of its financial and compliance audit of the Medical Assistance program. DHS staff accompanied the auditors on these site visits. During this site visit, it was found that there were instances where the incorrect number of units was being billed for services rendered. In response to this finding, DHS conducted an extensive review to determine the scope of this issue and have taken the corrective action steps necessary to recoup and adjust all claims billed with the incorrect number of units billed by this district.

In May–June 2007, DHS conducted site visits to eight LEAs. The LEAs reviewed were Woonsocket, Bristol/Warren, North Kingstown, East Greenwich, Narragansett, Chariho Regional, Compass Charter School and CVS Highlander Charter School.

In July 2007, DHS provided its findings to the schools reviewed and distributed a draft revised Medicaid Direct Services Guidebook for LEAs to review. This revised guidebook included the most current comprehensive overview of the information needed for LEA's to participate as Medicaid Assistance providers.

In August-September 2007, DHS conducted six mandatory LEA Education Sessions throughout the state with all LEAs. The purpose of these Education Sessions were to update the LEAs on the following:

- ❑ 2007 site visit results
- ❑ 2007 revisions and changes to Medicaid Direct Services Guidebook
- ❑ Continuous Quality Assurance practices
- ❑ Medicaid Qualified Service Providers
- ❑ Inform LEAs of federal rule proposals effecting the school-based program

As part of the Education Sessions, DHS reintroduced the Medicaid Self-Audit matrix that was developed and distributed to LEAs during the 2006 mandatory training session. Along with this matrix, DHS distributed the review tool used by DHS in site visits. This review tool allows districts to conduct their own internal-self audit and to evaluate how they would perform in an audit.

In 2008, DHS will continue its annual reviews, and revise its guidance and provide additional training as necessary based upon these reviews.

2007-92c

As part of their 2007 LEA review, the Rhode Island Auditor General reviewed student files to verify that individuals providing services to the LEAs were licensed in accordance with Medicaid regulations. Medicaid regulations require that providers need to be licensed by that states licensing authority, which in Rhode Island is the Department of Health (DOH).

CMS has stated the following in regards to provider qualifications in their Medicaid and School Health: A Technical Assistance Guide:

“ In order for schools or school providers to participate in the Medicaid program and receive Medicaid reimbursement, they must meet the Medicaid provider qualifications. It is

Corrective Action Plan
Findings Included in 2007 Single Audit Report

not sufficient for a state to use Department of Education provider qualifications for reimbursement of Medicaid –covered school health services.”

Currently, DHS’ policies (as stated in our 2004 Direct Services Guidebook) require that an individual licensed by either the Department of Health (DOH) or certified by the Department of Education (RIDE) provide LEA services. This was effective January 1, 2001.

In response to the Rhode Island Auditor General’s findings, DHS conducted a review of all provider qualifications for LEA services. In our review, we have determined that there is no applicable certification for certain providers. Therefore, DHS will limit qualified providers to those providers who are clinically licensed by the Department of Health (DOH). This change will be effective with the distribution of DHS’ revised Medicaid Direct Services Guidebook on May 1, 2008.

DHS will continue its annual reviews, and revise its guidance and provide additional training as necessary based upon these reviews.

2007-92d

On August 23, 2004 the Department distributed a *Rhode Island Medicaid School Based Administrative Claiming Guide* to each of the LEAs that followed CMS guidance to the letter. The Department initiated procedures in September 2006 to review administrative claiming by a third party on behalf of LEAs. This review has included submission of quarterly report by the third-party contractor and examination of the quality controls by the third-party contractor. Two LEAs – Bristol Warren and Westerly – were selected for detailed review. The two LEAs provided all of the information that was provided to the third-party contractor that was used to develop their administrative claims for the quarter ending June 30, 2006. The Department reviewed these materials against their respective administrative claims to assure that the Department’s guidance had been followed, which it had.

DHS will continue its annual reviews, and revise its guidance and provide additional training as necessary based upon these reviews.

Contact person: Deborah Florio, Administrator
Phone: 401.462.0140

Finding 2007-93 Corrective Action

2007-93a

In January 2007, the department issued a settlement protocol to the hospitals relating to the year-end settlement process. The protocol is designed to facilitate consistent and timely submission of the settlement documents.

The timeliness of settlement submission has significantly improved due the enforcement of Article 14 and has continued to show positive trends during the current state fiscal year. The federal share will be credited within 60 days as required.

Corrective Action Plan
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2007-93b

The department has made significant inroads in addressing overdue settlements and collecting settlement amounts owed to the State, as seen from the 3-year trends shown below:

Settlements Summary:

State FY	Overdue	Collected
2007	8	\$22,707,055
2006	15	\$ 7,658,055
2005	23	\$ 9,482,343

In accordance with the settlement protocol hospitals submit payment, of the amount payable to the state, within 30 days of the date of submission of the settlement. On a case-by-case basis, DHS takes into consideration hospital cash flow and may agree to a payment plan.

DHS is prepared to begin withholding payments to the provider to secure timely filing of settlements to the State.

Contact person: Ralph Racca, Administrator
Phone: 401.462.1879

Finding 2007-94 Corrective Action

2007-94a

DHS has expended considerable effort in this regard over the past several years. The Department of Health provided the subject reviews, and that submission was accepted by DHS. MHRH also produced a response to the requirement, and DHS continues to work with them to refine certain of their administrative practices, but found rate-setting methodologies submitted by MHRH to be acceptable. DCYF produced a review document, but DHS found that it fell short of its expectations. DHS has subsequently (during FY2008) expended considerable staff effort to examine DCYF claiming categories, including the development of a claiming guide, similar to that developed for the Local Educational Authorities, and continues to work with DCYF to remediate its claiming systems.

DHS will continue its efforts in this regard, and anticipates considerable implementation effort will be required to complete the renovation of DCYF's claiming practices, such that work will not be completed until FY2009.

Contact person: John R. Young, Deputy Director
Phone: 401.462.3575

2007-94b

DHS relies on representations by the other departments that the procedures and methodologies that have been submitted to DHS are adhered to. DHS is not staffed to conduct the type of oversight imagined by this recommendation.

Contact person: John R. Young, Deputy Director
Phone: 401.462.3575

Corrective Action Plan
Findings Included in 2007 Single Audit Report

2007-94c

MHRH agrees that all Medicaid Services for Substance Abuse Residential Treatment will be billed directly to EDS so that all claims will be processed through the MMIS on a client specific basis, with direct payment from EDS to the provider agency. All providers not currently billing MMIS directly will do so effective July 1, 2008.

MHRH will meet with DHS/EDS to ensure that billing codes, payment rate and funding source are correct and in place in the MMIS, and will subsequently conduct a meeting with all providers of this service by the end of May to provide instruction for direct billing to the MMIS for this service effective July 1, 2008. Meeting with DHS/EDS and provider meeting will be complete by May 30, 2008.

Contact person: Tricia Leddy, Deputy Director
Phone: 401.462.6005

2007-94d

DEA has been instructed to make these changes in its standard contracts and agreements in response to previous OAG findings. DHS will correspond with DEA to emphasize the necessity of implementing these changes.

Contact person: John R. Young, Deputy Director
Phone: 401.462.3575

2007-94e

The Department agrees that the Department of Mental Health, Retardation and Hospitals' share of centralized costs related to the Eleanor Slater Hospital and State-operated group homes was incorrectly reflected as Federal Medicaid expenditures in the State's accounting system. Accordingly, these Federal expenditures are inappropriately included in the State's Schedule of Expenditures of Federal Awards. However, as the auditor's finding correctly discloses, the Department did not report or request Federal reimbursement for these expenditures in fiscal year 2007.

While we agree with the need, and intend, to correctly classify these expenditures in the State's accounting system during State fiscal year 2008, we disagree that these unreported and unreimbursed expenditures represent questioned costs.

Contact person: Timothy McCormick, Associate Director
Phone: 401.462.6856

Finding 2007-95 Corrective Action

2007-95a

DHS will implement controls to ensure that claims paid on behalf of ineligible individuals are timely determined.

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2007-95b

DHS will credit the federal government for the questioned cost reported above.

Contact person: Frank Spinelli, Associate Director
Phone: 401.462.1892

Finding 2007-96 Corrective Action

2007-96a

DHS concurs and will revisit its protocols regarding the oversight of provider enrollment and make appropriate changes to ensure that all providers enrolled in the Medical Assistance Program are eligible to participate.

2007-96b

It is DHS' opinion that a simple electronic match alone will not resolve this issue. Currently a hard copy of the license or the information on the website is in the provider's record. In order to replicate this electronically a database would need to be created in which all pertinent information is stored. The cost and resources necessary to accomplish this task could exceed the state's return on its investment in this solution

DHS will analyze the requirements necessary to conduct an electronic match with DOH licensure data.

2007-96c

DHS concurs and will provide guidance to each state agency responsible for licensing providers, reiterating the importance of ensuring compliance with the licensing requirements and its impact of the Medical Assistance Program.

2007-96d

This recommendation is not within the purview of DHS, and would require revisions to state statute and reassignment of personnel.

DHS will defer to the Executive Office of Health and Human Services as to whether this should be an administrative or legislative priority.

Contact person: Frank Spinelli, Associate Director
Phone: 401.462.1892

Finding 2007-97 Corrective Action

Invoices are reviewed each month to ensure that the appropriate funding sources and percentages are being charged. The Department utilizes Chapter 11 of the CMS Medicaid Manual as guidance for determining enhanced federal funding.

Corrective Action Plan
Findings Included in 2007 Single Audit Report

The amount referenced was a result of a technical error and has been corrected.

Contact person: Frank Spinelli, Associate Director
Phone: 401.462.1892

Finding 2007-98 *Corrective Action*

By letter of December 17, 2007, the Department has formally disagreed with the OIG's audit findings, and does not believe that there is a legal basis for those findings. Nonetheless, in the subject correspondence the Department indicated that it was prepared to work with CMS prospectively on an alternative to the current method of obtaining non-emergency medical transportation (NEMT) for Medicaid-eligible individuals. In addition, the Department notified RIPTA by letter of March 19, 2007 that the Department cannot maintain the NEMT program as currently structured with the intention of having a new contract in place with RIPTA for July 1, 2008.

The department will adjust both the accounting records and corresponding quarterly federal financial report to correct those staff training costs over allocated to the Medical Assistance program

Alternative approaches for NEMT are under review.

Contact person: Deborah Florio, Administrator
Phone: 401.462.0140

Finding 2007-99 *Corrective Action*

RItE Share: 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.

Maintaining accurate information on employment is a key element in sustaining valid health insurance information. 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 as they are entered in InRhodes. In addition, the Department uses the information obtained through insurance data matches that are conducted quarterly through the Medicaid fiscal intermediary.

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 would 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 or payroll taxes 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.

Corrective Action Plan
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Additionally, each month, prior to the financial cycle, the ECU faxes a list of individuals for whom a RIte Share payment will be made. The employers return the list with any changes or deletions. This process has proven successful in reducing overpayments.

Also, a script was created in the of Fall 2006 for the RIte Share staff to confirm health insurance and employment status on all telephone communication for all enrolled RIte Share recipients. A printed reminder on all payment reports to RIte Share recipients reads: "Please contact RIte Share at 462-0311 if your employment or health insurance has changed. Accepting payment after your insurance has ended may be considered Medicaid fraud."

DHS will continue to investigate other cost-effective approaches to sustaining valid insurance information.

Contact person: Deborah Florio, Administrator
Phone: 401.462.0140

Managed Care Contracts (Risk Share Provisions): In March 2008, DHS implemented a method to recoup outstanding risk share settlements due from a Health Plan. The method was tested successfully on a pilot basis with the Health Plan, with results appearing on the Plan's Remittance Advice dated 4/4/08. Based on the success of the test, DHS will now proceed directly with the recovery of the remaining outstanding balances due, and the resulting recoveries will be included in the CMS64 for the quarter ending 6/30/08.

DHS will recover the remaining outstanding balances due and credit the federal government for its share of the overpayment.

Contact person: Financial & Contract Management
Phone: 401.462.6856

Finding 2007-100 Corrective Action

2007-100a

DCYF is working with Public Consulting Group who employed a time study to determine, among other services, rehabilitative services activities by providers. The time study will assist in developing a formalized claiming methodology in conjunction with DHS.

In addition, the department is moving to re-procure the way in which it purchases services for children in the care and custody of the state. The department will be establishing 2-4 networks of care responsible for assisting the department in providing medical and protective and supportive services to children and families. The design of these networks will be such that medical claims could be segregated from non-medical ones. The design will also incorporate all necessary features, edits and controls established by the Medicaid agency.

2007-100b

DCYF will work with DHS to bring claims originating from the RICHIST system into compliance with the same controls that exist in the MMIS system.

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2007-100c

DCYF will work with DHS to “unbundle” all provider billing so that all medical claims are billed directly to EDS.

Contact person: Brian Peterson, Chief Financial Officer
Phone: 401.528.3630

Finding 2007-101 Corrective Action

2007-101a

The Department disagrees that the finding that it failed to comply with the 100% requirement for cases selected in the MEQC sample. The section of the Code of Federal Regulations (42CFR 431.816) cited by the Office of the Auditor General (OAG) pertains to the submission of completed cases. One must also consider 42CFR431.814 that pertains to the requirements for the sample plan. DHS sample plan for FY2007 allowed for 494 cases to be selected. Of those cases 105 were dropped for non-cooperation and 9 were dropped as not subject to review. 380 cases were reviewed and completed. According to the CMS MEQC sample size 175 cases needed to be reviewed for a six-month period for Rhode Island. That would equal 350 cases for the year. In fact, DHS completed 380 cases for FY2007 as confirmed for the OAG. This would seem to indicate that the QC sample for FY2007 for statistically valid as determined by CMS.

The Department has recently received a letter from CMS informing DHS that a new CMS representative has been assigned to DHS as its MEQC contact. In fact DHS has been without a contact at CMS for its MEQC program for quite some time. We are in the process of confirming with CMS a date in June 2008 to meet with CMS on the MEQC process. We do concur with the OAG that a reevaluation of its MEQC policies and procedures would be beneficial and would insure that DHS is in compliance with all federal rules and regulations.

2007-101b

We concur with the recommendation of the OAG and will review the DHS policy and CMS federal regulation with both the Medical Assistance Program staffs and the Policy Office to determine if it is correct, and if so, to take the necessary steps to implement it at the earliest possible date. We anticipate completion of this corrective action no later than 7/31/2008.

Contact persons: Edward P. Sneesby, Associate Director –Program Operations
Phone: 401.462.2424

Randy Rosati, Assistant Administrator – MIS and Quality Control
Phone: 401.462.3014

Finding 2007-102 Corrective Action

RIEMA concurs with the recommendations. We will investigate the foregoing issues and determine if it has drawn federal funds for those expenditures under any other federal grants and

Corrective Action Plan
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submit revised SF 269 reports where necessary. We will close all federal accounts once the related grants have expired.

Anticipated Completion Date: June 30, 2008

Contact person: Steve Greenhalgh, Assistant Administrator Financial Management
Phone: 401.462.7113

Finding 2007-103 Corrective Action

RIEMA concurs with the recommendation.

Anticipated Completion Date: June 30, 2008

Contact person: Steve Greenhalgh, Assistant Administrator Financial Management
Phone: 401.462.7113

Finding 2007-104 Corrective Action

2007-104a

RIEMA concurs with the recommendation. Revised SF-269A will be completed and submitted.

2007-104b

RIEMA concurs with the recommendation. The state accounting system's general ledger will be utilized and supporting documentation will be retained.

2007-104c

RIEMA concurs with the recommendation. Reports will be reviewed and signed off by appropriate personnel.

Anticipated Completion Date: June 30, 2008

Contact person: Steve Greenhalgh, Assistant Administrator Financial Management
Phone: 401.462.7113

Finding 2007-105 Corrective Action

RIEMA concurs with the recommendation. We are researching other methods to reimburse for these expenditures.

Anticipated Completion Date: June 30, 2008

Contact person: Steve Greenhalgh, Assistant Administrator Financial Management
Phone: 401.462.7113

Corrective Action Plan
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Finding 2007-106 Corrective Action

RIEMA concurs with this recommendation. RIEMA will prepare semi annual certifications for those employees whose costs are charged to a single program. We are also researching alternative methods to allocate payroll costs for those employees who work on multiple programs.

Anticipated Completion Date: June 30, 2008

Contact person: Steve Greenhalgh, Assistant Administrator Financial Management
Phone: 401.462.7113

Finding 2007-107 Corrective Action

RIEMA concurs with the recommendations. Due to staffing limitations at RIEMA, it is necessary to have employees perform multiple tasks. We have started to inventory and organize all equipment assigned to this agency. Great strides have been made, however it is an ongoing task and we will continue to make progress.

Anticipated Completion Date: June 30, 2008

Contact person: Steve Greenhalgh, Assistant Administrator Financial Management
Phone: 401.462.7113

Finding 2007-108 Corrective Action

RIEMA concurs with the recommendation. In FY2006, new staff was unaware of the requirement. The FY2007 funding has been appropriated to the local communities within the 60 day window. This will continue with all future funding.

Anticipated Completion Date: June 30, 2008

Contact person: Amy Grzybowski, Homeland Security Grant Manager
Phone: 401.462.7335

Finding 2007-109 Corrective Action

RIEMA concurs with the recommendations. RIEMA has an employee assigned to complete these tasks, however, they are on extended medical leave. RIEMA is looking into temporarily assigning a staff member to meet these requirements.

Anticipated Completion Date: June 30, 2008

Contact person: Amy Grzybowski, Homeland Security Grant Manager
Phone: 401.462.7335

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Finding 2007-110 Corrective Action

2007-110a

The Department of Human Services is currently developing a new training curriculum that is to be implemented in the summer. This training will include the policies and procedures pertaining to the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 – PRWORA. This training will focus on ensuring that PRWORA policies and procedures are applied consistently.

Additionally the DHS will periodically generate a report from its eligibility system (InRhodes) that will identify any immigrants that are not exempt from PRWORA whose legal status date is less than five years to ensure compliance with the rules governing PRWORA.

Furthermore, the Medicaid Eligibility Quality Control case reviews will include protocols that verify adherence to the PRWORA rules and regulations.

2007-110b

Pending final resolution and determination by the Centers for Medicaid and Medicare Services (“CMS”) of any or all questioned costs, the DHS will refund the federal government costs relating to claims paid on behalf of individuals ineligible for the Medical Assistance Program. The DHS will review a sample of cases determined to be ineligible as a result of this audit to determine the accuracy of data entry and the codes entered into the InRhodes system. Additionally, an analysis of the encounter data will be conducted to determine if any of the services provided could be considered eligible for payment since they were allowable emergency services.

Anticipated Completion Date: October 1, 2008

Contact Person: Gary D. Alexander, Director

Finding 2007-111 Corrective Action

2007-111a

Health agrees with this finding and has implemented a process, which will meet this recommendation.

2007-111b

Health agrees with this finding and has implemented a manual time card process for all employees. This process was started in November of 2007 after several pilot attempts.

2007-111c

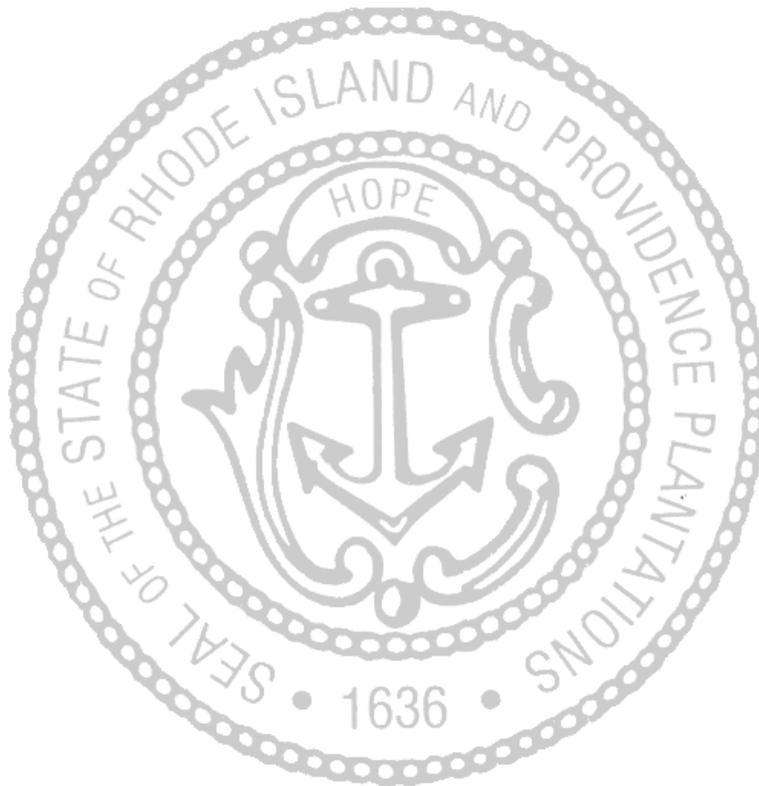
Health understands what is being requested and will strive to accomplish this recommendation. This is going to require additional time to complete this process and could mean multiple

Corrective Action Plan
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adjustments being made on staff that result in no change over the total grant period. Health reviews the time cards regularly and will adjust the staff that will not self correct over the grant period.

Contact person: Doug Axelsen, Chief Financial Officer
Phone: 401.222.5112

**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	05-31
Food Stamp Cluster:		
Food Stamps	10.551	06-24
State Administrative Matching Grants for Food Stamp Program	10.561	06-22, 06-23, 06-26
Child Nutrition Cluster:		
School Breakfast Program	10.553	05-31, 06-22, 06-25
National School Lunch Program	10.555	05-31, 06-22, 06-25
Special Milk Program for Children	10.556	06-22
Summer Food Service Program for Children	10.559	05-31, 06-22
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	05-33, 05-37, 06-22, 06-23, 06-27, 06-28, 06-29
Community Development Block Grants/State's Program	14.228	02-30
Unemployment Insurance	17.225	06-22, 06-23
Trade Adjustment Assistance - Workers	17.245	01-22
WIA Cluster:		
WIA Adult Program	17.258	06-22
WIA Youth Activities	17.259	06-22
WIA Dislocated Workers	17.260	06-22
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	05-43, 06-22, 06-30, 06-31, 06-32, 06-33, 06-34
Federal Transit Cluster:		
Federal Transit – Capital Investment Grants	20.500	06-22
Title I Grants to Local Educational Agencies	84.010	06-22
Special Education Cluster:		
Special Education – Grants to States	84.027	06-22
Special Education – Preschool Grants	84.173	06-22
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	06-22, 06-23
Improving Teacher Quality State Grants	84.367	06-22
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	04-55, 06-22, 06-23, 06-35, 06-36, 06-37, 06-38, 06-39
Temporary Assistance for Needy Families	93.558	04-71, 06-22, 06-24, 06-26, 06-40, 06-41, 06-42, 06-43, 06-44
Child Support Enforcement	93.563	04-60, 04-61, 04-62, 04-63, 04-71

**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>
Low-Income Home Energy Assistance	93.568	06-22, 06-45, 06-46, 06-47, 06-48, 06-49, 06-50
CCDF Cluster:		
Child Care and Development Block Grant	93.575	04-71, 06-22, 06-24, 06-26, 06-43, 06-44
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	04-71, 06-22, 06-24, 06-26, 06-43, 06-44
Foster Care – Title IV-E	93.658	06-22, 06-23, 06-51
Adoption Assistance	93.659	05-67, 06-22, 06-23, 06-52
Social Services Block Grant	93.667	06-22, 06-24, 06-26, 06-53, 06-54, 06-55
State Children’s Insurance Program	93.767	04-71, 06-22, 06-24, 06-44, 06-56, 06-57
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	06-22
State Survey and Certification of Health Care Providers and Suppliers	93.777	06-22
Medical Assistance Program	93.778	04-71, 05-73, 05-74, 06-22, 06-24, 06-40, 06-44, 06-55, 06-58, 06-59, 06-60, 06-61, 06-62, 06-63, 06-64
Homeland Security Cluster		
State Domestic Preparedness Equipment Support Program	97.004	06-22, 06-23, 06-65, 06-66, 06-67, 06-68, 06-69, 06-70, 06-71
Homeland Security Grant Program	97.067	06-22, 06-23, 06-65, 06-66, 06-67, 06-68, 06-69, 06-70, 06-71
State Homeland Security Program	97.073	06-22, 06-23, 06-65, 06-66, 06-67, 06-68, 06-69, 06-70, 06-71
Research and Development Cluster	Various	06-72

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
01-22	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>).						DLT was recently awarded a \$250,000 federal grant for Trade MIS Improvement. One of the projects to be undertaken will assess, design and develop an application to replace an existing Access-based system to accurately track and maintain applicants participating in the TAA program. This system will also function to produce all required State and Federal reports, including the ETA 563. As of March 2008, DLT had completed the vendor selection phase and was negotiating a final contract.
	01-22c	Seek to automate the process using existing and more sophisticated systems.	00-20c		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.						During FY2007 only six community audits were received, most of them did not identify federal funding sources. The review checklist has been updated to include OMB Circular A-133 requirements.
	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			
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				
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.						

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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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		X			Child Support, in tandem with its computer consultant, has created a quarterly ad-hoc report that further identifies some of the differences between the amounts recorded on INRHODES and those recorded on the State accounting system. Additional research is required; however, a lack of staff resources prevents a more comprehensive review at this time.
			98-37a 99-34a 00-34a 01-38a 02-42a 03-44a					
04-60b		Investigate and resolve the difference regarding child support collections pending distribution reported by the CSE and State accounting systems.	98-37b		X			For the past 11 months one Child Support Administrative officer has reviewed cases manually and removed approximately one million dollars from pending distributions as a result. The project will continue with this one individual. With additional staff time, more progress could be made toward this effort.
			99-34b 00-34b 01-38b 02-42b 03-44a					
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		
04-62	93.563	Control procedures are not adequate to ensure that medical support, once ordered by the court, is enforced.						Rhode Island OCSE is part of a medical consortium for medical insurance matching. Phase 1 of the implementation plan has been programmed and is in production. Phase 1 assures that the child is actually enrolled, and that all medical insurance information is accurate and uploaded on the INRHODES system. Phase 2 is in the process of being programmed so that full enforcement of medical support will take place.
			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		
04-62b		Initiate appropriate enforcement action for medical support orders.	00-35b 01-39b 02-43b 03-46b		X			

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04-63	93.563	Semi-annual certifications were not properly completed and payroll cost allocations to the CSE program were not substantiated						
	04-63a	Obtain semi-annual certifications for all employees who charge 100 percent of their time to the CSE program.		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							
04-71d	93.767	Address all information system security weaknesses cited in the DHHS OIG's review of general controls for the MMIS.			X			
	93.778							
04-71e		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		See Corrective Action Plan for finding 2007 – 75	
05-31	10.550	We noted numerous variances in inventory records of food commodities.						The CDC has modified policies and procedures to improve controls over the receipt and distribution of food commodities on hand. The CDC is moving towards implementing an automated inventory management system for FY2007.
	10.553							
05-31	10.555	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			The Management Information Systems for the DOC is still working on this project and as of this date it has not been implemented. The DOC is working with other agencies that have large inventory systems such as DOT to see if the DOC can adapt a system that is already in place. The work is on going.
	10.559		04-31					

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05-33	10.557	Benefit drawdown requests were not made in accordance with the CMIA agreement. This non-compliance is the result of the failure to establish a formal set of policies and procedures.						
05-33		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.		X				
05-37	10.557	The DOH should maintain a detailed set of capital asset records to account for all assets acquired with federal funds.						
05-37		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).			X			
05-43	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.						
05-43a		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.	03-30a 04-41a	X				
05-67	93.659	Questioned cost relating to eligibility for adoption assistance. Not all eligibility documentation is maintained in a central location.						
05-67b		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.				X		See Corrective Action Plan for finding 2007 – 85
05-73	93.778	Delays in verifying TPL information contributed to lost TPL recovery. (Questioned cost \$ 1,921,062).						

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05-73b		Reimburse the federal government for its share of uncollected third party liability recoveries.	98-47b 99-46b 00-49b 01-55b 02-59b 03-60b 04-78b				X	CMS has taken no action to recover the prior year questioned costs. DHS implemented a TPL data match process with participating third party insurers that has improved overall controls in this area.
05-74	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.						
05-74a		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 04-79a			X		See Corrective Action Plan for finding 2007 – 94
05-74f		Reimburse the federal government for its share of questioned costs identified.	04-79e				X	Correcting adjustments were made by DHS.
06-22	Various	The State did not have adequate controls to ensure compliance with federal cash management requirements in drawing cash for federal programs.						
06-22a		Implement a centralized monitoring system to ensure compliance with cash management requirements for federal programs	97-11 98-08 99-10 00-10 01-09 02-17a 03-20a 04-29a 05-29a		X			See Corrective Action Plan for finding 2007 – 44a

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06-22b		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		X			See Corrective Action Plan for finding 2007 – 44c
			03-20c					
			04-29c					
		Our review of the annual interest liability report disclosed various inconsistencies in the report data used to compile interest liabilities for the major programs.	05-29b					
06-22c		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.	02-17b			X		See Corrective Action Plan for finding 2007 – 44d
			03-20b					
			04-29b					
			05-29c					
06-22d		Calculate refund liabilities in accordance with the terms outlined in the Treasury-State Agreement. Submit a corrected CMA Annual Report as necessary.				X		See Corrective Action Plan for finding 2007 – 44e
06-23	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		X			See Corrective Action Plan for finding 2007 – 45
			98-07					
			99-09					
			00-09					
			01-08					
			02-16					
			03-19					
			04-30					
			05-30					
06-24	10.551	Control weaknesses exist in the InRHODES system for eligibility over Food Stamps, TANF, Child Care, SSBG, SCHIP and Medical Assistance.						
	93.558							
	93.575							
	93.596							
	93.667							
	93.767							
93.778								

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06-24a		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.	05-32a		X			See Corrective Action Plan for finding 2007 – 46
06-24b		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.	05-32b		X			See Corrective Action Plan for finding 2007 – 46
06-24c		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.	05-32c		X			See Corrective Action Plan for finding 2007 – 46
06-24d		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.	05-32d		X			See Corrective Action Plan for finding 2007 – 46
06-24e		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.	05-32f			X		See Corrective Action Plan for finding 2007 – 46
06-25	10.553 10.555	Nine out of thirteen subrecipient monitoring reviews performed by RIDE during the federal fiscal year were incomplete.						
06-25		Ensure that SMI nutritional reviews are completed in a timely manner and include written communication of findings and development of a collaborative, corrective action plan.				X		See Corrective Action Plan for finding 2007 – 47a

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06-26	10.561	DHS does not have procedures in place to obtain suspension and debarment certificates for real property rental contracts. There was neither contract extension nor a suspension and debarment certificate on file for the electronic benefits service vendor. There were no contracts or suspension and debarment certificates for 13 out of 16 multi-site center based child care vendors.						
	93.558 93.575 93.596 93.667							
		Strengthen internal controls to ensure that all contracts are renewed on a timely basis and suspension and debarment certifications are documented for all contracts.		X				
06-27	10.557	DOH did not maintain adequate supporting documentation for all the data reported on the <i>WIC Financial Management and Participation Report – FNS 798</i> and the <i>Addendum to WIC Financial Management and Participation Report – NSA Expenditures – 798A</i> .						
	06-27a	Retain documentation that supports all the data reported on the <i>WIC Financial Management and Participation Report - FNS-798</i> .				X		See Corrective Action Plan for finding 2007 - 50
	06-27b	Improve documentation to support actual costs reported for nutrition education and breastfeeding support activities on the <i>Addendum to WIC Financial Management and Participation Report – NSA Expenditures - FNS-798A</i> .				X		See Corrective Action Plan for finding 2007 - 50
06-28	10.557	DOH did not have policies and procedures to ensure that the final disposition of all WIC food instruments is determined within 150 days, as required by regulation.						
	06-28	Establish a <i>formal</i> policy and procedures to monitor the final disposition of all food instruments within the 150-day requirement.	05-35	X				
06-29	10.557	DOH did not consistently review and follow-up on erroneous or questionable food instruments that had been redeemed.						
	06-29	Ensure that reports are consistently generated from the WIC database to identify questionable food instruments and appropriately review the reports for required follow-up.		X				

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06-30	20.205	Labor compliance checklists were sometimes missing, others were missing one or both required signatures.						
	06-30	Strengthen oversight of the labor compliance monitoring procedures to ensure contractor compliance with Davis Bacon Act requirements.	03-29 04-40 05-42			X		See Corrective Action Plan for finding 2007 - 57
06-31	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.						
	06-31a	Establish policies and procedures to ensure that the labor additive rate is calculated timely, adequately supported and approximates actual leave and fringe benefit costs.	03-30b 04-41b 05-43b	X				
	06-31b	Adjust charges to federal projects based on a provisional labor additive rate to actual on an annual basis.	03-30c 04-41c 05-43c	X				
06-32	20.205	RIDOT is not complying with the solicitation rules and regulations in the Rhode Island Vendor Information Program (RIVIP).						
	06-32	Enhance procedures to ensure compliance with the rules and regulations for the Rhode Island Vendor Information Program which prohibit modification of the public bid/RFP five days prior to the date an offer is due.		X				
06-33	20.205	RIDOT should strengthen internal procedures to ensure that all required materials testing is performed and documented in accordance with federal regulations and their own policy manual.						
	06-33a	Ensure all required certificates of compliance have been received and recorded in the materials test book prior to contractor payment for the materials.				X		See Corrective Action Plan for finding 2007 - 58b
	06-33b	Require that "unacceptable materials" test results are documented in accordance with PURK manual procedures.				X		See Corrective Action Plan for finding 2007 - 58c

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06-34	20.205	RIDOT did not have procedures in place to reimburse the federal government its share of project expenditure credits processed during the year.						
		Establish procedures to identify federal expenditure credits and process reimbursements to the Federal Highway Administration in a timely manner.		X				
06-35	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.						
	06-35	Ensure that all contracts for goods and services, including contract modifications, contain the required suspension and debarment certifications or document review of the EPLS website to ensure no parties were suspended or debarred.	03-39 04-53 (finding only) 05-57	X				
06-36	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.						
	06-36a	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.	03-40 04-54 05-36			X		See Corrective Action Plan for finding 2007 – 66a
	06-36b	Require employees working on multiple activities to complete personnel activity reports, on at least a monthly basis, showing actual distribution of activity.				X		See Corrective Action Plan for finding 2007 – 66b
	06-36c	Perform quarterly comparisons between budgeted salary allocations to actual time and effort and prepare adjustments for variances greater than ten percent. Prepare final adjustments for any variances remaining at year end.				X		See Corrective Action Plan for finding 2007 – 66c
06-37	93.283	DOH needs to improve its documentation to demonstrate that it complied with the matching and level-of-effort requirements during state fiscal year 2006 for two federal awards within the Centers for Disease Control and Prevention – Investigations and Technical Assistance program.						

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06-37	06-37a	Prepare supporting documentation of non-federal matching expenditures during the fiscal year to ensure that matching and level of effort requirements are being met.		X				
	06-37b	Identify and compile State matching expenditures from the State accounting system, quarterly, and obtain documentation of in-kind match actually provided by third parties on a timely basis.		X				
06-38	93.283	DOH considers some of its contractors to be vendors, while we believe they are more appropriately considered subrecipients.						
	06-38a	Re-evaluate contract service provider agreements to distinguish between subrecipients versus vendor relationships.		X				
	06-38b	Establish appropriate policies and procedures to (1) monitor subrecipients, utilizing site visits, audits or other means as considered appropriate, and (2) obtain and review subrecipient audit reports.				X		See Corrective Action Plan for finding 2007 – 67a
06-39	93.283	DOH did not allocate indirect costs to federal grants in a timely manner. Indirect costs related to FY 2005 were charged in FY 2006. FY 2006 costs were charged in FY 2007. Some direct costs were included in the indirect cost pool.						
	06-39a	Allocate indirect costs to federal awards during the State fiscal year to which they relate.		X				
	06-39b	Exclude costs considered to be state matching expenditures from the indirect cost pool and calculation of the Indirect Cost Rate.		X				
	06-39c	Ensure that only allowable expenditures are included in the base for billing the indirect costs and that charges are properly classified between the indirect and direct cost pools for calculating the indirect cost rate.		X				
06-40	93.558 93.778	TANF eligibility discrepancies resulting from IEVS data matches were not investigated and resolved in a timely manner.						

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06-40a		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		X			See Corrective Action Plan for finding 2007 – 71
			99-33a					
			00-32a					
06-40b		Maintain documentation supporting the resolution of data match discrepancies. Initiate modifications when discrepancies impact eligibility and/or amount of benefit levels.	01-36a					See Corrective Action Plan for finding 2007 – 71b
			02-41a					
			03-41a					
			04-56a					
			05-59a					
			99-33b		X			
06-40c		Correct the programming deficiency which removes interface message notices from the caseworker's daily report before resolution.	00-32b					Work begun in FY 2007.
			01-36a					
			02-41b					
			03-41b					
			04-56b					
			05-59b					
06-41	93.558	We found expenditures identified on the ACF-196 TANF financial report are not consistently supported by the State's accounting records.						
06-41		Reconcile and document timing differences which result in variances between the reported expenditures on the quarterly ACF-196 TANF Financial Report and amounts reflected in the State accounting system.	05-61		X			See Corrective Action Plan for finding 2007 – 69
06-42	93.558	The ACF-199 TANF Data Report does not report actual work hours as required by regulation.						
06-42		Implement a method of gathering and reporting actual work activity hours as required by HHS instructions.	05-62		X			See Corrective Action Plan for finding 2007 – 72
06-43	93.558 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.						

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06-43a		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.	01-46 02-47 03-50 04-68 05-63a			X		See Corrective Action Plan for finding 2007 – 70a
06-43b		Ensure that the proper family share and unearned income are utilized to determine child care eligibility and to calculate co-payment and benefit payment amounts.	05-63b			X		See Corrective Action Plan for finding 2007 – 70b
06-43c		Identify policies and procedures regarding supervision of individual job search activities.	05-63c			X		See Corrective Action Plan for finding 2007 – 70c
06-43d		Include child care cases in the sample case review process.				X		See Corrective Action Plan for finding 2007 – 70d
06-44	93.558 93.575 93.596 93.767 93.778	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.						
06-44a		Develop an enterprise-wide 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 04-71a 05-64a			X		See Corrective Action Plan for finding 2007 – 75a
06-44b		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.	03-43b 04-71b 05-64b		X			See Corrective Action Plan for finding 2007 – 75b
06-44c		Coordinate information system security activities for the MMIS and INRHODES systems with the State's Division of Information Technology to ensure compliance with the State's newly mandated information systems security policies and procedures.				X		See Corrective Action Plan for finding 2007 – 75c
06-45	93.568	The State Energy Office should improve procedures to ensure subrecipients comply with OMB Circular A-133 subrecipient audit report requirements.						

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06-45a		Improve procedures to enforce subrecipient's compliance with OMB Circular A-133 subrecipient audit report requirements.		X				
06-45b		Issue management decisions for all findings impacting LIHEAP grant funds within six months of receipt of subrecipient audit reports as required by OMB Circular A-133.		X				
06-45c		Amend contracts with subrecipients to include all necessary federal award information and applicable compliance requirements.			X			See Corrective Action Plan for finding 2007 – 76
06-46	93.568	The State Energy Office should continue strengthening procedures to ensure that payments of LIHEAP program funds to subrecipients are limited to their immediate cash needs, as required by federal regulations.						
06-46a		Document the sources of data and process used to determine payments of LIHEAP funds to subrecipients.			X			See Corrective Action Plan for finding 2007 – 77a
06-46b		Restrict subrecipient funding to their immediate cash needs.				X		See Corrective Action Plan for finding 2007 – 77b
06-47	93.568	In order to monitor compliance with period of availability requirements, SEO uses grant award expenditure data and obligations. We found this data was not reliable.						
06-47a		Maintain documentation to support the calculation of funds expended and obligated by grant award.			X			See Corrective Action Plan for finding 2007 – 78a
06-47b		Track expenditures by federal fiscal year grant award within the State accounting system.				X		See Corrective Action Plan for finding 2007 – 78b
06-47c		Reconcile program receipts to drawdowns by grant award.		X				
06-47d		Identify the federal grant award year when obligating program funds by purchase orders with subrecipients.				X		See Corrective Action Plan for finding 2007 – 78c
06-48	93.568	The SEO does not perform any review or analysis during the year to ensure compliance with the earmarking requirements.						

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06-48		Improve procedures and documentation to ensure compliance with the LIHEAP earmarking requirements.				X		See Corrective Action Plan for finding 2007 – 79
06-49	93.568	The SEO can improve the processed used to charge administrative personnel costs to LIHEAP to ensure that allocations are consistent with supporting documentation and that adequate supporting documentation exists.						
06-49a		Allocate employee salary and fringe benefit costs to LIHEAP based upon personnel activity reports or equivalent documentation. Adjust estimated allocations on a timely basis after the completion of periodic time studies.	03-47 04-64			X		See Corrective Action Plan for finding 2007 – 80a
06-49b		Monitor the allocation of personnel costs to LIHEAP to ensure that only appropriate charges are made to the program.				X		See Corrective Action Plan for finding 2007 – 80b
06-50	93.568	Errors were noted in the preparation of SF-269 reports. Separate reports were not prepared for "regular" and Emergency contingency funds are required. Supporting documentation for the Carryover and Reallotment report was not maintained.						
06-50a		Comply with LIHEAP Action Transmittal No. LIHEAP-AT-2001-1 and submit separate SF-269A reports for Block Grant funds and Emergency Contingency Grants funds.				X		See Corrective Action Plan for finding 2007 – 81a
06-50b		Complete a revised final SF-269A financial report for both "Regular" block grants and Emergency Contingency funds in accordance with the requirements outlined in the LIHEAP Action Transmittal No. LIHEAP-AT-2001-1, Dated 10/18/00				X		See Corrective Action Plan for finding 2007 – 81b
06-50c		Submit corrected REACH SF-269A financial status reports related to the federal fiscal year 2002 and 2004 grant awards that are supported by expenditures as recorded in the State's accounting system.	05-65			X		See Corrective Action Plan for finding 2007 – 81c
06-50d		Maintain supporting documentation for amounts reported on the Carryover and Reallotment Report.			X			See Corrective Action Plan for finding 2007 – 81d
06-50e		Submit a revised Carryover and Reallotment Report for the 2005 grant awards as required.				X		See Corrective Action Plan for finding 2007 – 81e

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06-51	93.658	Some of the payments in our testing sample were not eligible for federal funding.						
	06-51	Adjust federal reports to reimburse the federal government for the unallowable maintenance costs.				X		DCYF will adjust the March 31, 2008 federal report to reimburse the federal government for the unallowable costs.
06-52	93.659	We questioned the eligibility for 13 out of 36 payments in our sample because certain records were not available for our review.						
	06-52a	Adjust federal reports to reimburse the federal government for the unallowable adoption subsidy charges.				X		DCYF will adjust the March 31, 2008 federal report to reimburse the federal government for the unallowable costs.
	06-52b	Develop written policies and procedures regarding Title IV-E adoption assistance eligibility determinations and record retention practices to ensure consistent application.				X		See Corrective Action Plan for finding 2007 – 85b
	06-52c	Create a central repository for all records that support the Adoption Assistance eligibility determination. Consider electronic imaging of these critical documents to facilitate storage and retrieval.				X		See Corrective Action Plan for finding 2007 – 85c
06-52d		Conduct random reviews of Adoption Assistance eligibility determinations as part of an appropriate quality control system to ensure that all claims meet federal eligibility requirements.				X		See Corrective Action Plan for finding 2007 – 85d
06-53	93.667	The department has not filed the Financial Status Report (SF-269) as required by federal regulation and the grant award terms and conditions.						
	06-53	Prepare the SF-269 Financial Status Report for federal fiscal 2006.		X				
06-54	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.						

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06-54a		Obtain audit reports and perform timely and substantive follow-up on subrecipient audit findings – particular emphasis is warranted when findings remain uncorrected for multiple reporting years.	93.569	X				
			01-45b					
06-54b		Perform alternative monitoring procedures when audit reports do not provide timely and reasonable assurance of a subrecipient's compliance with program requirements.	93.667					
			98-40					
			01-45b					
			02-52b					
06-54b			00-43	X				
			02-52a					
06-55	93.667	Controls are not adequate to ensure that all payments for homemaker services are charged to the appropriate funding source.						
	93.778							
06-55		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			X		See Corrective Action Plan for finding 2007 – 86
			93.778					
			00-42					
			01-49					
			02-53					
			93.778					
			03-57					
			04-75					
			05-71					
06-56	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.						
06-56a		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			X		See Corrective Action Plan for finding 2007 – 89
			03-53a					
			04-72a					
			05-68a					

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06-56	06-56b	Credit federal reports for expenditures that do not comply with the terms and conditions of the SCHIP program.	02-54b 03-53b 04-72b 05-68b			X		See Corrective Action Plan for finding 2007 – 89
	06-56c	Implement procedures to fully consider an individual's access to other insurance, consistent with the SCHIP State Plan, when determining eligibility for SCHIP.	02-54c 03-53c 04-72c 05-68c	X				
06-57	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.						
06-57	06-57	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.	02-55 03-54 04-73 05-69			X		See Corrective Action Plan for finding 2007 – 87
06-58	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.						
06-58a	06-58a	Improve controls to ensure that Rite Share participants enroll and sustain valid health insurance coverage to prevent program overpayments.	03-70 04-85 05-79	X				
06-58b	06-58b	Reimburse the federal government for program overpayments within 60 days of their discovery.	03-63 04-81a 05-76a			X		See Corrective Action Plan for finding 2007 – 99
06-59	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.						

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06-59	06-59a	Align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS.	02-65b 03-65b 04-82a 05-77a			X		See Corrective Action Plan for finding 2007 – 90a
	06-59b	Completely reconcile administrative expenditures reported on the CMS-64 with those reported in the State's accounting system.	02-65a 03-65a 04-82b 05-77b			X		See Corrective Action Plan for finding 2007 – 90b
	06-59c	Report cumulative disbursements on the PMS-272 based on actual expenditures in accordance with report guidelines.	03-65f 04-82c 05-77c			X		See Corrective Action Plan for finding 2007 – 90c
06-60	93.778	At June 30, 2006, only seven out of fourteen hospitals were current with their required cost settlement reports through fiscal year 2003.						
	06-60a	Recover identified hospital settlements from providers in a timely manner and credit the federal government for their share within 60 days.	03-66 04-83 05-78a			X		See Corrective Action Plan for finding 2007 – 93a
	06-60b	Utilize the enforcement provisions of the Rhode Island General Laws to ensure hospitals submit year-end settlement reports within required time frames.				X		See Corrective Action Plan for finding 2007 – 93b
06-61	93.778	DHS needs to enhance monitoring and controls to evaluate compliance by LEAs and to ensure only allowable Medicaid procedures are being reimbursed.						
	06-61a	Consider pre-authorization within the MMIS for special education services specified in student's individualized education plans. Subject special education claims to edits for pre-authorization as a requirement for payment approval.				X		See Corrective Action Plan for finding 2007 – 92a
	06-61b	Expand post audit/monitoring procedures of special education claims to ensure compliance with DHS's "Medicaid Direct Services Guidebook for Local Education Agencies".	05-74b		X			See Corrective Action Plan for finding 2007 – 92b

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06-61	06-61c	Ensure that licensure requirements for LEA providers claiming Medicaid reimbursement meet federal regulations.				X		See Corrective Action Plan for finding 2007 – 92c
	06-61d	Implement review procedures for administrative claiming determinations being conducted by a third party contractor on behalf of local education agencies.				X		See Corrective Action Plan for finding 2007 – 92d
06-62	93.778	DHS should improve controls over Medicaid expenditures administered by other state agencies.						
	06-62a	Ensure that other State agencies responsible for administering Medicaid services comply with the terms of the interagency agreements and provide DHS with all required mandates.				X		See Corrective Action Plan for finding 2007 – 94a
	06-62b	Once approved, develop a review process to ensure compliance with authorized rate setting procedures for long-term care and group home facilities administered by other State agencies.				X		See Corrective Action Plan for finding 2007 – 94b
	06-62c	Review and strengthen procedures to ensure current agreements containing the required suspension and debarment certifications are in place for all providers.				X		See Corrective Action Plan for finding 2007 – 94d
06-63	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 Medicaid Management Information System and to ensure claims were processed in accordance with the Department's instructions and federal requirements.						
	06-63a	Obtain a Type II "SAS 70" examination performed by independent certified public accountants of the fiscal agent's internal control policies and procedures.	97-43a 98-45b 99-43a 00-47a 01-54a 02-58a 03-59a 04-77a 05-72a			X		See Corrective Action Plan for finding 2007 – 88a

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06-63b		Improve financial oversight of the fiscal agent by enhancing procedures to (1) verify information from the MMIS used to record program activity and prepare federal reports, (2) monitor the billing and collection of drug rebates and (3) ensure third party liabilities are identified and collected.	97-43b			X		See Corrective Action Plan for finding 2007 – 88b
			98-45a					
			99-43b					
			00-47b					
			01-54b					
			02-58b					
			03-59b					
			04-77b					
			05-72b					
06-64	93.778	Controls over Medicaid claims for children in foster care should be enhanced to match controls in place for all other Medicaid claims processed through the State's MMIS.						
	06-64a	Formalize a claiming methodology for DCYF residential placements which utilize an all-inclusive per diem rate that is consistent with federal regulations. Alternatively, reimburse providers on a fee-for-service basis or include residential placements as in-plan services through Rite Care.				X		See Corrective Action Plan for finding 2007 – 100a
	06-64b	Enhance controls over Medicaid claims originating from DCYF's RICHIST system so that they are equivalent to controls in place over all other Medicaid claims paid through the MMIS.				X		See Corrective Action Plan for finding 2007 – 100b
06-65	97.004 97.067 97.073	Unallowable costs were charged to the grant. An adjustment was intended, but not prepared.						
	06-65	Adjust the federal reports and reimburse the federal government for the unallowable renovation costs. Prepare an adjustment to charge expenditures totaling \$26,232 to the proper account/grant.		X				
06-66	97.004 97.067 97.073	RIEMA did not require employees who worked on multiple grants to prepare timesheets that reported their time by activity.						
	06-66	Utilize personnel activity reports or equivalent documentation to support allocation of personnel costs to Homeland Security Cluster Programs.				X		See Corrective Action Plan for finding 2007-106

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06-67	97.004 97.067 97.073	The RIEMA does not maintain inventory records of equipment purchased with grant funds						
	06-67a	Establish and maintain equipment inventory records identifying all equipment purchased and recorded in State accounting records. These records should include pertinent data such as purchase date, acquisition cost, and grant under which it was funded. The records should also reflect whether the equipment is State-owned, passed-through to another entity including another State agency, or held in inventory for future use by subrecipients.	04-91			X		See Corrective Action Plan for finding 2007-107
	06-67b	Improve physical security over equipment inventory.		X				
	06-67c	Segregate the responsibilities of safeguarding the equipment from the record-keeping function.		X				
06-68	97.004 97.067 97.073	We found various weaknesses in the RIEMA controls and procedures over subrecipient monitoring.						
	06-68a	Establish appropriate policies and procedures to monitor subrecipients utilizing site visits, audits or other means as considered appropriate.	04-89a	X				
	06-68b	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 RIEMA's records.	04-89c		X			RIEMA did obtain the subrecipient audit reports. However, the person responsible has been out on extended medical leave. They will be reviewed and followed up in a timely manner.
06-69	97.004 97.067 97.073	RIEMA was unable to provide us with evidence that it obligated federal funds for subgrants within the 60 day time limitation in both the 2004 and 2005 grants.						
	06-69a	Establish adequate internal control policies to properly obligate award monies within the required time frames. Generate and retain appropriate authoritative documentation of the commitment.				X		See Corrective Action Plan for finding 2007 - 108

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	06-69b	Develop formal written procedures/policies for awarding and monitoring subgrant awards. Include standards for administrative lead-time for obligation of funds and issuance of awards.		X				
06-70	97.004 97.067 97.073	Due to accounting inadequacies, RIEMA was not able to satisfactorily demonstrate compliance with earmarking requirements.						
	06-70a	Utilize unique account numbers to record expenditures by CFDA number and/or federal grant award for all federal grants. Ensure the accounts utilized facilitate demonstrating compliance with applicable earmarking requirements.		X				
	06-70b	Reconcile expenditures posted in the State's accounting system with the internally prepared spreadsheets to ensure completeness and accuracy of assessing compliance with earmarking requirements.		X				
06-71	97.004 97.067 97.073	The SF-269a report for the quarter ended 6/30/04 was materially misstated.						
	06-71a	Prepare reports in accordance with applicable federal reporting instructions.	04-90a			X		See Corrective Action Plan for finding 2007-104
	06-71b	Utilize unique account numbers to record/report federal expenditures by CFDA number and grant award for all grants.		X				
	06-71c	Reconcile reported federal expenditures to the State accounting system. Ensure that all program expenditure data is accumulated from the State accounting system.	04-90b			X		See Corrective Action Plan for finding 2007-104
	06-71d	Implement supervisory review and approval of federal reports and related supporting documentation.	04-90d		X			Supervisory review will be conducted and indicated on each report submitted. See Corrective Action Plan for finding 2007-104

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06-72	R&D Cluster Various	The University did not have an effective procedure to generate effort certification reports for limited contract and non-student hourly employees.						
06-72		The University should ensure that certification work performed by limited contract and non-student hourly employees are consistently applied in accordance with OMB Circular A-21, and existing University Policies.		X				