

**State of Rhode Island**  
and Providence Plantations

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**State of Rhode Island  
and Providence Plantations**

**SINGLE AUDIT REPORT**

**Fiscal Year Ended June 30, 1998**

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

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**Office of the Auditor General  
General Assembly**



ERNEST A. ALMONTE, CPA, CFE  
Auditor General

State of Rhode Island and Providence Plantations

GENERAL ASSEMBLY

Office of the Auditor General

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March 30, 1999

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, 1998. 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 general-purpose financial statements of the State of Rhode Island, (2) compliance and on internal control over financial reporting, and (3) compliance and 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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General Assembly**

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**Office of the Auditor General  
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**Office of the Auditor General  
General Assembly**



ERNEST A. ALMONTE, CPA, CFE  
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GENERAL ASSEMBLY

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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 general-purpose financial statements of the State of Rhode Island and Providence Plantations (the State) as of and for the year ended June 30, 1998 as listed in the Table of Contents. These general-purpose financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. We did not audit the financial statements of certain component units which represent 100% of the assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these component units, is based solely on the reports of the other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinion.

Government Accounting Standards Board Technical Bulletin 98-1, *Disclosures About Year 2000 Issues*, requires disclosure of certain matters regarding the year 2000 issue. The State has included such disclosures in Note 13. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the State's disclosures with respect to the year 2000 issue made in Note 13. Further, we do not provide assurance that the State is or will be year 2000 ready, that the State's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the State does business will be year 2000 ready.

The general-purpose financial statements do not include the statement of the general fixed assets account group which should be included in order to conform with generally accepted accounting principles. The State has not completed the accumulation of historical information as to the cost and classification of its investment in general fixed assets. The amount that should be recorded in the general fixed assets account group is not know.

In our opinion, based on our audit and the reports of other auditors, except for the effects of such adjustments on the general-purpose financial statements, if any, as might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, and except for the effect on the general-purpose financial statements of the omission of the statement of the general fixed assets account group, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the State at June 30, 1998, and the results of its operations, the cash flows of its proprietary fund types, nonexpendable trust funds and proprietary component units, and the changes in plan net assets of its pension trust funds for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 1(X), the State implemented new accounting pronouncements of the Governmental Accounting Standards Board and as discussed in Note 1(Y), the State changed its definition of the reporting entity.

As discussed in Note 22, the R.I. Depositors Economic Protection Corporation, a proprietary component unit, is dependent upon annual appropriations by the General Assembly of the State of a portion of the State's sales and use tax revenue to fund debt service on certain bonded indebtedness totaling \$186 million at June 30, 1998.

In accordance with Government Auditing Standards, we have also issued our report dated March 12, 1999, on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the State, taken as a whole. The Schedules of Funding Progress as listed in the Table of Contents are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose 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 general-purpose financial statements taken as a whole.

March 12, 1999

Ernest A. Almonte, CPA, CFE  
Auditor General

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**COMBINED BALANCE SHEET**

ALL FUND TYPES, ACCOUNT GROUPS, AND DISCRETELY PRESENTED COMPONENT UNITS  
 June 30, 1998

(Expressed in thousands)

Assets	Governmental Fund Types			Proprietary Fund Types	
	General	Special Revenue	Capital Projects	Enterprise (State Lottery)	Internal Service
Cash and cash equivalents	\$ 245,091	\$ 42,401	\$ 98,071	\$ 3,478	\$ 6,665
Funds on deposit with fiscal agent			33,956		
Investments		37,603	16,183	5,708	
Receivables (net)	87,212	6,858	52	7,022	1,334
Due from other funds	2,213	946			341
Due from component units		659			
Due from primary government					
Due from other governments and agencies (net)	142,124	26,489	1,946		
Inventories	44,194			713	1,977
Loan to other funds	2,295				
Deferred compensation held by insurance companies					
Loans and real estate owned					
Fixed assets (net)				619	3,910
Other assets	2,851		3,601	427	
Amount available in debt service reserves					
Amount to be provided for the retirement of general long-term obligations					
Rentals due					
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total assets	<u>\$ 525,980</u>	<u>\$ 114,956</u>	<u>\$ 153,809</u>	<u>\$ 17,967</u>	<u>\$ 14,227</u>
<b>Liabilities and Fund Equity</b>					
<b>Liabilities:</b>					
Cash overdraft	\$ 33,704	\$ 4,774	\$ 2,660	\$ -	\$ -
Vouchers and accounts payable	155,039	18,024	5,072	5,573	3,669
Due to other funds	13,623	1,530	23	1,171	341
Due to component units	8,443	355			
Due to other governments and agencies	2,718				
Accrued liabilities	14,462	1,819		221	1,847
Deferred revenue	47,075	3,154		727	
Deferred compensation liabilities					
Loans from other funds			59		2,236
Other current liabilities	15,850		4,456		
Compensated absences					
Notes payable					
Loans payable					
Obligations under capital leases					2,407
Bonds payable					
Other long-term liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>9,952</u>	<u>0</u>
Total liabilities	<u>290,914</u>	<u>29,656</u>	<u>12,270</u>	<u>17,644</u>	<u>10,500</u>
<b>Fund equity:</b>					
Contributed capital					
Retained earnings:					
Reserved					57
Unreserved (deficit)				323	3,670
Fund balances:					
Reserved	103,026	187,716	59,229		
Unreserved:					
Designated		20,140	81,792		
Undesignated (deficit)	<u>132,040</u>	<u>(122,556)</u>	<u>518</u>	<u>0</u>	<u>0</u>
Total fund equity	<u>235,066</u>	<u>85,300</u>	<u>141,539</u>	<u>323</u>	<u>3,727</u>
Total liabilities and fund equity	<u>\$ 525,980</u>	<u>\$ 114,956</u>	<u>\$ 153,809</u>	<u>\$ 17,967</u>	<u>\$ 14,227</u>

The accompanying notes are an integral part of this financial statement.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

Fiduciary Fund Types Trust and Agency	Account Group General Long-term Debt	Primary Government (Memorandum only)	Component Units		Reporting Entity (Memorandum only)
			Governmental	Proprietary	
\$ 5,632	\$ -	\$ 401,338	\$ 25,266	\$ 391,046	\$ 817,650
181,685		215,641			215,641
6,021,412		6,080,906	1,911	594,318	6,677,135
23,829		126,307	33,479	1,952,453	2,112,239
13,188		16,688	17,391		34,079
		659			659
				27,244	27,244
1,409		171,968	814	18,668	191,450
		46,884	2,822	1,908	51,614
		2,295			2,295
613		613			613
				28,690	28,690
		4,529	2,053	852,144	858,726
		6,879	3,893	146,827	157,599
	18,962	18,962	512		19,474
	1,479,827	1,479,827	84,271		1,564,098
0	0	0	0	9,775	9,775
<u>\$ 6,247,768</u>	<u>\$ 1,498,789</u>	<u>\$ 8,573,496</u>	<u>\$ 172,412</u>	<u>\$ 4,023,073</u>	<u>\$ 12,768,981</u>
\$ 431	\$ -	\$ 41,569	\$ 8,337	\$ -	\$ 49,906
5,237		192,614	17,247	19,692	229,553
		16,688	17,391		34,079
		8,798			8,798
705		3,423		1,938	5,361
		18,349		70,987	89,336
		50,956	10,800	8,819	70,575
613		613			613
		2,295			2,295
1,123		21,429	1,710		23,139
	59,886	59,886	32,954		92,840
			2,409	29,918	32,327
			69	40,425	40,494
	436,525	438,932	8,234	37,855	485,021
	990,772	990,772	41,175	2,875,068	3,907,015
0	11,606	21,558	1,507	276,607	299,672
<u>8,109</u>	<u>1,498,789</u>	<u>1,867,882</u>	<u>141,833</u>	<u>3,361,309</u>	<u>5,371,024</u>
				345,189	345,189
		57		223,031	223,088
		3,993	(2,784)	93,544	94,753
6,236,719		6,586,690	45,507		6,632,197
		101,932			101,932
2,940	0	12,942	(12,144)	0	798
<u>6,239,659</u>	<u>0</u>	<u>6,705,614</u>	<u>30,579</u>	<u>661,764</u>	<u>7,397,957</u>
<u>\$ 6,247,768</u>	<u>\$ 1,498,789</u>	<u>\$ 8,573,496</u>	<u>\$ 172,412</u>	<u>\$ 4,023,073</u>	<u>\$ 12,768,981</u>

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUNDS, AND DISCRETELY PRESENTED**  
**GOVERNMENTAL COMPONENT UNITS**

For the Fiscal Year Ended June 30, 1998

(Expressed in thousands)

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Type</u>	<u>TOTAL PRIMARY GOVERNMENT (Memorandum only)</u>	<u>Component Units</u>	<u>TOTAL REPORTING ENTITY (Memorandum only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>		<u>Governmental</u>	
<b>REVENUES:</b>							
Taxes	\$ 1,622,223	\$ 229,001	\$ -	\$ 187,177	\$ 2,038,401	\$ -	\$ 2,038,401
Licenses, fines, sales, and services	157,392	4,397	7,707		169,496	164,756	334,252
Departmental restricted revenue	118,179	1,382			119,561		119,561
Federal grants	932,240	147,069	324	1,985	1,081,618	53,020	1,134,638
Income from investments	4,189	4,998	9,140	10,581	28,908		28,908
Other revenues	<u>28,685</u>	<u>2,669</u>	<u>0</u>	<u>995</u>	<u>32,349</u>	<u>32,731</u>	<u>65,080</u>
Total revenues	2,862,908	389,516	17,171	200,738	3,470,333	250,507	3,720,840
<b>Other financing sources:</b>							
Bonds and notes issued			76,375		76,375		76,375
Lease certificates of participation issued			45,748		45,748		45,748
Operating transfers in	194,526	18,216	37,587		250,329	4,679	255,008
Operating transfers from primary government						163,580	163,580
Operating transfers in from component units	17,021	659			17,680		17,680
Other	<u>13,320</u>	<u>0</u>	<u>8,848</u>	<u>5,099</u>	<u>27,267</u>	<u>10,386</u>	<u>37,653</u>
Total revenues and other financing sources	<u>3,087,775</u>	<u>408,391</u>	<u>185,729</u>	<u>205,837</u>	<u>3,887,732</u>	<u>429,152</u>	<u>4,316,884</u>
<b>Expenditures:</b>							
Current:							
General government	187,866	39,754			227,620		227,620
Human services	1,531,939	113,011		146,945	1,791,895		1,791,895
Education	43,222				43,222	394,645	437,867
Public safety	233,031				233,031		233,031
Environment	42,975	3,593			46,568		46,568
Transportation		32,934			32,934		32,934
Capital outlays	16,656	119,384	9,806		145,846	20,607	166,453
Intergovernmental	575,972	4,716	11,078		591,766		591,766
Debt service:							
Principal	38,567	16,665			55,232	3,583	58,815
Interest and other charges	<u>34,285</u>	<u>16,126</u>	<u>17,443</u>	<u>0</u>	<u>67,854</u>	<u>3,837</u>	<u>71,691</u>
Total expenditures	2,704,513	346,183	38,327	146,945	3,235,968	422,672	3,658,640
<b>Other financing uses:</b>							
Payments to refunded bonds and certificates escrow agents			86,499		86,499		86,499
Operating transfers out	37,330	40,407	55,112		132,849	4,599	137,448
Operating transfers to component units	244,081	31,896	13,827		289,804		289,804
Other	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,591</u>	<u>2,591</u>	<u>0</u>	<u>2,591</u>
Total expenditures and other financing uses	<u>2,985,924</u>	<u>418,486</u>	<u>193,765</u>	<u>149,536</u>	<u>3,747,711</u>	<u>427,271</u>	<u>4,174,982</u>
Revenues and other financing sources over (under) expenditures and other financing uses	101,851	(10,095)	(8,036)	56,301	140,021	1,881	141,902
Net gain from proprietary operations						45	45
Fund balances, July 1, 1997, as restated	133,215	85,395	149,575	129,031	497,216	28,653	525,869
Residual equity transfer from component unit	<u>0</u>	<u>10,000</u>	<u>0</u>	<u>0</u>	<u>10,000</u>	<u>0</u>	<u>10,000</u>
Fund balances, June 30, 1998	\$ <u>235,066</u>	\$ <u>85,300</u>	\$ <u>141,539</u>	\$ <u>185,332</u>	\$ <u>647,237</u>	\$ <u>30,579</u>	\$ <u>677,816</u>

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY**  
**ALL PROPRIETARY FUND TYPES, SIMILAR TRUST FUNDS, AND DISCRETELY PRESENTED**  
**PROPRIETARY COMPONENT UNITS**

For the Fiscal Year Ended June 30, 1998

(Expressed in thousands)

	Proprietary Fund Types		Fiduciary Fund Types	TOTAL	Component Units	TOTAL
				PRIMARY		REPORTING
	Enterprise (State Lottery)	Internal Service	Nonexpendable Trust	GOVERNMENT (Memorandum only)	Proprietary	ENTITY (Memorandum only)
<b>Operating revenues:</b>						
Charges for services	\$ 547,772	\$ 70,728	\$ 64	\$ 618,564	\$ 165,063	\$ 783,627
Interest income			441	441	179,551	179,992
Other operating income	0	0	0	0	102,229	102,229
Total operating revenues	547,772	70,728	505	619,005	446,843	1,065,848
<b>Operating expenses:</b>						
Personal services	2,688	11,394		14,082	81,489	95,571
Supplies, materials, and services	3,433	60,108		63,541	77,832	141,373
Interest expense					125,967	125,967
Grant, scholarships and contract programs					9,909	9,909
Prize awards	427,428			427,428		427,428
Depreciation, depletion and amortization	172	328		500	43,980	44,480
Other operating expenses	0	0	108	108	17,933	18,041
Total operating expenses	433,721	71,830	108	505,659	357,110	862,769
Operating income (loss)	114,051	(1,102)	397	113,346	89,733	203,079
<b>Nonoperating revenues (expenses):</b>						
Interest revenue	488	4		492	11,393	11,885
Grants					12,741	12,741
Loss on sale of property					(6,496)	(6,496)
Interest expense		(111)		(111)	(48,204)	(48,315)
Other nonoperating revenues	461	0	0	461	4,101	4,562
Total nonoperating revenue (expenses)	949	(107)	0	842	(26,465)	(25,623)
Income (loss) before transfers	115,000	(1,209)	397	114,188	63,268	177,456
Operating transfers in		346		346		346
Operating transfers out	(115,072)			(115,072)		(115,072)
Operating transfers in from primary government					100,291	100,291
Operating transfers out to primary government	0	0	0	0	(17,021)	(17,021)
Income (loss) before extraordinary items and cumulative effect of change in accounting principle	(72)	(863)	397	(538)	146,538	146,000
Extraordinary items					(5,911)	(5,911)
Cumulative effect of change in accounting principle	0	0	0	0	(2,277)	(2,277)
Net income (loss)	(72)	(863)	397	(538)	138,350	137,812
<b>Other changes in fund equity:</b>						
Increase in contributed capital					(4,702)	(4,702)
Other	0	0	0	0	(3,229)	(3,229)
Net increase (decrease) in fund equity	(72)	(863)	397	(538)	130,419	129,881
Fund equity, July 1, 1997, as restated	395	4,590	2,5543	7,528	541,345	548,873
Residual equity transfer to primary government	0	0	0	0	(10,000)	(10,000)
Fund equity, June 30, 1998	\$ 323	\$ 3,727	\$ 2,940	\$ 6,990	\$ 661,764	\$ 668,754

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**COMBINED STATEMENT OF CASH FLOWS**  
**ALL PROPRIETARY FUND TYPES, SIMILAR TRUST FUNDS, AND DISCRETELY PRESENTED**  
**PROPRIETARY COMPONENT UNITS**

For the Fiscal Year Ended June 30, 1998  
*(Expressed in thousands)*

	Proprietary Fund Types		Fiduciary Fund Types Nonexpendable Trust	TOTAL PRIMARY GOVERNMENT (Memorandum only)	Component Units	TOTAL REPORTING ENTITY (Memorandum only)
	Enterprise (State Lottery)	Internal Service				
Cash flows from operating activities:						
Cash received from customers	\$ 639,490	\$ 71,797	\$ -	\$ 711,287	\$ 817,994	\$ 1,529,281
Cash receipts from grants					1,575	1,575
Collections from loans and receivership assets					106,646	106,646
Proceeds from the sale of real estate owned					2,477	2,477
Cash payments to suppliers for goods and services	(4,053)	(63,635)		(67,688)	(101,037)	(168,725)
Cash payments to employees for services	(2,598)	(11,411)		(14,009)	(71,282)	(85,291)
Loans issued					(426,753)	(426,753)
Cash payments for claims, grants and scholarships					(132,589)	(132,589)
Other operating revenue	263	1,003	64	1,330	12,706	14,036
Other operating expenses	(519,298)	0	(106)	(519,404)	(21,213)	(540,617)
Net cash provided by (used for) operating activities	113,804	(2,246)	(42)	111,516	188,524	300,040
Cash flows from noncapital financing activities:						
Proceeds from issuance of long-term debt					305,340	305,340
Payment of bonds and notes					(332,686)	(332,686)
Payment of interest					(140,360)	(140,360)
State sales tax appropriations received					49,177	49,177
Proceeds from grants					12,213	12,213
Loans from other funds		3,416		3,416		3,416
Repayment of loans from other funds		(3,150)		(3,150)		(3,150)
Collection of loans and mortgages					2	2
Contract revenue					3,464	3,464
Operating transfers out	(114,444)			(114,444)		(114,444)
Operating transfers in from primary government					50,718	50,718
Operating transfers out to primary government					(2,021)	(2,021)
Residual equity transfer					(10,000)	(10,000)
Grants issued					(2,546)	(2,546)
Net cash provided by (used for) noncapital financing activities	(114,444)	266	0	(114,178)	(66,707)	(180,885)
Cash flows from capital and related financing activities:						
Principal paid on revenue bonds					(46,294)	(46,294)
Proceeds from issuance of long-term debt					141,125	141,125
Payment of interest		(111)		(111)	(36,651)	(36,762)
Payment of notes and loans					(30,885)	(30,885)
Payment of capital lease obligations		(484)		(484)	(5,978)	(6,462)
Payment of financing costs					(965)	(965)
Payment for the purchase of program rights					(547)	(547)
Acquisition of capital assets	(151)	(350)		(501)	(58,766)	(59,267)
Contributed capital		346		346	12,622	12,968
Proceeds from capital grants used for operating activities					2,909	2,909
Proceeds from sale of assets	13	0	0	13	3,191	3,204
Net cash provided by (used for) capital and related financing activities	(138)	(599)	0	(737)	(20,239)	(20,976)
Cash flows from investing activities:						
Purchase of investments			(630)	(630)	(767,778)	(768,408)
Proceeds from sale and maturity of investments	2,387		590	2,977	731,392	734,369
Interest on investments	488	4	81	573	50,144	50,717
Net cash provided by (used for) investing activities	2,875	4	41	2,920	13,758	16,678
Net increase (decrease) in cash and cash equivalents	2,097	(2,575)	(1)	(479)	115,336	114,857
Cash and cash equivalents, July 1, 1997	1,381	9,240	525	11,146	275,710	286,856
Cash and cash equivalents, June 30, 1998	\$ 3,478	\$ 6,665	\$ 524	\$ 10,667	\$ 391,046	\$ 401,713

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>TOTAL PRIMARY GOVERNMENT (Memorandum only)</u>	<u>Component Units</u>	<u>TOTAL REPORTING ENTITY (Memorandum only)</u>
	<u>Enterprise (State Lottery)</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>			
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:						
Operating income (loss)	\$ 114,051	\$ (1,102)	\$ 397	\$ 113,346	\$ 89,733	\$ 203,079
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Change in recorded value of assets					(6,636)	(6,636)
Depreciation and amortization	173	327		500	43,980	44,480
Interest on investments and other income	(2,530)		(441)	(2,971)	(56,292)	(59,263)
Interest expense					112,923	112,923
Provision for cost of scholarships					1,900	1,900
Landfill post closure costs					1,426	1,426
(Increase) decrease in assets:						
Receivables	(1,231)	(19)		(1,250)	(19,385)	(20,635)
Inventories	(264)	198		(66)	(635)	(701)
Prepaid items					(94)	(94)
Other assets	2,399			2,399	3,224	5,623
Increase (decrease) in liabilities:						
Accounts payable and accrued expenses	2,052	(1,650)	2	404	(10,548)	(10,144)
Deferred revenue	270			270	2,930	3,200
Escrow deposits					13,854	13,854
Other liabilities	(1,116)	0	0	(1,116)	0	(1,116)
Subtotal	(247)	(1,144)	(439)	(1,830)	86,647	84,817
Other reconciling items included in financing and investing activities:						
Interest payments on bonds					13,997	13,997
Investment income received	0	0	0	0	(1,853)	(1,853)
Subtotal	0	0	0	0	12,144	12,144
Total adjustments	(247)	(1,144)	(439)	(1,830)	98,791	96,961
Net cash provided by (used for) operating	\$ 113,804	\$ (2,246)	\$ (42)	\$ 111,516	\$ 188,524	\$ 300,040
Noncash investing, capital, and financing activities:						
Assets acquired through loan program	\$ -	\$ -	\$ -	\$ -	\$ 3,505	\$ 3,505
Assets acquired through lease arrangement					1,735	1,735
Reduction of contributed capital resulting from reduced FAA funding					15,895	15,895
Interest capitalized					21	21
Accretion of interest on investment for jackpot awards	582			582		582
Increase in funds on deposit and deferred revenue	143	0	0	143	0	143
Total noncash transactions	\$ 725	\$ -	\$ -	\$ 725	\$ 21,156	\$ 21,881

Cash and cash equivalents in the Fiduciary Fund Types on the Combined Balance Sheet include:

Expendable Trust Funds	\$ 480
Pension Trust Funds	4,628
Nonexpendable Trust Funds	<u>524</u>
Total	<u>\$ 5,632</u>

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**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**COMBINED STATEMENT OF CHANGES IN PLAN NET ASSETS**  
**PENSION TRUST FUNDS**

For the Fiscal Year Ended June 30, 1998

(Expressed in thousands)

	<b>Employees' Retirement System</b>	<b>Municipal Employees' Retirement System</b>	<b>State Police Retirement Benefits Trust</b>	<b>Judicial Retirement Benefits Trust</b>	<b>Total</b>
<b>Additions</b>					
Contributions:					
Member contributions	\$ 101,480	\$ 13,878	\$ 416	\$ 257	\$ 116,031
Employer contributions	103,817	5,140	603	744	110,304
State contributions for teachers	35,393				35,393
Interest on service credits purchased	887	128			1,015
Service credit transfer payments	<u>150</u>	<u>42</u>	<u>0</u>	<u>0</u>	<u>192</u>
Total contributions	<u>241,727</u>	<u>19,188</u>	<u>1,019</u>	<u>1,001</u>	<u>262,935</u>
Investment income:					
Net appreciation in fair value of investments					
	577,234	84,432	676	390	662,732
Interest	111,105	16,039	127	72	127,343
Dividends	44,365	6,490	52	30	50,937
Other investment income	<u>18,051</u>	<u>2,639</u>	<u>20</u>	<u>11</u>	<u>20,721</u>
	750,755	106,900	875	503	861,733
Less investment expense	<u>14,891</u>	<u>2,173</u>	<u>18</u>	<u>10</u>	<u>17,092</u>
Net investment income	<u>735,864</u>	<u>107,427</u>	<u>857</u>	<u>493</u>	<u>844,641</u>
Total additions	<u>977,591</u>	<u>126,615</u>	<u>1,876</u>	<u>1,494</u>	<u>1,107,576</u>
<b>Deductions</b>					
Retirement benefits	279,633	26,330			305,963
Refund of contributions	5,148	1,322	7		6,477
Administrative expense	2,003	295	1		2,299
Service credit transfer payments	<u>42</u>	<u>150</u>	<u>0</u>	<u>0</u>	<u>192</u>
Total deductions	<u>286,826</u>	<u>28,097</u>	<u>8</u>	<u>0</u>	<u>314,931</u>
Net increase	690,765	98,518	1,868	1,494	792,645
Net assets held in trust for pension benefits					
July 1, 1997	<u>4,583,639</u>	<u>667,632</u>	<u>4,862</u>	<u>2,608</u>	<u>5,258,741</u>
June 30, 1998	<u>\$ 5,274,404</u>	<u>\$ 766,150</u>	<u>\$ 6,730</u>	<u>\$ 4,102</u>	<u>\$ 6,051,386</u>

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
**GENERAL FUND AND BUDGETED SPECIAL REVENUE FUNDS**  
For the Fiscal Year Ended June 30, 1998  
*(Expressed in thousands)*

	<u>Budget</u>	<u>General Fund Actual</u>	<u>Variance</u>
<b>Revenues:</b>			
Taxes	\$ 1,596,470	\$ 1,622,223	\$ 25,753
Licenses, fines, sales, and services	156,600	157,392	792
Departmental restricted revenue	111,708	118,179	6,471
Federal grants	1,030,308	932,240	(98,068)
Other revenues	<u>33,771</u>	<u>32,874</u>	<u>(897)</u>
Total revenues	2,928,857	2,862,908	(65,949)
<b>Other financing sources:</b>			
Operating transfers in	141,090	194,526	53,436
Operating transfers in from component units	17,000	17,021	21
Other	<u>21,584</u>	<u>13,320</u>	<u>(8,264)</u>
Total revenues and other financing sources	<u>3,108,531</u>	<u>3,087,775</u>	<u>(20,756)</u>
<b>Expenditures:</b>			
Current:			
General government	189,733	187,866	1,867
Human services	1,603,380	1,531,939	71,441
Education	63,082	43,222	19,860
Public safety	243,640	233,031	10,609
Environment	61,435	42,975	18,460
Transportation			
Capital outlays	16,656	16,656	
Intergovernmental	575,972	575,972	
Debt service:			
Principal	38,567	38,567	
Interest and other charges	<u>34,285</u>	<u>34,285</u>	<u>0</u>
Total expenditures	2,826,750	2,704,513	122,237
<b>Other financing uses:</b>			
Operating transfers out	37,429	37,330	99
Operating transfers to component units	<u>253,130</u>	<u>244,081</u>	<u>9,049</u>
Total expenditures and other financing uses	<u>3,117,309</u>	<u>2,985,924</u>	<u>131,385</u>
Revenues and other financing sources over (under) expenditures and other financing uses	(8,778)	101,851	110,629
Fund balances, July 1, 1997	133,215	133,215	
Residual equity transfer from component unit	<u>0</u>	<u>0</u>	<u>0</u>
Fund balances, June 30, 1998	<u>\$ 124,437</u>	<u>\$ 235,066</u>	<u>\$ 110,629</u>

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

<u>Budgeted Special Revenue Funds</u>			<u>TOTAL</u> (Memorandum only)		
<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
\$ 233,102	\$ 229,001	\$ (4,101)	\$ 1,829,572	\$ 1,851,224	\$ 21,652
			156,600	157,392	792
106	1,382	1,276	111,814	119,561	7,747
192,592	147,069	(45,523)	1,222,900	1,079,309	(143,591)
<u>1,403</u>	<u>6,506</u>	<u>5,103</u>	<u>35,174</u>	<u>39,380</u>	<u>4,206</u>
427,203	383,958	(43,245)	3,356,060	3,246,866	(109,194)
48,036	17,773	(30,263)	189,126	212,299	23,173
			17,000	17,021	21
<u>0</u>	<u>0</u>	<u>0</u>	<u>21,584</u>	<u>13,320</u>	<u>(8,264)</u>
<u>475,239</u>	<u>401,731</u>	<u>(73,508)</u>	<u>3,583,770</u>	<u>3,489,506</u>	<u>(94,264)</u>
39,937	39,738	199	229,670	227,604	2,066
115,221	113,011	2,210	1,718,601	1,644,950	73,651
			63,082	43,222	19,860
			243,640	233,031	10,609
			61,435	42,975	18,460
57,766	30,972	26,794	57,766	30,972	26,794
155,732	119,383	36,349	172,388	136,039	36,349
	4,716	(4,716)	575,972	580,688	(4,716)
16,665	16,665		55,232	55,232	
<u>16,126</u>	<u>16,126</u>	<u>0</u>	<u>50,411</u>	<u>50,411</u>	<u>0</u>
401,447	340,611	60,836	3,228,197	3,045,124	183,073
38,545	40,407	(1,862)	75,974	77,737	(1,763)
<u>44,874</u>	<u>31,896</u>	<u>12,978</u>	<u>298,004</u>	<u>275,977</u>	<u>22,027</u>
<u>484,866</u>	<u>412,914</u>	<u>71,952</u>	<u>3,602,175</u>	<u>3,398,838</u>	<u>203,337</u>
(9,627)	(11,183)	(1,556)	(18,405)	90,668	109,073
	82,096	82,096	133,215	215,311	82,096
<u>10,000</u>	<u>10,000</u>	<u>0</u>	<u>10,000</u>	<u>10,000</u>	<u>0</u>
<u>\$ 373</u>	<u>\$ 80,913</u>	<u>\$ 80,540</u>	<u>\$ 124,810</u>	<u>\$ 315,979</u>	<u>\$ 191,169</u>

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**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**  
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## **STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

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### **Notes to General-Purpose Financial Statements**

#### **Note 1. Summary of Significant Accounting Policies**

##### **A. Basis of Presentation**

The accompanying general-purpose financial statements have been prepared in conformance with generally accepted accounting principles (GAAP) for government as prescribed by the Governmental Accounting Standards Board (GASB), except as described in Note 1(D). GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. In accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use 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.

##### **B. Reporting Entity**

The general-purpose financial statements include all funds and account groups of the State of Rhode Island and Providence Plantations (the state) and its component units. GASB defines component units as legally separate entities for which a primary government (the state) is financially accountable or, if not financially accountable, their exclusion would cause the state's financial statements to be misleading. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an entity's governing body and (1) the ability of the state to impose its will on that entity or (2) the potential for the entity to provide specific financial benefits to, or impose specific financial burdens on the state. The state has considered all agencies, boards, commissions, public benefit authorities and corporations, the state university and colleges and the Central Falls School District as potential component units. Audited financial statements of the individual component units can be obtained from their respective administrative offices.

##### **Blended Component Units**

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

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

**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

## **STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

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### **Notes to General-Purpose Financial Statements**

government. It is blended into the Capital Projects Funds and the General Long-Term Debt Account Group. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Refunding Bond Authority, State House, Providence, RI 02903.

#### **Discretely Presented Component Units**

Discretely presented component units are reported in separate columns in the combined 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:

#### **Governmental Component Units**

**University and Colleges** – The Board of Governors for Higher Education has oversight responsibility for the University of Rhode Island, Rhode Island College and Community College of Rhode Island. The Board is appointed by the Governor with approval of the Senate. The university and colleges are funded through state appropriations, tuition, federal grants, private donations and grants. For more detailed information, a copy of the financial statements can be obtained by writing to the University of Rhode Island, Carlotti Administration Building, Kingston, RI 02881; Rhode Island College, Mount Pleasant Avenue, Providence, RI 02908; and Community College of Rhode Island, 400 East Avenue, Warwick, RI 02886-1805.

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

#### **Proprietary Component Units**

**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 R.I. Housing and Mortgage Finance Corporation, 44 Washington Street, Providence, RI 02903.

**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.

## **STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

### **Notes to General-Purpose Financial Statements**

**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 R.I. Turnpike and Bridge Authority, P.O. Box 437, Jamestown, RI 02835.

**Rhode Island Economic Development Corporation (RIEDC)** – This Authority was created by law in 1974 for the purpose of acquiring and developing real and personal property to promote the economic development of the state. It has the power to issue tax-exempt industrial development bonds to accomplish its corporate purpose. In fiscal year 1993, the Authority created a subsidiary corporation, the R.I. Airport Corporation, to manage the state's six airports and oversee the construction of a new airport terminal. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Economic Development Corporation, One West Exchange Street, Providence, RI 02903.

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

**Narragansett Bay Water Quality Management District Commission (NBC)** – This Commission was created for the purposes of acquiring, planning, constructing, extending, improving, operating and maintaining publicly owned wastewater treatment facilities. The commission 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 Water Quality District Management Commission, 235 Promenade Street, Suite 500, Providence, RI 02908.

**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 students and families of students attending institutions for higher education in the state to finance the cost or a portion of the cost of higher education; (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, 400 Westminster Street, Providence, RI 02903.

## **STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

### **Notes to General-Purpose Financial Statements**

**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. The Corporation 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, 60 Shun Pike, Johnston, RI 02919.

**Rhode Island Depositors Economic Protection Corporation (DEPCO)** – This Corporation was created in 1991 to assist in protecting the interests of depositors of certain financial institutions in the state which had been closed when their private deposit insurer failed, thereby leaving those institutions without deposit insurance as required by statute. DEPCO is empowered to acquire all or a portion of the assets of the closed institutions thereby aiding the prompt repayment of the deposit liabilities of the closed institutions. The Corporation 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. Depositors Economic Protection Corporation, P.O. Box 8399, Warwick, RI 02888.

**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 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 the Authority determines it is in the public interest to continue such service. Revenues of the Authority 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 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 R.I. Industrial Facilities Corporation, One West Exchange Street, Providence, RI 02903.

**Rhode Island Clean Water Finance Agency (RICWFA)** – This Agency was established in 1991 for the purpose of providing financial assistance in the form of loans to municipalities, sewer commissions and waste water management districts in the state for the construction or upgrading of water pollution abatement projects. The Agency 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, Providence, RI 02908.

## **STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

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### **Notes to General-Purpose Financial Statements**

**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 R.I. Industrial-Recreational Building Authority, One West Exchange Street, Providence, RI 02903.

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

**Rhode Island Public Telecommunications Authority (RIPTCA)** – This Authority owns and operates a non-commercial educational television station in the state. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Public Telecommunications Authority, 50 Park Lane, Providence, RI 02903.

**Rhode Island Children’s Crusade for Higher Education (RICCHE)** – This is a Rhode Island nonprofit corporation formed for the purpose of fostering the education of economically disadvantaged youth through scholarship awards, summer jobs programs, and mentoring programs for parents and students. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Children’s Crusade for Higher Education, 301 Promenade Street, Providence, RI 02908-5720.

### **C. Fund Accounting**

The general-purpose financial statements have been prepared from accounts maintained by the State Controller and from reports prescribed by the State Controller and prepared by the component units based on independent accounting systems maintained by those entities.

The state uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The state records its transactions in the fund types and account group described below.

## **STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

### **Notes to General-Purpose Financial Statements**

#### **Governmental Fund Types**

General – is the general operating fund of the state and is used to account for all financial transactions except those required to be accounted for in another fund. Included within this fund are the operations of most jointly financed state – federal programs.

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

Capital Projects – accounts for resources obtained and used for the acquisition, construction or improvement of capital facilities not reported in other governmental or proprietary funds. Such resources are derived principally from the proceeds of general obligation bonds, revenue bonds, lease participation certificates, and operating transfers from the general fund.

#### **Proprietary Fund Types**

Enterprise – is used to account for activities that are financed and operated in a manner similar to private business enterprises (1) where the costs of providing goods or services to the general public on a continuing basis are to be financed or recovered through user charges; or (2) where the periodic determination of revenues earned, expenses incurred and/or net income is appropriate. The State Lottery Fund is the only fund in this category.

Internal Service – is used to account for the financing and providing of specified goods and services, on a centralized basis, for other departments and agencies.

#### **Fiduciary Fund Types**

Trust and Agency – is used to account for transactions related to assets held by the state in a trustee or agency capacity. These include pension trust funds, expendable and nonexpendable trust funds, and agency funds.

#### **Account Group**

General Long-Term Debt Account Group – accounts for all general long-term debt and other long-term obligations of the primary government non accounted for in the proprietary funds. Significant long-term obligations include general obligation bonds, revenue bonds, capital leases and compensated absences.

#### **D. Basis of Accounting**

All governmental fund types, expendable trust funds and governmental component units are accounted for using the current financial resources measurement focus and are maintained on the modified accrual basis of accounting. Under this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) as changes in net current assets.

## **STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

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### **Notes to General-Purpose Financial Statements**

Under the modified accrual basis of accounting, revenues and related receivables are recorded in the accounting period that they become both measurable and available, i.e., earned and collected or expected to be collected within the next 12 months. Tax revenues are recorded by the state as taxpayers earn income (personal and business income taxes) or as sales are made (sales and use taxes) or as cash is received (miscellaneous taxes), net of estimated refunds.

Expenditures are recorded when the related fund liability is incurred. Exceptions to the general modified accrual expenditure recognition criteria include principal and interest on general long-term debt which are recognized when due and compensated absences which are recognized when paid.

On-behalf payments for fringe benefits are reported the same as direct payments to grantees. Therefore, both the state aid to local public school districts and the state's share of the employers' contribution, as required by General Laws, to the Employees' Retirement System for teachers employed by local public school districts are reported as intergovernmental expenditures (operating transfers out for the Central Falls School District) in the general fund.

Unexpended general revenue appropriations, as reappropriated by the Governor, and unexpended restricted revenues and operating transfers in are carried forward at fiscal year end and are available for expenditure in the following fiscal year. The amounts carried forward are reflected in the combined balance sheet as part of fund equity.

All proprietary fund types, pension trust funds, nonexpendable trust funds and proprietary component units are accounted for using the economic resources measurement focus and are maintained on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time related liabilities are incurred. All assets and liabilities associated with the operation of these funds are included on the combined balance sheet. Fund equity is segregated into contributed capital and retained earnings/fund balance.

The financial statements of R.I. Children's Crusade for Higher Education (RICCHE) are prepared in conformity with generally accepted accounting principles using FASB guidance. RICCHE adopted FASB Statement No. 116, "Accounting for Contributions Received and Contributions Made;" FASB Statement No. 117, "Financial Statements of Not-for-Profit Organizations" and FASB Statement No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations."

#### **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.

The state does not pool its cash deposits.

## **STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

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### **Notes to General-Purpose Financial Statements**

#### **F. Funds on Deposit with Fiscal Agent**

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

#### **G. Investments**

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

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

#### **H. Receivables**

Receivables are stated net of allowances for uncollectable and unavailable amounts.

#### **I. Due From Other Governments and Agencies**

Due from other governments and agencies represents principally amounts owed to the state in reimbursement of federal expenditures.

#### **J. Due from/to Other Funds/Component Units/Primary Government**

During the course of operations, numerous transactions occur between individual funds within the primary government and between the primary government and discretely presented component units. These intra-entity receivables and payables are classified as “due from other funds/component units/primary government” or “due to other funds/component units/primary government” in the combined balance sheet.

#### **K. Inventories**

Inventory type items acquired by governmental funds are accounted for as expenditures at the time of purchase. The inventory of the general fund is the face value of food stamps held as of the balance sheet date.

Inventories of governmental component units 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.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

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Inventories of the proprietary funds and proprietary component units are stated at cost.

**L. Deferred Compensation Held By Financial Institutions**

Deferred compensation held by financial institutions is the total current value (contributions plus accumulated earnings) for all participants' accounts as reported by the financial institutions participating in the deferred compensation program. An identical amount is recorded under liabilities as deferred compensation liabilities.

**M. Loans and Real Estate Owned**

The R.I. Depositors Economic Protection Corporation (DEPCO) acquired loans collateralized by real estate, real estate owned and amounts due from receiverships. They are recorded at estimated fair values. Fair value is the amount that can reasonably be expected to be received in a current sale between a willing buyer and a willing seller, that is, other than a forced or liquidation sale. Estimated fair value is determined by appraisals of individual properties or similar procedures which management believes results in a reasonable estimation of the fair values of the assets and are consistent with the methodology used by appraisers. Such methodology is based on estimated cash flows from the collection, sale, orderly liquidation or other realization of these assets, net of any direct operating expenses and selling costs of the assets. In formulating the estimates, management takes into account economic conditions and specific factors applicable to each asset (i.e. financial condition of borrower and guarantor, condition and marketability of collateral or property owned, collection and workout costs and advances, liabilities, bankruptcy and pending litigation, etc.). The estimated cash flows are then discounted at rates believed to result in appropriate market rates of return given the inherent uncertainties associated with these assets. Amounts realized in excess of or less than carrying value are recorded in the period in which the corresponding asset is sold.

Interest on most loans is included in income as earned based upon interest rates applied to unpaid principal. No interest is accrued when loans are greater than 90 days delinquent. When a loan is placed on nonaccrual, all interest previously accrued but not collected is charged against current period income. Subsequent cash receipts on nonaccrual loans are applied to the outstanding principal balance of the loan, or recognized as interest income depending on management's assessment of the ultimate collectability of the loan. Nonaccrual loans may be returned to full accrual status when principal and interest payments are not delinquent.

DEPCO's loans and real estate owned are concentrated in the state. Repayment of loans and sales of other real estate is in part dependent upon economic conditions of the area.

**N. Fixed Assets**

The cost of fixed assets acquired by governmental fund types is accounted for as an expenditure upon purchase.

A statement of general fixed assets is not included herein since the information required to prepare such a statement has not been fully developed.

## **STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

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### **Notes to General-Purpose Financial Statements**

Fixed assets used in the operation of internal service funds are generally financed by state appropriations to the user departments and agencies. Accordingly, the cost of these assets and related depreciation is not reflected in the financial statements of those internal service funds. However, certain internal service funds use capital leases to finance certain assets. Since the lease costs are recovered through service charges, such assets and related debt are accounted for within the internal service funds. These assets are depreciated over their estimated useful lives.

The cost of fixed assets used by the enterprise fund is capitalized and depreciation is provided on a straight-line basis over the estimated useful lives of the assets.

The cost of fixed assets used by the component units is capitalized and depreciation is provided on a straight-line basis over the estimated useful lives of the assets. With the exception of the R.I. Economic Development Corporation and the Narragansett Bay Water Quality Management Commission, interest is not capitalized.

#### **O. Other Assets**

Other assets include, among other things, deferred bond issuance and financing costs, present value of future scholarships pledged by institutions of higher learning, airport noise mitigation assets, restricted assets held in trust, and property held for sale and development.

#### **P. Rentals Due**

Rentals due for payment of principal and current interest on revenue bonds represent amounts due as required under several lease arrangements relating to capital projects.

#### **Q. Other Liabilities**

Other liabilities include, among other things, deferred scholarships, landfill post-closure costs, and deposits pending distribution.

#### **R. Bonds Payable**

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

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

#### **S. 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

## **STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

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### **Notes to General-Purpose Financial Statements**

by the R.I. Refunding Bond Authority, the R.I. Convention Center Authority, the R.I. Economic Development Corporation, or by a trustee pursuant to a lease/purchase agreement with the state (See Note 8(D)).

#### **T. Accrued Liabilities**

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

#### **U. Fund Equity**

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from the federal or state governments. Depreciation expense is recognized on assets acquired or constructed with these funds. Certain funds record transfers from contributed capital to retained earnings in an amount equal to the annual depreciation charge.

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.

#### **V. Memorandum Only – Total Columns**

Total columns on the general-purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns are not comparable to a consolidation. Intra-entity eliminations have not been made in the aggregation of this data.

#### **W. 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 recorded in the General Long-Term Debt Account Group and for proprietary fund types, they are recorded as fund liabilities.

#### **X. New Accounting Pronouncements**

During the fiscal year ended June 30, 1998, the state implemented GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" and GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans". The implementation of GASB Statement No. 31 resulted in reporting investments at fair value on the balance sheet and changes in fair value of investments as revenue in the operating statements. GASB Statement No. 32 required that Section 457 deferred compensation plans maintained by the state must be held in a trust, custodial account or annuity contract for the exclusive benefit of the

## **STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

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### **Notes to General-Purpose Financial Statements**

employees. Most of the plans maintained by the state met the criteria of an annuity contract. As a result, a reduction in Trust and Agency Fund total assets and total liabilities of \$102, 110,318 occurred as of July 1, 1997. The amount reported on the general-purpose financial statements for deferred compensation assets and liabilities at June 30, 1998 represents those plans that did not meet the criteria.

#### **Y. Change in the Reporting Entity**

In 1994, the state implemented GASB Statement No. 14, “The Financial Reporting Entity” and concluded that the Beacon Mutual Insurance Company (BMIC), among others, was a component unit of the state. In 1998, management reviewed its relationship with BMIC and determined that BMIC no longer met the criteria as set forth in GASB 14.

On July 1, 1997, the R.I. Public Buildings Authority, formerly a blended component unit, ceased to exist as an entity and its functions, powers, rights, duties and liabilities were transferred to the R.I. Refunding Bond Authority.

#### **Note 2. Budgeting and Budgetary Control**

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

The legal level of budgetary control, i.e. the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is as follows:

- (1) For general revenue appropriations, it is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch.
- (2) For federal grants, it is the total of all grants available to a department under the same Catalog of Federal Domestic Assistance (CFDA) number. 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.
- (3) For restricted programs and operating transfers in, it is the account level. By its very nature, a restricted account is created by statute for a special purpose and management cannot reassign the resources without special approval. Operating transfers in are accounted for separately because they are reported under “Other Sources” in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types, Expendable Trust Funds and Discretely Presented Governmental Component Units.

## **STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

### **Notes to General-Purpose Financial Statements**

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

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

For the fiscal year ended June 30, 1998 expenditures exceeded appropriations in the following departments and agencies (expressed in thousands):

#### **General Fund**

<u>Department – Division Grant or Program</u>	<u>CFDA Number</u>	<u>Account Number</u>	<u>Amount</u>
<u>Administration</u>			
General revenue appropriations:			
Accounts and Control			\$ 29
Human Resources			211
Taxation			431
Central Services			422
Library and Information Services			186
Federal grants:			
Economic Development – State and Local Economic Development Planning	11.305		72
Community Development Block Grants/State's Program	14.228		62
Emergency Shelter Grants Program	14.231		69
Environmental Education and Training Program	66.950		7
Restricted programs:			
Proceed from Lease/Sale of Property to RIPBA		2410-80100	87
Workers Compensation Fraud Prevention Unit		2443-80100	6
DEPCO Escrow Account		2450-80200	349
Indirect Cost Recovery – Child Support Enforcement		2450-80400	31
Integrated Resource Plan		2460-80400	165
Regional Library for Blind & Handicapped		2464-80100	2
RI Independent Insurance Grant		2480-81000	2
Operating transfers in:			
Debt Service Special Account		2480-90200	5,407
FHWA – Planning – Systems Planning		2472-90100	495
FHWA – T2 – Systems Planning		2472-90200	63
Business Regulation			
General revenue appropriations:			
Securities Regulation			8
Racing and Athletics			11

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

General Fund

<u>Department – Division Grant or Program</u>	<u>CFDA Number</u>	<u>Account Number</u>	<u>Amount</u>
Labor and Training			
General revenue appropriations:			
Workforce Regulation and Safety			57
Labor Relations Board			6
Restricted programs:			
Donley Rehab Center & Second Injury Fund		1652-80000	26
Claims Monitoring & Data Processing Unit		1652-80201	14
Donley Center Operations – Workers Compensation		1652-80300	154
Self Insurance Operations		1652-81001	12
Legislature			
Restricted programs:			
Audit of Federal Assistance Programs		2626-80100	251
Secretary of State			
General revenue appropriations:			
Administration			21
General Treasurer			
General revenue appropriations:			
RI Refunding Bond Authority			7
Restricted programs:			
Violent Crimes Compensation		2310-80300	1,903
Children, Youth and Families			
General revenue appropriations:			
Mental Health Services			405
Child Welfare – General			2,054
Federal grants:			
Special Education – Grants to States	84.027		13
Adoption Assistance	93.659		1,144
Other Expenditures of Federal Awards			6
Elderly Affairs			
Federal grants:			
Senior Community Service Employment Program	17.235		58
Employment and Training Assistance – Dislocated Workers	17.246		1
Special Programs for the Aging – Title VII, Chapter 3 – Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041		5
Special Programs for the Aging – Title VII, Chapter 2 – Long Term Care			
Ombudsman Services for Older Individuals	93.042		5
Health Care Financing Research, Demonstrations and Evaluations	93.779		12
Operating transfers in:			
JTPA Title II		3260-90800	161
Health			
General revenue appropriations:			
Central Management			2
State Medical Examiner			90
Health Services Regulation			18
Health Laboratories			132
Substance Abuse – General			1
Federal grants:			
Consultation Agreements	17.504		4
State Public Water System Supervision	66.432		59
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118		99
Demonstration Grants for the Prevention of Alcohol and Drug Abuse among high risk population	93.144		22
Child Support Enforcement	93.563		1
Child Care and Development Block Grant	93.575		83
Grants to States for Operation of Offices of Rural Health	93.913		2

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

General Fund

<u>Department – Division Grant or Program</u>	<u>CFDA Number</u>	<u>Account Number</u>	<u>Amount</u>
Health (continued)			
Restricted programs:			
Forfeited Property Retained – Drug Control		1143-80100	11
Equitable Sharing Decision – Seizures and Forfeitures		1143-80200	1
Infant – Child Immunization Account		1161-80100	108
School Health Plan		1192-80100	107
Human Services			
General revenue appropriations:			
Individual and Family Support			194
Veterans Affairs			87
S.S.I. Program			115
Temporary Assistance for Needy Families			388
Food Stamp Replacement for Immigrants – State Program			604
Federal grants:			
State Administrative Matching Grants for Food Stamp Program	10.561		824
Emergency Food Assistance Program – Administrative Costs	10.568		12
Veterans State Nursing Home Care	64.015		73
Supported Employment Services for Individuals with Severe Disabilities	84.187		28
Family Support Payments to States – Assistance Payments	93.560		23
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		269
Restricted programs:			
Indirect Cost Recovery – Central Management		1210-80101	434
Medicaid Provider Participation		1260-80200	9
Mental Health, Retardation and Hospitals			
General revenue appropriations:			
Central Management			26
Services for the Developmentally Disabled – General			1,647
Integrated Mental Health Services			85
Hospital and Community Rehabilitation			855
Office of the Child Advocate			
Federal grants:			
Medical Assistance Program	93.778		14
Commission for Human Rights			
Federal grants:			
Fair Housing Assistance Program – State and Local	14.401		33
Fair Housing Initiatives and Administrative Enforcement Initiative Program	14.408		11
Employment Discrimination – State and Local Fair Employment Practices Agency Contract	30.002		8
Elementary and Secondary Education			
General revenue appropriations:			
State Aid – State Support of Local School Operations			21
Rhode Island School for the Deaf			190
Deputy Program and Field Services			12
Instruction			22
School Improvements			16
Special Needs Services			5
Teacher Preparation and Development			2
Assessment			38
Commissioner’s Office			20
Human Resources			129

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

General Fund

<u>Department – Division Grant or Program</u>	<u>CFDA Number</u>	<u>Account Number</u>	<u>Amount</u>
Elementary and Secondary Education (continued)			
Federal grants:			
National School Lunch Program	10.555		50
Child and Adult Care Food Program	10.558		900
Bilingual Education	84.003		69
Civil Rights Training and Advisory Services	84.004		2
Migrant Education – Basic State Grant Program	84.011		89
Special Education – Special Studies for Persons with Disabilities	84.159		2
Eisenhower Professional Development State Grants	84.281		1,203
Innovative Education Program Strategies	84.298		1,588
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104		20
Disabilities Prevention	93.184		9
Restricted programs:			
Education Partnership Fund – Career & Technical		1440-80333	6
Operating transfers in:			
Greater RI Job Training Administration		1430-90100	10
Office of Higher Education			
General revenue appropriations:			
Public Higher Education			1
Federal grants:			
National Early Intervention Scholarship and Partnership	84.272		19
Eisenhower Professional Development State Grants	84.281		241
Rhode Island State Council on the Arts			
General revenue appropriations			10
Federal grants:			
Promotion of The Arts – Partnership Agreements	45.025		7
Atomic Energy Commission			
General revenue appropriations			4
Restricted programs:			
URI Sponsored Research		2820-85511	3
Historical Preservation and Heritage Commission			
Federal grants:			
Historic Preservation Fund Grants-In-Aid	15.904		15
Restricted Programs:			
Survey and Planning – Restricted Fund		2062-80100	1
Historic Preservation Easement Fund		2062-80300	22
Historic Preservation Revolving Fund		2062-80500	65
Rhode Island Public Telecommunications Authority			
General revenue appropriations			41
Restricted programs:			
Private Contributions – Educational TV		2875-80200	2
Corporation for Public Broadcasting – Community Service Grant		2875-80300	8
Attorney General			
General revenue appropriations:			
Criminal			46
General			189
Federal grants:			
Other Expenditures of Federal Awards			1
Restricted programs:			
Consumer Protection/Education		2211-80800	14

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

General Fund

<u>Department – Division Grant or Program</u>	<u>CFDA Number</u>	<u>Account Number</u>	<u>Amount</u>
Corrections			
General revenue appropriations:			
Central Management			410
Federal grants:			
Adult Education – State Grant Program	84.002		11
Governor’s Justice Commission			
Federal grants:			
Law Enforcement Assistance – Narcotics and Dangerous Drugs-			
Laboratory analysis	16.001		270
National Institute of Justice Visiting Fellowships	16.561		9
Judicial			
General revenue appropriations:			
Supreme Court			233
Superior Court			220
Administrative Adjudication			210
Restricted programs:			
Indirect Cost Recovery – Family Court		2729-80100	57
Operating transfers in:			
Traffic Court Study		2740-90100	25
Military Staff			
General revenue appropriations:			
Emergency Management			14
Federal grants:			
Community Assistance Program – State Support Services Element	83.105		20
State Police			
Operating transfers in:			
Traffic Enforcement		2070-90500	27
Fire Safety and Training Academy			
Federal grants:			
Emergency Management – State and Local Assistance	83.534		11
Public Defender’s Office			
Federal grants:			
Law Enforcement Assistance – Narcotics and Dangerous Drugs-			
Laboratory analysis	16.001		197
Byrne Formula Grant Program	16.579		102
Sheriffs of Several Counties			
General revenue appropriations			36
Environmental Management			
General revenue appropriations:			
Natural Resources			125
Environmental Protection			214
Federal Grants:			
Inspection Grading and Standardization	10.162		2
Coastal Zone Management Estuarine Research Reserves	11.420		105
Water Pollution Control – State and Interstate Program Support	66.419		50
Water Pollution Control – Lake Restoration Cooperative Agreements	66.435		6
Wastewater Operator Training Grant Program (Technical Assistance)	66.467		8
Pollution Prevention Grants Program	66.708		22
State Underground Storage Tanks Program	66.804		277
Solid Waste Management Assistance	66.808		1
Restricted programs:			
Boat Registration		1721-80100	68
Water & Air Protection Program		1754-80600	70
Water & Air Protection – Water Resources		1754-80601	183
Underground Storage Tank Trust Fund Reimbursement		1758-80100	79

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

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Special Revenue Funds

<u>Department – Division Grant or Program</u>	<u>CFDA Number</u>	<u>Account Number</u>	<u>Amount</u>
Employment Insurance			
Federal Grants:			
Labor Force Statistics	17.002		23
Unemployment Insurance	17.225		209
Trade Adjustment Assistance – Workers	17.245		1,214
Disabled Veterans Outreach Program	17.801		15
Intermodal Surface Transportation			
Federal Grants:			
Public Transportation for Nonurbanized Areas	20.509		231
Restricted programs:			
Reconstruct Sheridan Pedestrian Bridge		5332-80700	972

**Note 3. Cash, Cash Equivalents and Investments**

**Cash Deposits**

Primary Government

At June 30, 1998, the carrying amount of the state’s cash deposits was \$21,551,706 and the bank balance was \$28,015,308. Of the bank balance, \$1,275,724 was covered by federal depository insurance. The remaining amount, \$26,739,584 was uninsured and uncollateralized.

Component Units

At June 30, 1998, the carrying amount of the component units’ cash deposits was \$207,279,828 and the bank balance was \$200,651,451. Of the bank balance, \$3,560,988 was covered by federal depository insurance and \$103,096,853 was collateralized with investments held by a bank in a component unit’s name. The remaining amount, \$93,993,610 was uninsured and uncollateralized. The carrying amount and the bank balance include \$300,000 of certificates of deposit.

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the state, its agencies or governmental subdivisions of the state, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the primary government was required to be collateralized at June 30, 1998.

**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

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

reasonable income and the preservation of their capital.”

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

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

The state’s investments (expressed in thousands) are categorized in the following table to give an indication of the level of risk assumed by the entity at June 30, 1998.

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

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

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

**Primary Government**

	<u>1</u>	<u>Category</u> <u>2</u>	<u>3</u>	<u>Fair Value</u>
U.S. Government and Agency Securities	\$ 1,692,097	\$ 584	\$ 0	\$ 1,692,681
Commercial Paper	44,906			44,906
Repurchase Agreements	71,073			71,073
Corporate Bonds	273,408	62		273,470
Equity Securities	3,083,094	1,376		3,084,470
Foreign Securities	730,659	0	0	730,659
	<u>\$ 5,895,237</u>	<u>\$ 2,022</u>	<u>\$ 0</u>	<u>5,897,259</u>
Money Market Mutual Funds				310,195
Emerging Markets Equity Mutual Funds				69,530
Real Estate and Venture Capital Limited Partnership				167,390
Other				<u>16,318</u>
Total				6,460,692
Less amount classified as cash equivalents				<u>379,786</u>
Total Investments				<u>\$ 6,080,906</u>

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

**Component Units**

	<u>1</u>	<u>Category</u> <u>2</u>	<u>3</u>	<u>Fair Value</u>
U.S. Government and Agency Securities	\$ 111,994	\$ 225,930	\$ 24,125	\$ 362,049
Commercial Paper	9,386		1,964	11,350
Repurchase Agreements	75,890	1,237	45,087	122,214
Equity Securities	44			44
Other	200	0	6,735	6,935
	<u>\$ 197,514</u>	<u>\$ 227,167</u>	<u>\$ 77,911</u>	<u>502,592</u>
Corporate Bonds				3,000
Money Market Mutual Funds				18,367
Investment Agreements				257,176
Investments of the R.I. Children's Crusade for Higher Education				9,710
Other				<u>14,416</u>
Total				805,261
Less amount classified as cash equivalents				<u>209,032</u>
Total Investments				<u>\$ 596,229</u>

**Derivatives**

Primary Government

The Employees' Retirement System (System) may enter into forward foreign currency contracts. These contracts involve risk in excess of the amount reflected in the balance sheet. The face or contract amount in U.S. dollars reflects the total exposure the System has in that particular currency contract. 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.

The System may invest in interest-only (IO) and principal-only strips (PO) (forms of mortgage-backed securities) 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 mortgages, 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. If actual prepayment rates are lower than anticipated, the time remaining until the return of principal is increased. There were no IO strips or PO strips at June 30, 1998.

Component Units

The R.I. Health and Educational Building Corporation's investment holdings include derivatives. They are used in part to maximize yields and in part to hedge against a rise in interest rates. These securities are based on cash flows from interest payments on collateralized mortgage obligations. Therefore, they are sensitive to pre-payments by mortgages, which may result from a decline in interest rates.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
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**Cash and Cash Equivalents**

Primary Government

Cash and cash equivalents of \$401,338,000 consists of the \$21,552,000 cash carrying amount and \$379,786,000 of investments determined to be cash equivalents.

Component Units

Cash and cash equivalents of \$416,312,000 consists of the \$207,280,00 cash carrying amount and \$209,032,000 of investments determined to be cash equivalents.

**Note 4. Receivables**

Receivables at June 30, 1998 (expressed in thousands) consist of the following:

	<u>Taxes</u>	<u>Accounts</u>	<u>Accrued Interest</u>	<u>Notes and Loans</u>	<u>Contributions</u>	<u>Allowance for Uncollectable and Unavailable Amounts</u>	<u>Total</u>
Primary Government:							
General Fund	\$ 130,281	\$ 7,333	\$ 0	\$ 0	\$ 0	\$ (50,402)	\$ 87,212
Special revenue funds	6,173	3,662	1,369			(4,346)	6,858
Capital projects funds			52				52
Enterprise fund		7,244				(222)	7,022
Internal service fund		1,287		47			1,334
Trust and agency funds	<u>5,628</u>	<u>8,018</u>	<u>1</u>	<u>0</u>	<u>20,932</u>	<u>(10,750)</u>	<u>23,829</u>
Total Primary Government	142,082	27,544	1,422	47	20,932	(65,720)	126,307
Component Units:							
Governmental		22,959	25	15,373		(4,878)	33,479
Proprietary	<u>0</u>	<u>66,020</u>	<u>27,229</u>	<u>1,889,116</u>	<u>0</u>	<u>(29,912)</u>	<u>1,952,453</u>
Total Receivables	<u>\$ 142,082</u>	<u>\$ 116,523</u>	<u>\$ 28,676</u>	<u>\$1,904,536</u>	<u>\$ 20,932</u>	<u>\$ (100,510)</u>	<u>\$2,112,239</u>

**Component Units**

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

**Other**

Amount reported in the special revenue funds as due from other governments and agencies, \$26,489,000, is net of \$19,416,000, which is considered unavailable to meet current year expenditures.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
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Note 5. Intra-Entity Receivables and Payables

Intra-entity receivables and payables (operations – due from/due to and working capital loans – loan to/loan from), as of June 30, 1998, are summarized below (expressed in thousands):

<u>Fund Type/Fund</u>	Due from Other Funds	Due to Other Funds	Due from Component Units	Due to Component Units
General	\$ 2,213	\$ 13,623	\$ 0	\$ 8,443
Special Revenue:				
Employment Insurance – Federal Programs	507	54		
Employment Insurance – Job Development		8		
Employment Insurance – Interest		112		
Employment Insurance – Tardy	53			
R.I. Temporary Disability Insurance	1	261		
Intermodal Surface Transportation	376	1,028	659	355
Providence River Relocation-Memorial Boulevard Ext	9	67	0	0
Subtotal	<u>946</u>	<u>1,530</u>	<u>659</u>	<u>355</u>
Capital Projects:				
Bond Capital	0	23	0	0
Subtotal	<u>0</u>	<u>23</u>	<u>0</u>	<u>0</u>
Enterprise:				
State Lottery	0	1,171	0	0
Subtotal	<u>0</u>	<u>1,171</u>	<u>0</u>	<u>0</u>
Internal Service:				
Central Utilities		341		
Central Services	341	0	0	0
Subtotal	<u>341</u>	<u>341</u>	<u>0</u>	<u>0</u>
Trust and Agency:				
Employees' Retirement System	13,188	0	0	0
Subtotal	<u>13,188</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 16,688</u>	<u>\$ 16,688</u>	<u>\$ 659</u>	<u>\$ 8,798</u>
	Due from Other Funds	Due to Other Funds	Due to Primary Government	Due from Primary Government
Component Units:				
Governmental:				
University of Rhode Island	\$ 15,533	\$ 15,533	\$ 0	\$ 0
Rhode Island College	874	874		
Community College of Rhode Island	311	311		
Central Falls School District	673	673	0	0
Subtotal	<u>17,391</u>	<u>17,391</u>	<u>0</u>	<u>0</u>
Proprietary:				
R.I. Economic Development Corporation				18,446
R.I. Depositors Economic Protection Corp.				8,443
R.I. Public Transit Authority	0	0	0	355
Subtotal	<u>0</u>	<u>0</u>	<u>0</u>	<u>27,244</u>
	<u>\$ 17,391</u>	<u>\$ 17,391</u>	<u>\$ 0</u>	<u>\$ 27,244</u>
Reconciliation				
<u>Fund Type/Fund</u>			Due to Component Units	Due from Primary Government
Amounts recorded			\$ 8,798	\$ 27,244
Capital Projects:				
Bond Capital			18,446	0
			<u>\$ 27,244</u>	<u>\$ 27,244</u>

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**Notes to General-Purpose Financial Statements**

The R.I. Economic Development Corporation (RIEDC) reported \$18,446,000 as due from the primary government because the state issued general obligation bonds earmarked for a RIEDC project. The Intermodal Surface Transportation Fund reported \$659,000 due from RIEDC for certain project costs. RIEDC did not report a corresponding liability because it was not aware of it at the time its financial statements were prepared.

<u>Fund Type/Fund</u>	Loans to Other Funds	Loans from Other Funds
General	\$ 2,295	\$ 0
Capital Projects:		
Certificates of Participation	0	59
Subtotal	0	59
Internal Service:		
Workers' Compensation		650
Central Services		516
Central Warehouse		570
Central Utilities		400
Special Facilities	0	100
Subtotal	0	2,236
Total	\$ 2,295	\$ 2,295

**Note 6. Fixed Assets**

The fixed assets by fund type consist of the following (expressed in thousands):

	Land and Improvements	Structures and Improvements	Machinery and Equipment	Construction In Progress	Accumulated Depreciation	Net Fixed Assets
Estimated useful lives	-	15-100	5-10	-	-	-
Primary Government:						
Enterprise fund	\$ 0	\$ 1,572	\$ 615	\$ 0	\$ (1,568)	\$ 619
Internal service funds	0	4,313	1,365	0	(1,768)	3,910
Total Primary Government	0	5,885	1,980	0	(3,336)	4,529
Component Units:						
Governmental	526	1,811	286		(570)	2,053
Proprietary	115,134	820,368	91,541	63,713	(238,612)	852,144
Total	\$ 115,660	\$ 828,064	\$ 93,807	\$ 63,713	\$ (242,518)	\$ 858,726

The R.I. Economic Development Corporation capitalized interest expense of approximately \$2,209,000. The Narragansett Bay Water Quality Management District Commission capitalized approximately \$21,000 of interest expense as a component of the cost of construction. For the Proprietary Component Units, actual nonoperating interest expense was \$50,433,700 which represents an increase of \$2,230,000 over the amount reported in Combined Statement of Revenues, Expenses, and Changes in Fund Equity – All Proprietary Fund Types, Similar Trust Funds, and Discretely Presented Proprietary Component Units.

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**Note 7. Long-Term Obligations**

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

**A. Bonds Payable**

At June 30, 1998, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government		Governmental Component Units		Proprietary Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
1999	\$ 59,579	\$ 51,963	\$ 853	\$ 2,093	\$ 124,902	\$ 166,402
2000	63,006	47,209	1,049	2,055	91,125	160,197
2001	64,778	47,741	1,112	2,005	97,047	154,843
2002	68,587	41,955	1,200	2,022	94,071	149,069
2003	70,672	38,535	1,209	1,992	99,668	143,760
Later Years	629,431	219,899	35,752	23,342	2,399,543	1,785,803
	<u>\$ 956,053</u>	<u>\$ 447,302</u>	<u>\$ 41,175</u>	<u>\$ 33,509</u>	<u>\$ 2,906,356</u>	<u>\$ 2,560,074</u>

**Primary Government**

Current interest bonds of the state are serial bonds with interest payable semi-annually and multi-modal bonds that were initially issued at the weekly rate mode but can be changed by the issuer (the state) to a daily rate mode, a commercial paper rate mode or a term rate mode. Interest requirements for the multi-modal variable rate bonds are not reflected in the amortization table shown above since the amounts are indeterminable. Capital appreciation bonds are designated as College and University Savings Bonds. The College and University Savings Bonds mature in varying amounts to 2010 with all interest payable at maturity.

Revenue bonds of the R.I. Refunding Bond Authority (RIRBA) are secured by lease rentals payable by the state pursuant to lease agreements relating to projects financed by the authority and leased to the state. Proceeds from the RIRBA bonds have been used (1) to loan funds to the state to effect the advance refunding of general obligation bonds issued by the state in 1984; (2) to finance construction and renovation of certain buildings, and (3) to finance acquisition of equipment used by various state agencies.

**Governmental Component Units**

Revenue bonds of the Governmental Component Units 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 of the Governmental Component Units also include amounts borrowed under a loan and trust agreement between the R.I. Health and Educational Building Corporation (RIHEBC) (a proprietary component unit) and the Board of Governors for Higher Education acting for URI, RIC, and CCRI. The agreement provides for RIHEBC's issuance of the bonds with a loan of the

## **STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

### **Notes to General-Purpose Financial Statements**

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.

#### **Proprietary Component Units**

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).

Revenue bonds of the R.I. Convention Center Authority (RICCA) were issued to (a) refund bonds and notes, (b) pay construction costs, (c) pay operating expenses, (d) pay interest on revenue bonds prior to completion of construction, (e) fund a debt service reserve and (f) pay costs of issuance. The revenue bonds are secured by all rents receivable, if any, under a lease and agreement between the RICCA and the state covering all property purchased by the RICCA. It also covers a mortgage on facilities and land financed by the proceeds of the revenue bonds and amounts held in various accounts into which bond proceeds were deposited.

The R.I. Depositors Economic Protection Corporation (DEPCO) has special obligation bonds outstanding at June 30, 1998. They are payable from amounts, if any, appropriated annually to and deposited in DEPCO's Special Revenue Fund created by statute and amounts realized from the liquidation of assets and other activity (See Note 22 – Related Party Transactions). The proceeds of the bonds were used to pay deposit liabilities of certain financial institutions in the state which had been closed when their private insurer, Rhode Island Share and Deposit Indemnity Corporation, failed.

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.

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

### Notes to General-Purpose Financial Statements

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

Bonds of the R.I. Water Resources Board Corporate were issued to finance the construction of certain water facilities leased to and operated by the City of Providence.

A summary of general obligation bonds authorized by the voters and unissued (expressed in thousands) at June 30, 1998 is shown below.

	Authorized and Unissued <u>July 1</u>	<u>Authorized</u>	<u>Issued</u>	<u>Extenguished</u>	Authroized and Unissued <u>June 30</u>
General Obligation Bonds Supported by Taxes:					
Capital Development Plan – 1982	\$ 2	\$ 0	\$ 0	\$ 2	\$ 0
Capital Development Plan – 1985	4			4	0
Capital Development Plan – 1986	4,329			4	4,325
Capital Development Plan – 1988	1,338			1	1,337
Capital Development Plan – 1989	8,390				8,390
Capital Development Plan – 1990	25,636			1	25,635
Capital Development Plan – 1994	25,690				25,690
Capital Development Plan – 1996	165,578		38,500		129,078
R.I. Economic Development Fund	450				450
Heritage Capital Development Fund	779				779
Underground Storage Tank Replacement					
Revolving Loan Fund	1,307				1,307
Narragansett Bay Water Quality Management District Commission Fund	34,641				34,641
Clean Water Act Environmental Trust Fund	4,740				4,740
Open Space and Recreational Area Fund	10,188				10,188
Drinking Water Protection Fund	4,235				4,235
Rhode Island Aqua Fund	645				645
Clean Water Finance Agency – Water Pollution Revolving Loan Fund	<u>24,895</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>24,895</u>
General Obligation Bonds Supported by Taxes	312,847	0	36,500	12	276,335
Blackstone Valley District Commission 1986, Series C	940				940
Narragansett Bay Water Quality Management District Commission Loan of 1980	574				574
R.I. Industrial-Recreational Building Authority	<u>80,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>80,000</u>
Total	<u>\$ 394,361</u>	<u>\$ 0</u>	<u>\$ 36,500</u>	<u>\$ 12</u>	<u>\$ 357,849</u>

In accordance with the General Laws, unissued bonds are subject to extinguishment seven years after the debt authorization was approved unless extended by the General Assembly.

The amount of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority is limited by mortgage balances that is has insured, \$33,639,352 at June 30, 1998 (See Note 22). The insured mortgages are guaranteed by the state.

See Note 12 for information concerning contingent liabilities relating to "Moral Obligation" bonds.

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**Notes to General-Purpose Financial Statements**

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**B. Notes Payable**

Notes payable (expressed in thousands) at June 30, 1998 are as follows:

Component Units – Governmental Rhode Island College note payable to the federal government with interest at 5.5% payable in semi-annual installments of principal and interest through 2024.	\$ 2,409
Component Units – Proprietary R.I. Housing and Mortgage Finance Corporation bank notes, 5% to 6.71% interest, payable through 2003.	\$ 10,626
Commission, mortgages note, interest rate is 81% of prime, payable through 2001.	411
R.I. Resource Recovery Corporation landfill lease notes, 4% to 5.87% interest	16,150
R.I. Higher Education Assistance Authority notes payable to the Student Loan Marketing Association, interest is 1.5% above the Treasury Bill rate, through 2001.	678
R.I. Convention Center Authority notes payable under management agreements	2,053
	<u>\$ 29,918</u>

**C. Loans Payable**

Loans payable of the Proprietary Component Units represent liabilities of the Narragansett Bay Water Quality Management District Commission (NBC) to the City of Providence (\$1,100,433), to the R.I. Clean Water Finance Agency (RICWFA) (\$39,703,660) and to the R.I. Refunding Bond Authority (\$75,000). The amounts due to the city are liabilities assumed by NBC upon the acquisition of the city's sewage treatment facilities. The loans payable to the RICWFA are for projects financed by that agency.

**D. Obligations Under Capital Leases**

**Primary Government**

The state's obligation to the R.I. Convention Center Authority (RICCA) consists of RICCA's outstanding debt at June 30, 1998 based on a lease and agreement between RICCA and the state in effect at that date. The state makes lease payments to pay the operating expenses of RICCA and the debt service on its obligations to the extent they are not supported by RICCA revenues.

The state has entered into capital lease agreements with financial institutions which have issued certificates of participation (COP). These financing arrangements have been used by the state to acquire, construct or renovate facilities and acquire equipment. The COP mature in varying amounts through 2017 with interest rates ranging from 4.00% to 6.00%.

The state's obligation under capital leases at June 30, 1998 consists of the present value of future minimum lease payments less any funds available in debt service reserve funds. The portion of the state's obligation under capital leases that is payable from general fund appropriations and capital leases not

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recorded in proprietary fund types is reflected in the general long-term debt account group at June 30, 1998.

The 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, 1998. Interest for variable rate COP is not reported since the amount is indeterminable.

Fiscal Year Ending June 30	RICCA	COP	Total
1999	\$ 23,955	\$ 8,080	\$ 32,035
2000	23,955	8,931	32,886
2001	23,955	8,954	32,909
2002	23,952	9,139	33,091
2003	23,952	8,872	32,824
Later Years	<u>506,108</u>	<u>101,854</u>	<u>607,962</u>
Total future minimum lease payments	625,877	145,830	771,707
Amount representing interest	<u>(289,907)</u>	<u>(45,275)</u>	<u>(335,182)</u>
Present value of future minimum lease payments	<u>\$ 335,970</u>	<u>\$ 100,555</u>	<u>\$ 436,525</u>

**Component Units**

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

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

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The following is a summary of the material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 1998.

Fiscal Year Ending June 30	Governmental					Proprietary	
	URI	RIC	CCRI	RIEDC	RIPTCA		
1999	\$ 736	\$ 687	\$ 336	\$ 3,626	\$ 802		
2000	442	686	351	3,690	799		
2001	343	664	281	3,502	795		
2002	52	444	157	3,466	791		
2003	52	439	156	3,496	788		
Later Years	<u>86</u>	<u>2,794</u>	<u>3,282</u>	<u>27,931</u>	<u>6,193</u>		
Total future minimum lease payments	1,711	5,714	4,563	45,711	10,168		
Amount representing interest	<u>(200)</u>	<u>(1,720)</u>	<u>(1,986)</u>	<u>(14,446)</u>	<u>(3,682)</u>		
Present value of future minimum lease payments	\$ <u>1,511</u>	\$ <u>3,994</u>	\$ <u>2,577</u>	\$ <u>31,265</u>	\$ <u>6,486</u>		

**E. Compensated Absences**

State employees are granted vacation and sick leave in varying amounts based upon years of service. At the termination of service, the employee is paid for accumulated unused vacation leave. Also, the employee is entitled to payment of a percentage of accumulated sick leave at retirement. Payment is calculated at their then-current rate of pay.

**F. Other Long-Term Liabilities**

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

Also included are the long-term debt portion of the violent crimes' claims and an advance from the Federal Highway Right of Way Revolving Fund that will be used to acquire land and rights-of-way for the Quonset access road project. Repayment of the advance has been budgeted for fiscal year 2002 with federal funds allowable under federal regulations (23 CFR Subpart G712.701 to 712.703).

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**G. Changes in General Long-Term Debt**

During the fiscal year ended June 30, 1998, the following changes (expressed in thousands) occurred in general long-term debt.

**Primary Government**

	Balance <u>July 1</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30</u>
General obligation bonds payable:				
Current interest bonds	\$ 730,115	\$ 68,678	\$ (72,055)	\$ 726,738
Capital appreciation bonds	45,116		(4,222)	40,894
Accreted interest on capital appreciation bonds	32,160	5,776	(3,216)	34,720
Revenue bonds – RIRBA	<u>208,115</u>	<u>39,875</u>	<u>(59,570)</u>	<u>188,420</u>
Bonds payable	<u>1,015,506</u>	<u>114,329</u>	<u>(139,063)</u>	<u>960,772</u>
Lease obligations to the RICCA	341,880		(5,910)	335,970
Lease obligations to the RIEDC	30,365		(30,365)	
Certificates of Participation (COP)	<u>56,735</u>	<u>46,630</u>	<u>(2,810)</u>	<u>100,555</u>
Obligation under capital leases	<u>428,980</u>	<u>46,630</u>	<u>(39,085)</u>	<u>436,525</u>
Compensated absences	57,254	2,632		59,886
Other long-term liabilities	<u>613</u>	<u>10,993</u>	<u>0</u>	<u>11,606</u>
	<u>\$1,502,353</u>	<u>\$ 174,584</u>	<u>\$ (178,148)</u>	<u>\$ 1,498,789</u>

The beginning balance of the revenue bonds of the RIRBA has been changed as a result of adding the beginning balance of the former R.I. Public Buildings Authority.

In prior years, lease obligations to the R.I. Convention Center Authority (RICCA) were reported net of amounts held in debt service reserve funds. The RICCA purchased surety bond coverage to meet debt service reserve fund requirements. The debt service reserves released as a result of purchasing surety bond coverage were used to reduce the appropriations required from the state for the fiscal year ended June 30, 1998. Therefore, the beginning balance of lease obligations to the RICCA has been increased by \$21,035,000.

**Governmental Component Units**

	Balance <u>July 1</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30</u>
Compensated absences	\$ 31,332	\$ 3,631	\$ (2,009)	\$ 32,954
Obligations under capital leases	9,104	515	(1,385)	8,234
Notes payable	2,450		(41)	2,409
Loans payable	82		(13)	69
Bonds payable	39,865	2,125	(815)	41,175
Other liabilities	<u>2,027</u>	<u>0</u>	<u>(520)</u>	<u>1,507</u>
	<u>\$ 84,860</u>	<u>\$ 6,271</u>	<u>\$ (4,783)</u>	<u>\$ 86,348</u>

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**H. Defeased Debt**

In prior years, the state and its component units defeased certain general obligation bonds and revenue bonds, respectively, and the state defeased COP by placing the proceeds of the new bonds or COP in irrevocable trusts to provide for all future debt service payments on the old bonds and COP. Accordingly, the trust account assets and the liabilities for the defeased bonds and COP are not included in the general-purpose financial statements. On June 30, 1998, the following bonds and COP outstanding (expressed in thousands) are considered defeased:

Primary government:	<u>Amount</u>
General Obligation Bonds (Includes \$5,876,000 of NBC)	\$ 114,945
COP	24,520
Revenue Bonds	
R.I. Refunding Bond Authority	122,655
Component Units:	
R.I. Convention Center Authority	202,710
R.I. Depositors Economic Protection Corporation	513,400
R.I. Economic Development Corporation	32,825
R.I. Turnpike And Bridge Authority	41,355
R.I. Water Resources Board Corporate	9,725

In July 1997, the state issued \$35,990,000 Consolidated Capital Development Loan of 1997, Refunding Series with interest rates ranging from 4.50% to 5.50% , maturing from 2002 through 2010. The proceeds were used to advance refund \$15,320,000 of 1991 General Obligation Bonds and \$19,035,000 of 1992 General Obligation Refunding Bonds. Interest rates of the refunded bonds ranged from 6.00% to 6.25%. 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 insubstance debt defeasance and the refunded bonds were removed from the state's General Long-Term Debt Account Group. The refunding decreased total debt service payments over the next 13 years by \$2,545,336 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,026,287.

The above amounts include \$3,812,300 of refunding bonds issued on behalf of the Narragansett Bay Water Quality Management District Commission (NBC), a component unit, to advance refund \$3,636,000 of outstanding bonds. The advance refunding decreased NBC's total debt service payments over the next 13 years by \$344,879 and resulted in an economic gain of \$143,238.

On June 23, 1998, the state deposited \$3,227,623 in an irrevocable trust with an escrow agent. This deposit was used to purchase U.S. Government securities to provide for the debt service on \$3,075,000 of 1988 General Obligation bonds that are callable on December 15, 1998. This refunding is considered to be a cash defeasance and the refunded bonds were removed from the state's General Long-Term Debt Account Group.

On August 1, 1997, the state issued \$34,805,000 of Certificates of Participation (COP) with interest rates ranging from 4.00% to 6.00% and maturing from 1998 to 2017. The proceeds were used to advance

## **STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

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### **Notes to General-Purpose Financial Statements**

refund \$31,685,000 of R.I. Economic Development Corporation's (RIEDC) Tax Exempt Revenue Bonds (1994 Series B) and \$1,580,000 of RIEDC's Taxable Revenue Bonds (1994 Series C) that carried interest rates ranging from 5.00% to 8.50%. Net proceeds from the sale of the COP were used to purchase U.S. Government securities; they 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. As a result of this defeasance, RIEDC transferred the Shepard building to the state and the lease receivable and the refunded bonds were removed from RIEDC's balance sheet. The refunding decreased total debt service payments over the next 25 years by \$18,860,974 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$5,131,467.

In June 1998, the R.I. Refunding Bond Authority (RIRBA) issued \$39,875,000 of 1998 Series A state Public Projects Revenue Bonds dated April 1, 1998. The proceeds and available funds (\$6,069,571) from the debt service reserves were deposited into an escrow account held by the trustee for the refunded bonds to refund and defease \$44,610,000 of bonds pursuant to an escrow deposit agreement between RIRBA and a trustee for the refunded bonds. Proceeds of the 1998 Series A Bonds were used to purchase obligations of the United States of America; the principal and interest on which will be sufficient to pay the principal and redemption price, if any, and interest on the refunded bonds through and including the redemption dates on the refunded bonds. By executing this transaction, RIRBA reduced total debt service payments by \$3,228,291 and obtained a present value benefit (economic gain) of \$1,532,858.

During the fiscal year ended June 30, 1998, the R.I. Depositors Economic Protection Corporation (DEPCO) purchased U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service on \$107,880,000 of its special obligation bonds. These bonds are considered defeased "in-substance", and the liability has been removed from the balance sheet. The defeasance was funded through the liquidation of assets, net settlements and excess state sales tax. The defeasance resulted in the recognition of an accounting loss of \$4,190,180. DEPCO reduced its aggregate principal and interest payments by approximately \$216,837,000 over the next 20 years.

On August 7, 1997, the R.I. Water Resources Board Corporate (RIWRBC) issued \$9,930,000 of refunding bonds with interest rates ranging from 4.25% to 4.90%. These bonds advance refunded \$9,725,000 of outstanding revenue bonds dated July 1, 1989 with various maturities through the year 2011 and interest rates ranging from 6.2% to 7.05%. Proceeds from the 1989 bonds were used to finance Phases I, II and III of the Providence Project. The 1989 Series bonds are subject to optional redemption and will be so redeemed on September 15, 1999 at the redemption price of 102 percent of the principal amount thereof. These bonds are considered to be defeased and the liability has been removed from RIWRBC's books. RIWRBC refunded the 1989 series bonds to reduce its total debt service payments (net of contribution) over the next 13 years by \$1,305,954 and obtained an economic gain of \$562,876.

On August 21, 1997, R.I. Turnpike and Bridge Authority (RITBA) issued \$42,985,000 of Series 1997 Bonds with interest rates varying from 4.1% to 5.5%, payable from December 1998 through December 2017. They provided funds to advance refund outstanding bonds totaling \$41,355,000, fund the Debt

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### **Notes to General-Purpose Financial Statements**

Service Reserve Fund Requirement for the Series 1997 Bonds, and pay costs of issuance related to the authorization, sale and issuance of the Series 1997 Bonds. The net proceeds of \$38,781,149 were used to purchase U.S. Government securities that were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from RITBA's balance sheet. The advanced refunding increased the total debt service payments by \$1,079,352 over the next twenty years and resulted in an economic loss (difference between the present values of the old and new debt service payments) of \$461,332.

#### **I Conduit Debt**

The R.I. Industrial Facilities Corporation, the R.I. Health and Educational Building Corporation and the R.I. Economic Development Corporation issue revenue bonds, equipment acquisition notes, and construction loan notes to finance various capital expenditures for Rhode Island business entities. The bonds and notes issued by the corporations are not general obligations of the corporations and are payable solely from the revenues derived from the related projects. They neither constitute nor give rise to a pecuniary liability for the corporations nor do they represent a charge against their general credit. Under the terms of the various indentures and related loan and lease agreements, the business entities make loan and lease payments directly to the trustees of the related bond and note issues in amounts equal to interest and principal payments due on the respective issues. The payments are not shown as receipts and disbursements of the corporations, nor are the related assets and obligations included in the financial statements. The amount of conduit debt outstanding on June 30, 1998 was \$155,381,714, \$879,376,150 and \$135,718,691, respectively.

#### **Note 8. Reservations and Designation of Fund Equity**

##### Reserved Retained Earnings

The General Laws require that the net income of the Correctional Industries Internal Service Fund be reserved for capital expansion. At June 30, 1998, the balance of the reserve was \$57,077.

The reservations of retained earnings of the R.I. Housing and Mortgage Finance Corporation (RIHMFC) are restricted by either specific bond resolutions or designations by the Board of Commissioners (Board). These reserves are made up of three major elements: (1) RIHMFC's Housing Endowment Fund (Fund), (2) commitments for housing initiatives, and (3) designated funds. The Fund was established by the Board to provide a reserve against its outstanding indebtedness, future uncertainties related to the marketplace and as a reserve against non-market related uncertainties. In addition to meeting the foregoing objectives, the Fund was established to provide a means whereby RIHMFC can meet the short-term and long-term affordable housing needs targeted to low and moderate income Rhode Island residents. At a minimum the amount of the Fund will be maintained at the greater of \$50,000,000 or 4% of the outstanding long-term indebtedness of RIHMFC. The Fund amounted to \$59,600,264 at June 30, 1998. Commitments for housing initiatives represent amounts set aside by the Board. In order to property finance and administer various major housing initiatives, the Board approved the utilization of RIHMFC's program fund balances for program expenses, housing loans, subsidies and trust funds. Most of the programs, once established, are accounted for in the Operating Program. Commitments for housing initiatives amounted to \$112,807,356 at June 30, 1998. Designated funds represent amounts designated for RIHMFC's self insurance reserve, the operating budget, and cash flow obligations necessary in each

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of the programs that have bonded indebtedness. Designated funds amounted to \$44,846,836 at June 30, 1998.

Reserved retained earnings of the R.I. Turnpike and Bridge Authority (RITBA) consists of \$4,941,877 for debt service, \$552,901 for operation and maintenance, and \$196,086 for restricted assets of the revenue fund.

The General Laws authorize the Narragansett Bay Water Quality Management District Commission (NBC) to maintain a restricted asset account for environmental enforcement funds. These funds consist of sums recovered by administrative or civil enforcement action and may be used for emergency response or enforcement activities. At June 30, 1998, NBC reported \$115,791 of funds reserved for this purpose.

**Reserved Fund Balance**

The state and its component units' reserved fund balances represent those portions of fund balance that are (1) not appropriable for expenditure or (2) legally segregated for a specific future use. Reserved fund balances (expressed in thousands) are as follows:

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Types</u>	<u>Total Primary</u>	<u>Governmental Component</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Trust and Agency</u>	<u>Government</u>	<u>Units</u>
Budget reserve	\$ 61,208	\$ 0	\$ 0	\$ 0	\$ 61,208	\$ 0
Appropriations carried forward						
General revenue	13,929				13,929	
Departmental restricted revenue	22,585				22,585	
Operating transfers in	5,120				5,120	
Encumbrances		127,074	40,167		167,241	10,309
Employment insurance programs		60,642		185,333	245,975	
Debt			18,962		18,962	1,936
Self-insurance			100		100	
Pension benefits				6,051,386	6,051,386	
Academic college overhead						818
Inventory						2,793
Asset protection and capital projects	184				184	2,836
Auxiliary enterprises						5,646
Restricted grants, gifts, and aid						948
Loan fund						19,145
Trust indenture						1,049
Landscaping fund	0	0	0	0	0	27
	<u>\$ 103,026</u>	<u>\$ 187,716</u>	<u>\$ 59,229</u>	<u>\$ 6,236,719</u>	<u>\$ 6,586,690</u>	<u>\$ 45,507</u>

**Changes in General Fund Reserves**

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

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**Notes to General-Purpose Financial Statements**

The state maintains a budget reserve in the general fund. Annually, 2% of general revenues and opening surplus are set aside in this reserve account. Amounts in excess of 3% of the total general revenues and opening surplus are transferred to the bond capital fund to be used for capital projects, debt reduction or debt service.

The reserve account, or any portion thereof, may be appropriated in the event of an emergency involving the health, safety or welfare of the citizens of the state or in the event of an unanticipated deficit in any given fiscal year. Such appropriations must be approved by a majority of each chamber of the General Assembly.

The Public Facilities Asset Protection Account is designed to provide funds for repairs and capital improvements to state-owned facilities.

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

The following table summarizes the activity (expressed in thousands) of these reserve accounts for the fiscal year ended June 30, 1998:

	Reserved Fund Balance <u>July 1</u>	<u>Additions</u>	<u>Reductions</u>	Reserved Fund Balance <u>June 30</u>
Advances to:				
R.I. Economic Development Corporation	\$ 6,095	\$ 0	\$ (6,095)	\$ 0
State Budget Reserve Account	55,273	40,805	(34,870)	61,208
Public Facilities Asset Protection Account	187		(3)	184
Appropriations carried forward				
General revenue	9,037	13,929	(9,037)	13,929
Departmental restricted revenue	14,865	22,585	(14,865)	22,585
Operating transfers in	<u>1,867</u>	<u>5,120</u>	<u>(1,867)</u>	<u>5,120</u>
Total	<u>\$ 87,324</u>	<u>\$ 82,439</u>	<u>\$ (66,737)</u>	<u>\$ 103,026</u>

**Designations of Fund Balance**

Designated fund balances represent that portion of fund balance segregated to indicate management’s tentative plans for future financial resource use.

Designated fund balances in the Special Revenue Funds represent unexpended gasoline tax revenue and unexpended bond proceeds (\$19,882,793) and restricted revenue (\$257,307) brought forward to fiscal year 1999.

Designated fund balance in the Capital Projects Funds (\$81,792,540) represents funds committed to capital projects.

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**Note 9. Operating Transfers**

Operating transfers for the fiscal year ended June 30, 1998 are presented below (expressed in thousands):

<u>Fund Type/Fund</u>	<u>Operating Transfers</u>			
	<u>In</u>	<u>Out</u>	<u>From Component Units</u>	<u>To Component Units</u>
Primary Government:				
General	\$ 194,526	\$ 37,300	\$ 17,021	\$ 244,081
Special Revenue:				
Employment Insurance Federal Programs	180	1,336		
Employment Insurance Job Development		204		
R.I. Temporary Disability		557		
Intermodal Surface Transportation	16,934	38,310	659	31,896
Providence River Relocation-Memorial Blvd Ext	1,102	0	0	0
Subtotal	18,216	40,407	659	31,896
Capital Projects:				
Bond Capital	37,587	52,395		11,927
RI Clean Water Act/Environmental Trust Fund				1,900
RI Refunding Bond Authority	0	2,717	0	0
Subtotal	37,587	55,112	0	13,827
Enterprise:				
State Lottery	0	115,072	0	0
Subtotal	0	115,072	0	0
Internal Service:				
Central Warehouse	346	0	0	0
Subtotal	346	0	0	0
Total	\$ 250,675	\$ 247,921	\$ 17,680	\$ 289,804
			<u>Operating Transfers</u>	
	<u>In</u>	<u>Out</u>	<u>To Primary Government</u>	<u>From Primary Government</u>
Component Units::				
Governmental:				
University of Rhode Island	\$ 2,555	\$ 2,475	\$ 0	\$ 73,228
Rhode Island College	1,425	1,425		33,909
Community College of Rhode Island	699	699		31,565
Central Falls School District	0	0	0	24,878
Subtotal	4,679	4,599	0	163,580
Proprietary:				
R.I. Economic Development Corporation				6,030
R.I. Convention Center Authority				11,749
Narragansett Bay Water Quality Management District Commission			21	
R.I. Depositors Economic Protection Corporation			15,000	49,755
R.I. Higher Education Assistance Authority				7,150
R.I. Public Transit Authority				22,310
R.I. Resource Recovery Corporation			2,000	
R.I. Public Telecommunications Authority				1,797
R.I. Children's Crusade for Higher Education	0	0	0	1,500
Subtotal	0	0	17,021	100,291
Total Component Units	\$ 4,679	\$ 4,599	\$ 17,021	\$ 263,871

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**Notes to General-Purpose Financial Statements**

Reconciliation	From Component <u>Units</u>	To Primary <u>Government</u>	To Component <u>Units</u>	From Primary <u>Government</u>
Amounts recorded	\$ 17,680	\$ 17,021	\$ 289,804	\$ 263,871
Component Units				
Governmental				
University of Rhode Island				9,342
Rhode Island College				1,737
Community College of Rhode Island				886
Central Falls School District				
Proprietary				
R.I. Economic Development Corporation		659		5,223
Narragansett Bay Water Quality Management District Commission				258
R.I. Clean Water Finance Agency				1,900
R.I. Public Transit Authority	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,587</u>
	<u>\$ 17,680</u>	<u>\$ 17,680</u>	<u>\$ 289,804</u>	<u>\$ 289,804</u>

The difference of \$2,754,000 between operating transfers in/out occurs because the Employee's Retirement System recorded the transactions as expenses as required by GASB Statement No 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." The difference of \$80,000 between operating transfers in/out of the governmental component units occurs because the University of Rhode Island reported an operating transfer in from its enterprise fund. Only the enterprise fund's net gain is reported in the financial statements. The differences in operating transfers to governmental component units occur because the state recorded operating transfers to the governmental component units in fiscal 1998 for asset protection assistance that the governmental component units reported in a prior fiscal year. The Intermodal Surface Transportation Fund reported \$659,000 of operating transfers from the R.I. Economic Development Corporation (RIEDC) as reimbursement for certain project costs. RIEDC did not report a corresponding operating transfer because the project costs were capitalized. The remaining differences occur because some component units reported funds received from the primary government as contributed capital, grants or increases in fixed assets rather than as operating transfers.

**Note 10. Operating Lease Commitments**

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately \$9,900,000 for the fiscal year ended June 30, 1998.

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

The following is a summary of material future minimum rental payments (expressed in thousands) required under operating leases that have initial or remaining lease terms in excess of one year as of June 30, 1998:

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**Notes to General-Purpose Financial Statements**

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Fiscal Year Ending June 30	
1999	\$ 9,087
2000	7,349
2001	6,457
2002	5,022
2003	5,079
Later Years	<u>13,561</u>
Total	<u>\$ 46,555</u>

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

**Note 11. Commitments**

Commitments (expressed in thousands) arising from encumbrances outstanding at June 30, 1998 are summarized as follows:

General fund (\$4,100 to be funded by federal funds, \$4,000 to be funded substantially by future appropriations and \$4,400 from other sources)	\$ 12,500
Special revenue funds	127,000
Capital projects funds	<u>40,200</u>
	<u>\$ 179,800</u>

Encumbrance accounting, under which contracts, purchase orders and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation during the fiscal year, is employed in the governmental fund types. General Fund encumbrances outstanding at fiscal year end are not reported as a reservation of fund balance. These commitments are funded by future appropriations in the subsequent fiscal year. For financial statement purposes, encumbrances outstanding at June 30 of the Special Revenue Funds and the Capital Projects Funds are shown as a reservation of fund balance.

The R.I. Economic Development Corporation (RIEDC) entered into several agreements with Providence Place Group Limited Partnership (PPG). The agreements state the terms by which the state shall perform with regard to PPG's intention to develop a shopping mall, parking garage and related offsite improvements. The agreement's provide various conditions and scheduled deadlines to be adhered to by the parties, subject to unavoidable delays. Events of default by any of the parties, as defined in the agreements, may subject the defaulting party to penalties. 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, equal to the lesser of (a) two-thirds of the amount of sales tax generated from retail transactions occurring at or within the mall or (b) \$3,680,000 in the first five years and \$3,560,000 in years 6 through 20.

## **STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

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### **Notes to General-Purpose Financial Statements**

#### **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 \$986,000, which is expected to be funded from current available resources and future operations. Under a settlement agreement with the state dated June 30, 1997, RIAC is to pay to remove, upgrade, close or replace the underground storage tanks located at the six state airports. It is estimated that the total cost associated with this project will range from \$3,000,000 to \$3,500,000. In accordance with the agreement, amounts in excess of \$2,000,000 will be borne by the state.

The Narragansett Bay Water Quality Management District 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 \$8,873,000 at June 30, 1998.

The R.I. Resource Recovery Corporation's (RIRRC) currently licensed landfill consists of areas known as Phases II and III. The capacity of Phase I was reached in May 1993. Phases II and III encompass 34 acres adjoining Phase I. Phase II consists of two areas, referred to as Area I and Area II. Waste disposal commenced on Area II in April 1993 and on Area I in March 1995. Phase III commenced in June 1997. Approximately \$9,440,000 in costs relating to Phase II and \$5,303,000 relating to Phase III have been incurred as of June 30, 1998, and are included in land and improvements in the financial statements. Cost estimates for future development of landfills, Phases IV and V (not yet licensed), are not available. To date, \$4,033,000 has been expended on legal fees, permitting and engineering costs related to Phase IV, and other costs associated with readying the area for use, including relocation of Cedar Swamp Brook.

The Environmental Protection Agency (EPA) established closure and postclosure care requirements for municipal solid waste landfills as a condition for the right to operate a landfill in the current period. Based on RIRRC's engineers and independent engineering studies, it is estimated that these costs of closure and postclosure activities for Phase I, II and III will be approximately \$28,172,000. The liability at June 30, 1998 is approximately \$25,864,000, with \$2,308,000 remaining to be recognized. RIRRC recognizes an expense and a liability for these costs based on landfill capacity used to date. Based on the estimates of RIRRC's engineers, approximately 72% of landfill capacity for Phase II and III, which has approximately 18 to 20 months of estimated life remaining, has been used to date. Amounts provided for closure and postclosure are based on current costs. These costs may be adjusted each year due to changes in the closure and postclosure care plan, inflation or deflation, technology, or applicable laws and regulations. RIRRC has designated investments in the amount of \$6,227,461 to meet the financial requirements of closure and postclosure costs, and plans to increase these designated investments each year to enable it to pay the costs as they are incurred.

In prior years, the EPA issued administrative orders requiring the RIRRC to conduct environmental studies of the landfill and undertake various plans of action. Additionally, in 1986, the landfill was named to the EPA's Superfund National Priorities List. The majority of the studies were completed and were submitted to the EPA for review. During 1996, the RIRRC entered into a consent decree with the EPA concerning remedial actions taken by the RIRRC for groundwater contamination. The consent decree, which was approved by the U.S. District Court on October 2, 1996, requires the establishment of a

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### **Notes to General-Purpose Financial Statements**

trust fund in the amount of \$27,000,000 for remedial purposes. The trust is included in restricted assets held in trust on RIRRC's balance sheet. AS of June 30, 1998, the market value of the trust was \$17,460,566. The projected additional deposits into the trust fund on or before September 1 are as follows: 1998 - \$5,600,000; 1999 - \$5,600,000; 2000 - \$1,000,000 and 2001 - \$1,000,000. The present value of the estimated remaining total expenditures relating to groundwater contamination that will be required as a result of the consent decree is estimated to be approximately \$18,968,000 and is recorded in the financial statements, net of the amount included in the trust fund.

RIRRC is required by the R.I. Department of Environmental Management to restore certain wetlands which are located at the Central Landfill. The costs for this project can not be estimated at this time.

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

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

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

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

The R.I. Housing and Mortgage Finance Corporation had loan commitments of \$15,339,275 under various loan programs at June 30, 1998.

The R.I. Turnpike and Bridge Authority has entered into various contracts for maintenance of its bridges. At June 30, 1998 remaining commitments on these contracts approximated \$1,469,443.

The R.I. Higher Education Assistance Authority is required to return to the federal government \$4,310,909 in student loan reserve funds over a period of five years, such that the total is returned by September 1, 2002.

### **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.

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**Federal Grants**

The state receives significant amounts of federal financial assistance under grant agreements which specify the purpose of the grant and conditions under which the funds may be used. Generally, these grants are subject to audit. Any disallowance 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, 1998, the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had \$233,511,602 and \$93,989,000, 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 employees.

**Component Units**

**R.I. Student Loan Authority**

The R.I. Student Loan Authority maintains letters of credit in the original stated amount of \$31,940,000 on its January 1995 weekly adjustable interest rate bonds and the originally stated amount of \$69,203,000 on its April 1996 Series I, II and III variable rate bonds. The letters of credit obligate the letter of credit provider to pay to the trustee an amount equal to principal and interest on the bonds when the same becomes due and payable (whether by reason of redemption, acceleration, maturity or otherwise) and to pay the purchase price of the bonds tendered or deemed tendered for purchase but not remarketed. The letters of credit will expire on the earliest to occur: a) January 19, 2000, for the January 1995 issue and April 8, 2001 for the 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. Convention Center Authority**

The R.I. Convention Center Authority (RICCA) entered into a series of interest rate swap agreements dated March, April, June, October 1992, March 1993 and April 1994. Interest rate swap transactions involve the exchange of fixed and floating rate payment obligations without the exchange of the

## **STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

### **Notes to General-Purpose Financial Statements**

underlying principal amounts. At June 30, 1998, outstanding agreements involved notional principal aggregating \$100,000,000. The final interest rate swap agreement terminates on May 15, 1999. These agreements involve, to varying degrees, credit and interest rate risk not reflected on the balance sheet. The credit and interest rate risks inherent in these transactions are an amount less than the underlying principal. Credit risk is the possibility that a loss may occur because a party to an agreement fails to perform according to the terms of the agreement. Interest rate risk is the possibility that future changes in interest rates may cause a financial instrument to be less valuable or more onerous. The RICCA has controlled the credit risk arising from these transactions by entering into agreements with counterparties the RICCA believes to be creditworthy, as well as requiring collateral agreements as part of certain transactions. The RICCA attempts to manage interest rate risk by entering into offsetting swap positions.

#### **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 of fixed rate options at the financial institution's cost of funds plus 2.25%. No amount was due under this line of credit at June 30, 1998.

#### **R.I. Depositors Economic Protection Corporation**

The R.I. Depositors Economic Protection Corporation has available a \$3,000,000 line of credit agreement with Citizens Bank. This line of credit agreement expires on November 30, 1998. Certain assets of DEPCO are pledged as collateral for any borrowings under this agreement. At June 30, 1998, no amounts are outstanding under this line of credit agreement.

### **Note 13. Year 2000 Issue**

#### **Primary Government**

The Year 2000 issue refers to potential problems with information technology systems, such as computer software, and non information technology systems, such as equipment with embedded computer chips, that uses dates where the date has been stored as just two digits (e.g. 99 for 1999). This would result in date sensitive software, which uses only two digits to represent the year, to recognize January 1, 2000 as the year 1900. The effect could be a system failure or miscalculations causing a disruption of operations, including, but not limited to a temporary inability to process transactions, remit payments to vendors and employees, and apply tax and grant revenues to outstanding receivable balances.

The GASB has identified the following stages as necessary to implement a Year 2000 compliant system:

The *Awareness Stage* encompasses the establishment of a budget and project plan for dealing with the Year 2000 issue.

The *Assessment Stage* identifies all the systems (taking an inventory) and their individual components.

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The *Remediation Stage* is when the organization actually makes changes to systems and equipment. This stage deals with the technical issues of converting existing systems or switching to compliant ones. Also, decisions are made on how to make them Year 2000 compliant and the necessary system changes are incorporated.

The *Validation/Testing Stage* involves inspecting and testing the changes that were made during the remediation stage. All anomalies are corrected and tested until it is determined that no errors were introduced during the conversion process.

The state has identified 24 mission critical computer systems that may be affected by the Year 2000 issue and that are necessary to conducting state operations. These systems affect the financial administration of the state, the administration of federal/state benefits programs and public safety. All but one of these systems are in the Remediation Stage. The state's purchasing computer system is in the Assessment Stage. The state has no material contractual commitments with vendors to address Year 2000 issues at June 30, 1998. The fiscal 1999 budget enacted by the General Assembly includes \$2,500,000 for Year 2000 related compliance projects.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the state is or will be Year 2000 ready, that the state's remediation efforts will be successful in whole or in part, or that parties with whom the state does business will be year 2000 ready.

### **Component Units**

#### **R.I. Housing and Mortgage Finance Corporation**

The R.I. Housing and Mortgage Finance Corporation (RIHMFC) has completed a review of its internal information systems to determine the impact of the Year 2000 issue on RIHMFC's operations. RIHMFC does not anticipate the Year 2000 issue will have a material adverse effect on its future operating results or financial condition. Currently, RIHMFC is in the Implementation Stage with its major applications, and the Validation/Testing Stage or Implementation Stage with all of its other applications and equipment. RIHMFC has disbursed approximately \$35,000 and \$64,000 for the years ended June 30, 1998 and 1997, respectively, to purchase new software which will, among other things, make its computer systems and other equipment Year 2000 compliant. It is estimated that \$220,000 will be expended for the year ended June 30, 1999 to complete its software and Year 2000 compliance efforts. Lastly, RIHMFC is in the process of contacting its major providers to ascertain the extent to which it may be vulnerable to those parties' failure to timely correct their own Year 2000 problems.

#### **R.I. Economic Development Corporation**

The R.I. Airport Corporation (RIAC), a component unit of the R.I. Economic Development Corporation, has divided the Year 2000 project into financial and operational applications. The latter includes an assessment of Year 2000 readiness for areas such as telephone systems, elevator systems, runway lights, etc. A capital budget of \$785,000 has been established for financial and known operational applications, which will require modifications, such as the telephone system.

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RIAC has segregated the financial applications into three categories: software, hardware, and implementation consulting services. Of the three major software components, two have been selected and purchased at a total cost of \$99,400; this application is in the Remediation Stage. RIAC is assessing the compatibility and capability of the third software component, which should range in cost between \$145,000 to \$322,000. The hardware, on which the software will run, has been bought at a cost of approximately \$29,000. RIAC will release a request for proposal in fiscal year 1999 for the consulting services that are necessary for system validation and implementation.

A Year 2000 Vendor Compliance Questionnaire has been sent by RIAC to roughly 1,000 of its suppliers to assess their readiness. The airlines, through the Air Transportation Association, have engaged a consulting firm to coordinate Year 2000 operational issues facing airports and airlines. The Assessment Stage is complete and recommendations are forthcoming. RIAC's traffic control tower is under the jurisdiction of the Federal Aviation Administration, which is responsible for determining whether it is Year 2000 compliant. Nothing has come to RIAC's attention that would lead it to believe that the control tower will not be Year 2000 compliant.

#### **Narragansett Bay Water Quality Management District Commission**

The Narragansett Bay Water Quality Management District Commission (NBC) has established a plan to deal with the Year 2000 issue. NBC has completed the Awareness and Assessment Stages and has begun the Remediation Stage. The Validation and Implementation Stages will be completed upon completion of the entire project. For the year ended June 30, 1998, the commission expended \$219,788 for Year 2000 compliance and has commitments in the amount of \$295,477 for further requirements.

#### **Other Component Units**

The remaining component units are, with respect to Year 2000 compliance, in various stages of completion. One of them anticipates a readiness as early as April 1999. The component units have contacted the external sources that would affect their operations if they were not Year 2000 ready; there has been no indication that compliance is in jeopardy.

### **Note 14. Employer Pension Plans**

#### **Plan Descriptions**

The state, through the Employee's Retirement System (System), administers four defined benefit pension plans. Three of these plans; the Employees' Retirement System (ERS), a cost-sharing multiple-employer defined benefit pension plan and the Judicial Retirement Benefits Trust (JRBT) and the State Police Retirement Benefits Trust (SPRBT), single-employer defined benefit pension plans; cover most state employees. The state does not contribute to the Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan. The System provides retirement and disability benefits,

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annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to state employees, which is subject to amendment by the general assembly, is established by the General Laws as listed below. In addition to the state, there are 40 local public school entities that are members of the ERS. The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained by writing to the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903.

### **Summary of Significant Accounting Policies**

#### **Basis of Accounting**

The financial statements of the System are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Dividend income is recorded on the ex-dividend date.

#### **Methods Used to Value Investments**

Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller – that is, other than a forced liquidation sale. The fair value of fixed income and domestic and international stocks are generally based on published market prices and quotations from national security exchanges and securities pricing services. Real estate is primarily valued on appraisals by independent appraisers or as adjusted by the general partner. Other securities and investments, which are not traded on a national security exchange, are valued by the respective fund manager. Short-term investments are stated at cost, which approximates fair value. Investment transactions are recorded on a trade date basis.

#### **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 <u>System</u>	State Police Retirement <u>Benefits Trust</u>	Judicial Retirement <u>Benefits Trust</u>
Contribution rates:			
State	10.83%	12.66%	25.34%
Plan members – state employees	8.75%	8.75%	8.75%
State contribution for teachers	5.31% & 6.00%		
Annual pension cost	\$86,313	\$603	\$744
Contributions made – state employees	\$51,308	\$603	\$744
Contributions made – teachers	\$35,005		
Actuarial valuation date	June 30, 1995	June 30, 1995	June 30, 1995
Actuarial cost method	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age
Amortization method	Level Percent of Payroll – Closed	Level Percent of Payroll-Closed	Level Percent of Payroll-Closed
Equivalent Single Remaining Amortization Period	Not Available	27 years	27 years
Asset valuation method	Market Value	Market Value	Market Value
Actuarial Assumptions:			
Investment rate of return	8.00%	8.00%	8.00%
Projected salary increase	4.50%	5.50%	6.00%
Inflation	Not Available	Not Available	Not Available
Cost-of-living adjustments	3% compounded annually	\$1,500 per annum	3% of original retirement not compounded
Level of benefits established by:			
General Law(s)	36-8 to 10	42-28-22.1	8-3-16, 8-8-10.1, 28-30-18.1, and 31-43-11.1

Three-Year Trend Information

	Year <u>Ending</u>	Annual Pension Cost (APC) <u>(In Thousands)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
Employees' Retirement System	6/30/96	\$ 73,729	100%	\$ 0
	6/30/97	80,275	100%	0
	6/30/98	86,313	100%	0
State Police Retirement Benefits Trust	6/30/96	718	100%	0
	6/30/97	454	100%	0
	6/30/98	603	100%	0
Judicial Retirement Benefits Trust	6/30/96	260	100%	0
	6/30/97	619	100%	0
	6/30/98	744	100%	0

**Other**

Certain employees of the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts with the Teachers' Insurance and Annuity Association. Total expenditures by the institutions for such annuity contracts amounted to \$9,298,604 during the year ended June 30, 1998.

The R.I. Public Transit Authority has two pension plans that cover employees meeting certain eligibility requirements. Employer contribution paid in fiscal year 1998 was \$2,407,038. At July 1, 1997, the most recent valuation date, the total pension benefit obligation was \$29,582,811 and net assets available for benefits were \$12,545,863.

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

**Note 15. Postemployment Benefits**

In accordance with the General Laws, postretirement health care benefits are provided to state employees who retire on or after July 1, 1989. The benefits in general cover medical and hospitalization costs for pre-Medicare retirees and a Medicare supplement for Medicare-eligible retirees. The state is required to pay a portion of the monthly premium. This payment varies with years of service and ranges from 50% for retirees with 10-15 years of service to 100% for retirees with 35 years of service. During fiscal year 1998, the state contributed 0.66% of covered payroll for postretirement healthcare benefits. The contribution rates are not actuarially determined. Postretirement health care expenses for the fiscal year ended June 30, 1998 were \$3,598,852, net of retirees' contributions for the 1,588 retirees receiving benefits.

In addition to the pension benefits described above, expenditures of \$1,080,499 were recognized for postretirement benefits provided under early retirement incentive programs (an average of \$990 for each of the 1,092 retirees covered by the plans).

The employer share of the above plans is financed on a pay-as-you-go basis.

**Note 16. Deferred Compensation**

The state offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The Department of Administration pursuant to Chapter 36-13 of the General Laws administers the plan. The Department of Administration contracts with private corporations to provide investment products related to the management of the deferred compensation plan. Benefit payments are not available to employees earlier than the calendar year in which the participant attains age 70, termination, retirement, death or "unforeseeable emergency".

The federal Small Business Job Protection Act of 1996 (the Act) requires 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 trust provisions of the Act are effective for plans created on or after August 20, 1996. However, for plans existing at that date, the trust requirement does not apply until January 1, 1999.

GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans", was issued to give guidance for those plans coming under the new Act. This statement requires governments to report Section 457 plans as trust funds if they meet the criteria in NCGA Statement 1, paragraph 26(3)(B) Fiduciary Funds. Those plans that do not meet these criteria need not be reported in the government's financial statements.

The state does not serve in a trustee capacity, therefore, those deferred compensation plans that fit the requirements or were changed to meet the new requirements of the Act as of June 30, 1998, are not longer reported by the state. One contractor informed the state that it could not maintain the plan assets in

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### **Notes to General-Purpose Financial Statements**

accordance with the change in the law. The state has advised the plan's participants to transfer their assets to a plan that satisfies the requirements of the Act. These deferred compensation assets and liabilities are reported in the agency fund at June 30, 1998. Subsequent to June 30 but prior to January 1, 1989, the participants in this plan changed to new plans that are in accordance with the trust provisions of the Act.

#### **Note 17. Fund Deficits**

The Workers' Compensation Internal Service Fund reported a deficit of \$97,437 at June 30, 1998. This deficit will be funded by future revenues.

The R.I. Convention Center Authority reported a deficit of \$49,887,946 at fiscal year ended June 30, 1998. This deficit will be funded by future revenues.

The R.I. Depositors Economic Protection Corporation reported a deficit of \$113,045,343 at fiscal year ended June 30, 1998. This deficit will be funded by future revenues.

#### **Note 18. Restatement of Fund Equity**

Certain restatements of fund equity balances, as of June 30, 1997, are summarized in the following table (expressed in thousands):

	June 30, 1997 Fund Equity As Previously Reported	GASB 31 Implementation	Other Adjustments	July 1, 1997 Fund Equity Restated
<b>Primary Government</b>				
Trust and Agency Funds:				
Pension Trust Funds	\$ 5,258,785	\$ 0	\$ (44)	\$ 5,258,741
Nonexpendable Trust	2,124	419		2,543
Capital Projects:				
R.I. Refunding Bond Authority	26,793	(627)	9	26,175
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>\$ 5,287,702</u>	<u>\$ (208)</u>	<u>\$ (35)</u>	<u>\$ 5,287,459</u>
<b>Proprietary Component Units</b>				
R.I. Housing and Mortgage Finance Corporation	\$ 204,794	\$ 4,634	\$ 0	\$ 209,428
R.I. Turnpike and Bridge Authority	25,519	100	3,610	29,229
R.I. Water Resources Board Corporate	1,837	42	43	1,922
R.I. Public Telecommunications Authority	1,178	62	0	1,240
The Beacon Mutual Insurance Co.	55,202		(55,202)	
Other Proprietary Component Units	<u>299,526</u>	<u>0</u>	<u>0</u>	<u>299,526</u>
	<u>\$ 588,056</u>	<u>\$ 4,838</u>	<u>\$ (51,549)</u>	<u>\$ 541,345</u>

During fiscal year 1998, the state adopted GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" which requires restatement of prior year balances for the effect of changing from reporting investments at cost to fair value.

The beginning retained earnings of the R.I. Turnpike and Bridge Authority and the R.I. Water Resource Board Corporate were restated to correct errors resulting in both an overstatement and understatement of previously reported assets and liabilities.

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The Beacon Mutual Insurance Company is no longer reported as a component unit of the reporting entity.

**Note 19. Segment Information**

Segment information for the governmental and proprietary component units is presented (expressed in thousands) in the following schedules:

<b>Governmental</b>	<u>URI</u>	<u>RIC</u>	<u>CCRI</u>	<u>CFSD</u>
Due from primary government	\$ 0	\$ 0	\$ 0	\$ 0
Other current assets	55,727	15,185	7,813	2,958
General fixed assets	2,053			
Amounts available in debt service fund			512	
Amounts to be provided for retirement of GLTD	46,613	24,627	11,386	1,645
Current liabilities	40,827	8,110	4,615	1,934
Bonds payable	25,843	10,829	4,504	
Other long-term liabilities	22,335	13,798	7,395	1,645
Revenues	173,262	43,810	32,651	784
Current expenditures	234,129	73,981	61,708	24,826
Capital outlay expenditures	14,383	2,799	2,784	641
Debt service expenditures	5,644	1,357	420	
Transfers from primary government	73,228	33,909	31,565	24,878
Excess of revenues and expenditures	1,073	472	125	211
Net gain from proprietary operations	45			

<b>Proprietary</b>	<u>RIHMFC</u>	<u>RISLA</u>	<u>RITBA</u>	<u>RIEDC</u>	<u>RICCA</u>	<u>NBC</u>
Due from primary government	\$ 18,446	\$ 18,446	\$ 18,446	\$ 18,446	\$ 18,446	\$ 18,446
Other current assets	1,897,838	499,845	28,119	156,410	24,973	28,440
Fixed assets (net)	16,207	114	42,919	280,438	235,114	200,399
Current liabilities	34,339	9,641	1,191	10,257	5,382	5,877
Bonds payable	1,509,381	465,708	45,227	202,968	309,254	22,284
Other long-term liabilities	177,267			44,843	2,053	41,000
Operating revenue	133,550	34,168	11,438	30,189	30,611	27,715
Operating expenses	121,040	27,819	4,409	24,245	27,142	20,775
Depreciation, depletion, and amortization	2,963	424	772	13,176	10,238	4,343
Operating income (loss)	9,547	5,926	6,257	(7,232)	(6,769)	2,596
Operating grants, entitlements and shared revenue				814		49
Transfers from primary government				6,030	11,749	
Transfers to primary government						(21)
Net income (loss)	7,827	5,926	5,911	(7,117)	(13,110)	699
Current capital contribution				(9,043)		1,764

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<b>Proprietary</b>	<u>RIHEBC</u>	<u>RIRRC</u>	<u>DEPCO</u>	<u>RIHEAA</u>	<u>RIPTA</u>	<u>RIIFC</u>
Due from primary government	\$	\$	\$	\$	\$	\$
Other current assets	7,263	35,127	40,740	19,760	10,293	1,103
Fixed assets (net)	10	38,856	77	1,707	29,759	
Current liabilities	12	5,421	6,201	5,293	13,550	10
Bonds payable			186,470			
Other long-term liabilities		61,536	1,725	958	8	564
Operating revenue	880	45,742	100,736	4,947	9,899	150
Operating expenses	460	15,032	7,030	11,430	38,666	44
Depreciation, depletion and amortization	3	5,794	188	141	4,780	
Operating income (loss)	416	24,916	93,518	(6,624)	(33,547)	106
Operating grants, entitlements and shared revenue				269	3,193	
Transfers from primary government			49,755	7,149	22,310	
Transfers to primary government		(2,000)	(15,000)			
Net income (loss)	846	16,313	110,957	1,704	(3,798)	125
Current capital contribution					2,577	
<b>Proprietary</b>	<u>RICWFA</u>	<u>RIIRBA</u>	<u>RIWRBC</u>	<u>RIPTCA</u>	<u>RICCHE</u>	
Due from primary government	\$	\$	\$	\$	\$	
Other current assets	181,494	2,665	11,745	2,287	10,292	
Fixed assets (net)	28	649		5,808	58	
Current liabilities	1,992	43	1,361	514	350	
Bonds payable	114,666		19,111			
Other long-term liabilities	67	500		6,486	47,800	
Operating revenue	8,990	395	2,519	2,383	2,531	
Operating expenses	7,223	182	25	3,059	4,546	
Depreciation, depletion and amortization	12	14	113	1,002	18	
Operating income (loss)	1,755	199	2,380	(1,678)	(2,033)	
Operating grants, entitlements and shared revenue	10,406			556		
Transfers from primary government				1,797	1,500	
Transfers to primary government						
Net income (loss)	12,161	283	(277)	249	(350)	
Current capital contribution						

### **Note 20. Risk Management**

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

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

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

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### **Notes to General-Purpose Financial Statements**

The state is self-insured for various risks of loss related to work related injuries of state employees. The state maintains the Workers' Compensation Fund, an internal service fund that services workers' compensation claims. The fund bills to user agencies the costs associated with claims and a service charge to cover the fund's administrative expenses.

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

#### **Note 21. Extraordinary Items and Cumulative Effect of a Change in Accounting Principle**

The R.I. Housing and Mortgage Finance Corporation periodically retires bonds prior to the redemption date. Deferred bond issuance costs, along with any premium paid on the call, in the amount of \$1,720,826 were reported as an extraordinary loss in fiscal year 1998.

The R.I. Depositors Economic Protection Corporation reported an extraordinary item of \$4,190,180. This was the result of reporting an accounting loss on a debt defeasance that was funded through the liquidation of assets, net legal settlements, and excess state sales tax.

The R.I. Economic Development Corporation reported \$2,277,577 as the cumulative effect of a change in accounting principle. This was a result of changing its method of reporting for pension benefits in accordance with GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers".

#### **Note 22. Related Party Transactions**

The R.I. Depositors Economic Protection Corporation (DEPCO) is entitled by statute to six-tenths of one percent within the state's sales and use tax rate. For the fiscal year ended June 30, 1998, the portion of the state's sales tax appropriated for DEPCO amounted to \$49,755,341. During 1997, the General Assembly enacted legislation that required DEPCO to return excess sales tax, not to exceed \$15,000,000, of the fiscal year 1998 sales tax appropriation that was available after paying debt service on its special obligation bonds. DEPCO was able to return the \$15,000,000 as budgeted. Payment to DEPCO requires an annual appropriation by the General Assembly. The General Assembly is not legally bound or obligated to make such appropriations. The state budget for fiscal year 1999 as enacted by the General Assembly kept the dedication of six-tenths of one percent within the state's existing sales and use tax rate. The 1999 appropriation is estimated to yield approximately \$52,500,000 for deposit to DEPCO.

The R.I. Resource Recovery Corporation (RIRRC) entered into a lease and agreement with the state whereby the RIRRC agreed to lease the landfill to the state. Pursuant to this lease and agreement RIRRC issued \$15,000,000 of notes on August 1, 1997. The principal and interest on these notes are secured by rentals as set forth in the lease and agreement. The notes matured on August 1, 1998. The notes were subsequently refinanced with a maturity date of July 30, 1999.

Funds held by the University of Rhode Island Foundation for the future use of the university and its faculty and students are not reflected in the accompanying financial statements. Funds held at June 30, 1998 amounted to \$46,767,301. Distributions of \$7,500,138 during the fiscal year ended June 30, 1998 are included in private gift revenue of the university.

## **STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

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### **Notes to General-Purpose Financial Statements**

Fund held by the Rhode Island College Foundation for the future use of the college and its faculty and students are not reflected in the accompanying financial statements. Funds held at June 30, 1998 amounted to approximately \$6,775,000. There were no distributions to RIC during the fiscal year ended June 30, 1998.

As of June 30, 1998, the Employees' Retirement System held investments in bonds issued by the R.I. Industrial Facilities Corporation having a fair value of \$23,000,000 and by the R.I. Housing and Mortgage Finance Corporation having a fair value of \$4,148,948. These corporations are included as component units in the accompanying general-purpose financial statements.

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

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

### **Note 23. Subsequent Events**

#### **Primary Government**

In July 1998, the state issued \$65,720,000 of general obligation bonds. The interest rates ranged from 4.25% to 5.25% with maturities from 2000 to 2018.

In September 1998, the state issued \$82,470,000 of general obligation refunding bonds. The interest rates ranged from 3.35% to 5.25% with maturities from 2000 through 2015. The bonds were issued to refund \$46,830,000 and \$33,460,000 of general obligation bonds issued by the state in 1992 and 1994, respectively.

#### **Component Units**

In August 1998, the R.I. Housing and Mortgage Finance Corporation (RIHMFC) issued \$45,000,000 of bonds. In December 1998, RIHMFC issued \$78,095,000 of bonds. Additionally in July, October, and November 1998, RIHMFC called \$84,750,000 of bonds outstanding at June 30, 1998.

Subsequent to June 30, 1998, the Alpha-Beta Technology, Inc. defaulted on approximately \$29,000,000 of Rhode Island Economic Development Corporation (RIEDC) Taxable Revenue Bonds. The bonds were issued in 1993 to finance the construction of a biotechnology factory in

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**Notes to General-Purpose Financial Statements**

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Rhode Island. The bondholders were paid by a bank that guaranteed the bonds under a letter of credit agreement. RIEDC has obtained short-term financing from a local bank which was used to repay the guarantor. RIEDC is in the process of selling the property.

In August 1998, DEPCO defeased \$25,710,000 of its special obligation bonds.

In March 1999, the R.I. Depositors Economic Protection Corporation (DEPCO) reached a \$14.5 million settlement of a professional malpractice suit.

In January 1999, the R.I. Clean Water Finance Agency issued \$25,825,000 of Water Pollution Control Revolving Fund Revenue Bonds and \$16,830,000 of Water Pollution Control Subordinated Refunding Revenue Bonds.

In March 1999, the R.I. Student Loan Authority issued \$100,000,000 in Student Loan Program Revenue Bonds.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULES OF FUNDING PROGRESS**

(Expressed in thousands)

**Employees' Retirement System**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Unfunded Frozen Actuarial Liability (UFAL) (b)	Frozen Initial Liability (c) = (a + b)	Funded Ratio (a/c)	Covered Payroll (d)	Excess as a Percentage of Covered Payroll (b/d)
6/30/95	\$ 3,169,632	\$ 1,204,573	\$ 4,374,205	72.5%	\$ 947,699	127.1%
6/30/96	3,710,939	1,212,709	4,923,648	75.4%	1,008,723	120.2%
6/30/97	4,437,070	1,455,147	5,892,217	75.3%	1,047,786	138.9%

**State Police Retirement Benefits Trust**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Unfunded Frozen Actuarial Liability (UFAL) (b)	Frozen Initial Liability (c) = (a + b)	Funded Ratio (a/c)	Covered Payroll (d)	Excess as a Percentage of Covered Payroll (b/d)
6/30/95	\$ 1,859	\$ 546	\$ 2,405	77.3%	\$ 4,751	11.5%
6/30/96	3,116	560	3,676	84.8%	4,949	11.3%
6/30/97	4,862	574	5,436	89.4%	5,371	10.7%

**Judicial Retirement Benefits Trust**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Unfunded Frozen Actuarial Liability (UFAL) (b)	Frozen Initial Liability (c) = (a + b)	Funded Ratio (a/c)	Covered Payroll (d)	Excess as a Percentage of Covered Payroll (b/d)
6/30/95	\$ 801	\$ 40	\$ 841	95.2%	\$ 2,398	1.7%
6/30/96	1,345	41	1,386	97.0%	2,597	1.6%
6/30/97	2,607	901	3,508	74.3%	2,815	32.0%

Schedule of Expenditures of  
Federal Awards

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Financial Statements and Supplementary Schedule of Expenditures  
of Federal Awards*

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**Office of the Auditor General  
General Assembly**

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FISCAL YEAR ENDED JUNE 30, 1998**

<b>Federal Grantor</b>	<b>CFDA</b>	<b>Federal</b>
<u>Program Title</u>	<u>Number</u>	<u>Expenditures</u>
<b>U.S. Department of Agriculture:</b>		
Inspection Grading and Standardization	10.162	\$ 42,219
Farmers' Home Association Loan Guarantee Program (See Note 2)	10.410	5,549,304
Rural Housing Preservation Grants	10.433	42,628
Food Distribution (See Note 2)	10.550	2,711,771
Food Stamp Cluster:		
Food Stamps (See Note 2)	10.551	60,171,651
State Administrative Matching Grants for Food Stamp Program	10.561	7,083,125
Child Nutrition Cluster:		
School Breakfast Program	10.553	2,245,755
National School Lunch Program	10.555	16,044,390
Special Milk Program for Children	10.556	130,434
Summer Food Service Program for Children	10.559	1,133,881
Special Supplemental Nutrition Program for Women, Infants, and Children (See Notes 1 and 4)	10.557	12,612,943
Child and Adult Care Food Program	10.558	3,651,347
State Administrative Expenses for Child Nutrition	10.560	364,252
Nutrition Education and Training Program	10.564	60,641
Emergency Food Assistance Cluster:		
Emergency Food Assistance Program (Administrative Costs)	10.568	142,935
Nutrition Program for the Elderly (Commodities)	10.570	714,785
Cooperative Forestry Assistance	10.664	<u>318,454</u>
<b>Total U.S. Department of Agriculture (See Note 1)</b>		<b>\$ 1 113,020,515</b>
<b>U.S. Department of Commerce:</b>		
Economic Development-State and Local Economic Development Planning	11.305	\$ 82,778
Special Economic Development and Adjustment Assistance Programs – Sudden and Severe Economic Dislocation (SSED) and Long-Term Economic Deterioration (LTED)	11.307	1,837,253
InterJurisdictional Fisheries Act of 1986	11.407	70,224
Coastal Zone Management Administration Awards	11.419	822,265
Coastal Zone Management Estuarine Research Reserves	11.420	105,915
Unallied Management Projects	11.454	118,228
Atlantic Coastal Fisheries Cooperative Management Act	11.474	28,187
Telecommunications and Information Infrastructure Assistance Program	11.552	<u>80</u>
<b>Total U.S. Department of Commerce (See Note 1)</b>		<b>\$ 3,064,930</b>
<b>U.S. Department of Defense:</b>		
Procurement Technical Assistance for Business Firms	12.002	\$ 119,377
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	<u>145,729</u>
<b>Total U.S. Department of Defense (See Notes 1 and 5)</b>		<b>\$ 265,106</b>
<b>U.S. Department of Housing and Urban Development:</b>		
Interest Reduction Payments – Rental and Co-op Housing Lower Income Families	14.103	\$ 833,543
Mortgage Insurance – Homes (Section 203B) (See Note 2)	14.117	36,247,707

*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, 1998**

<b>Federal Grantor</b>	<b>CFDA</b>	<b>Federal</b>
<u>Program Title</u>	<u>Number</u>	<u>Expenditures</u>
Property Improvement Loan Insurance for Improving all Existing Structures and Building of New Non-Residential Structures	14.142	401,466
Section 8 – Cluster:		
Section 8 Housing Assistance Payments Program – Construction/Substantial Rehabilitation	14.182	67,595,683
Section 8 Rental Voucher Program	14.855	807,098
Section 8 Moderate Rehabilitation	14.856	487,559
Section 8 Rental Certificate Program	14.857	3,578,125
Community Lending Reverse Mortgage (HECM)	14.183	20,215,046
Preservation of Affordable Housing	14.187	32,809
Community Development Block Grant/State’s Program	14.228	6,186,105
Emergency Shelter Grants Program	14.231	304,312
Supportive Housing Program	14.235	1,506,943
Shelter Plus Care Grant	14.238	459,506
Home Investment Partnerships Program	14.239	2,372,739
Housing Opportunities for Persons with AIDS	14.241	459,347
Fair Housing Assistance Program – State and Local	14.401	2,870,529
Fair Housing Initiatives and Administrative Enforcement Initiative Program	14.408	11,048
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	<u>1,939,953</u>
<b>Total U.S. Department of Housing and Urban Development (See Note 1)</b>		<b><u>\$ 146,309,518</u></b>
<b>U.S. Department of Interior:</b>		
Fish and Wildlife Cluster:		
Sport Fish Restoration	15.605	\$ 2,536,162
Wildlife Restoration	15.611	865,685
Coastal Wetlands Planning, Protection and Restoration Act	15.614	599,904
Clean Vessel Act	15.616	147,539
Historic Preservation Fund Grants-In-Aid	15.904	521,048
Outdoor Recreation-Acquisition, Development and Planning	15.916	<u>268,617</u>
<b>Total U.S. Department of Interior (See Note 1)</b>		<b><u>\$ 4,938,955</u></b>
<b>U.S. Department of Justice:</b>		
Law Enforcement Assistance-Narcotics and Dangerous Drugs-Laboratory Analysis	16.001	\$ 3,310,691
Juvenile Justice and Delinquency Prevention-Allocation to States	16.540	1,096,009
Gang-Free Schools and Communities-Community-Based Gang Intervention (See Note 3)	16.544	6,300
Justice Research, Development, and Evaluation Project Grants	16.560	102,315
National Institute of Justice Visiting Fellowships	16.561	59,737
State Criminal Alien Assistance Program	16.572	493,673
Crime Victim Assistance	16.575	733,552
Crime Victim Compensation	16.576	411,982
Byrne Formula Grant Program	16.579	102,868
Violence Against Women Formula Grants	16.588	1,016,575
Public Safety Partnership and Community Policing Grants	16.710	<u>29,105</u>
<b>Total U.S. Department of Justice (See Note 1)</b>		<b><u>\$ 7,362,807</u></b>

*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, 1998

<b>Federal Grantor</b>	CFDA	Federal
<u>Program Title</u>	<u>Number</u>	<u>Expenditures</u>
<b>U.S. Department of Labor:</b>		
Labor Force Statistics	17.002	\$ 588,380
Compensation and Working Conditions Data	17.005	11,353
Employment Services Cluster:		
Employment Service	17.207	4,581,356
Disabled Veterans' Outreach Program (DVOP)	17.801	651,825
Unemployment Insurance (See Note 6)	17.225	160,840,790
Senior Community Service Employment Program	17.235	437,732
Trade Adjustment Assistance – Workers	17.245	5,515,324
JTPA Cluster:		
Employment and Training Assistance – Dislocated Workers	17.246	5,324,587
Job Training Partnership Act	17.250	7,501,662
Consultation Agreements	17.504	<u>267,018</u>
<b>Total U.S. Department of Labor (See Note 1)</b>		<b>\$ 185,720,027</b>
<b>U.S. Department of Transportation:</b>		
Boating Safety Financial Assistance	20.005	\$ 346,873
Airport Improvement Program	20.106	1,392,376
Highway Planning and Construction	20.205	85,013,273
Highway Training and Education	20.215	44,627
Motor Carrier Safety	20.217	467,427
Local Rail Freight Assistance	20.308	1,800,802
Federal Transit Cluster:		
Federal Transit Capital Improvement Grants	20.500	334,963
Federal Transit Capital and Operating Assistance Formula Grants	20.507	18,439,793
Federal Transit Technical Studies Grants	20.505	75,925
Public Transportation for Nonurbanized Areas	20.509	561,054
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	175,455
Highway Safety Cluster:		
State and Community Highway Safety	20.600	557,777
Pipeline Safety	20.700	<u>72,439</u>
<b>Total U.S. Department of Transportation (See Note 1)</b>		<b>\$109,282,794</b>
<b>Equal Employment Opportunity Commission:</b>		
Employment Discrimination-State and Local Fair		
Employment Practices Agency Contracts	30.002	\$ <u>113,337</u>
<b>Total Equal Employment Opportunity Commission</b>		<b>\$ 113,337</b>
<b>Federal Mediation and Conciliation Service:</b>		
Labor Management Cooperation	34.002	\$ <u>10,316</u>
<b>Total Federal Mediation and Conciliation Service</b>		<b>\$ 10,316</b>
<i>See Accompanying Notes to the Schedule of Expenditures of Federal Awards</i>		

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FISCAL YEAR ENDED JUNE 30, 1998**

<u>Federal Grantor</u> <u>Program Title</u>	<u>CFDA</u> <u>Number</u>	<u>Federal</u> <u>Expenditures</u>
<b>General Services Administration:</b>		
Donation of Federal Surplus Personal Property (See Note 2)	39.003	\$ <u>1,332,539</u>
<b>Total General Services Administration</b>		<b>\$ <u>1,332,539</u></b>
<b>National Foundation on the Arts and Humanities:</b>		
Promotion of the Arts-Grants to Organization and Individuals	45.024	\$ 133
Promotion of the Arts-Partnership Agreements	45.025	424,276
Promotion of the Humanities-Federal/State Partnership	45.129	959
Promotion of The Humanities-Division of Preservation and Access	45.149	<u>672,991</u>
<b>Total National Foundation on the Arts and the Humanities</b>		<b>\$ <u>1,098,359</u></b>
<b>National Science Foundation:</b>		
Institute for Advanced Math	47.049	\$ 5,586
Meyer Sabbatical	47.050	31,843
Education and Human Resources	47.076	<u>559,221</u>
<b>Total National Science Foundation (See Note 1)</b>		<b>\$ <u>596,650</u></b>
<b>U.S. Department of Veterans Affairs:</b>		
Veterans State Nursing Home Care	64.015	3,504,865
Veterans Administration Loan Guarantee Program (See Note 2)	64.114	\$ 8,536,082
All-Volunteer Force Educational Assistance	64.124	69,771
State Cemetary Grants	64.203	<u>22,631</u>
<b>Total U.S. Department of Veterans Affairs (See Note 1)</b>		<b>\$ <u>12,133,349</u></b>
<b>Environmental Protection Agency:</b>		
Air Pollution Control Program Support	66.001	\$ 948,339
State Indoor Radon Grants	66.032	153,567
Water Pollution Control-State and Interstate Program Support	66.419	771,908
State Public Water System Supervision	66.432	470,031
State Underground Water Source Protection	66.433	2,750
Water Pollution Control-Lake Restoration Cooperative Agreements	66.435	17,496
Construction Management Assistance	66.438	19,382
Water Quality Management Planning	66.454	96,747
National Estuary Program	66.456	321,530
Capitalization Grants State Revolving Funds	66.458	10,365,497
Nonpoint Source Implementation Grants	66.460	256,081
Wetlands Protection – Development Grants	66.461	63,219
National Pollutant Discharge Elimination System Related State Program Grants	66.463	215,909
Wastewater Operator Training Grant Program (Technical Assistance)	66.467	51,018
Capitalization Grants for Drinking Water State Revolving Fund	66.468	206,921
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	259,863
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	103,598
TSCA Title IV State Lead Grants-Certification of Lead-Based Paint Professionals	66.707	145,823

*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, 1998**

<u>Federal Grantor</u> <u>Program Title</u>	<u>CFDA</u> <u>Number</u>	<u>Federal</u> <u>Expenditures</u>
Pollution Prevention Grants Program	66.708	180,695
Hazardous Waste Management State Program Support	66.801	310,498
Superfund State Site-Specific Cooperative Agreements	66.802	479,448
State Underground Storage Tanks Program	66.804	277,442
Leaking Underground Storage Tank Trust Fund Program	66.805	603,465
Solid Waste Management Assistance	66.808	1,719
Pollution Prevention Grants Program	66.900	27,537
Environmental Education and Training Program	66.950	<u>51,628</u>
<b>Total Environmental Protection Agency (See Note 1)</b>		<b>\$ <u>16,402,111</u></b>
<b>U.S. Department of Energy:</b>		
State Energy Program	81.041	\$ 406,117
Weatherization Assistance for Low-Income Persons	81.042	862,247
Office of Energy Research Financial Assistance Program	81.049	22,760
Energy Conservation for Institutional Buildings	81.052	21,113
Conservation Research and Development	81.086	<u>50,907</u>
<b>Total U.S. Department of Energy (See Note 1)</b>		<b>\$ <u>1,363,144</u></b>
<b>Federal Emergency Management Agency:</b>		
Community Assistance Program – State Support Services Element (CAP-SSSE)	83.105	\$ 59,315
State Disaster Preparedness Grants	83.505	278,242
Disaster Assistance	83.516	61,480
Earthquake Hazards Reduction Grants	83.521	15,141
Emergency Management Institute-Training Assistance	83.527	86,923
Emergency Management – State and Local Assistance	83.534	<u>883,102</u>
<b>Total Federal Emergency Management Agency</b>		<b>\$ <u>1,384,203</u></b>
<b>U.S. Department of Education:</b>		
Adult Education-State-Grant Program	84.002	\$ 1,524,315
Bilingual Education	84.003	69,284
Civil Rights Training and Advisory Services	84.004	2,127
Student Financial Assistance Cluster:		
Federal Supplemental Educational Opportunity Grant Program	84.007	2,438,129
Federal Family Education Loans (See Note 2)	84.032	57,771,204
Federal Work-Study Program	84.033	1,720,487
Federal Perkins Loan Program (See Note 2)	84.038	12,551,511
Federal Pell Grant Program	84.063	11,097,445
Title I Grants to Local Educational Agencies	84.010	24,161,392
Migrant Education-Basic State Grant Program	84.011	91,183
Title I Program for Neglected and Delinquent Children	84.013	311,605
Undergraduate International Studies and Foreign Language Programs	84.016	54,751
Systems Based Investigation	84.024	141,709
Children with Deaf/Blindness	84.025	75,415

*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, 1998**

<u>Federal Grantor</u> <u>Program Title</u>	<u>CFDA</u> <u>Number</u>	<u>Federal</u> <u>Expenditures</u>
Special Education Cluster:		
Special Education-Grants to States	84.027	12,224,191
Special Education-Preschool Grants	84.173	1,512,430
Special Education-Personnel Development and Parent Training	84.029	128,294
Federal Family Education Loans (Guaranty Agency)	84.032	7,765,082
Interlibrary Cooperation and Resource Sharing	84.035	7,783
Student Support Services	84.042	442,510
Educational Talent Search	84.044	281,487
Upward Bound	84.047	446,661
Vocational Educations-Basic Grants to States	84.048	5,079,805
Educational Opportunity Center	84.066	446,428
State Student Incentive Grants	84.069	269,021
Patricia Roberts – Harris Fellowship Program	84.094	36,435
Fund for the Improvement of Postsecondary Education	84.116	28,700
Rehabilitation Services-Vocational Rehabilitation Grants to States	84.126	7,697,792
Rehabilitation Services-Service Projects	84.128	224,268
Rehabilitation Long-Term Training	84.129	16,906
National Institute on Disability and Rehabilitation Research	84.133	19,251
Public Library Construction and Technology Enhancement	84.154	54
Secondary Education and Transitional Services for Youth with Disabilities	84.158	355,686
Special Education-Special Studies for Persons with Disabilities	84.159	2,136
Immigrant Education	84.162	595,621
Independent Living-State Grants	84.169	297,047
Rehabilitation Services-Independent Living Services for Older Individuals Who are Blind	84.177	177,614
Special Education-Grants for Infants and Families with Disabilities	84.181	1,559,653
Safe and Drug-Free Schools and Communities-National Programs	84.184	3,261
Byrd Honors Scholarships	84.185	85,332
Safe and Drug-Free Schools and Communities-State Grants	84.186	1,994,369
Supported Employment Services for Individuals with Severe Disabilities	84.187	329,250
Adult Education-Literacy Training for Homeless Adults	84.192	7,046
Bilingual Education Support Services	84.194	22,819
Education for Homeless Children and Youth	84.196	92,737
School, College & University Partnerships Program	84.204	4,161
Even Start-State Educational Agencies	84.213	405,058
Fund for the Improvement of Education	84.215	37,198
Private School-Capital Expenses	84.216	64,730
State School Improvement Grants	84.218	29,670
State Grants for Assistive Technology	84.224	530,287
Tech-Prep Education	84.243	341,679
National Early Intervention Scholarship and Partnership	84.272	376,238
Goals 2000-State and Local Education Systemic Improvement Grants (See Note 3)	84.276	1,635,109
Eisenhower Professional Development State Grants	84.281	1,525,655
Innovative Education Program Strategies	84.298	1,617,331
Goals 2000: Parental Assistance Program	84.310	8,543
National Writing Project	84.994	14,675
<b>Total U.S. Department of Education</b>		<u>\$ 160,750,560</u>

*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, 1998**

<u>Federal Grantor</u> <u>Program Title</u>	<u>CFDA</u> <u>Number</u>	<u>Federal</u> <u>Expenditures</u>
<b>U.S. Department of Health and Human Services:</b>		
Special Programs for the Aging-Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect and Exploitation	93.041	\$ 29,586
Special Programs for the Aging-Title VII, Chapter 2 – Long-Term Care Ombudsman Services for Older Individuals	93.042	27,827
Special Programs for the Aging-Title III, Part F-Disease Prevention and Health Promotion Services	93.043	328,247
Aging Cluster:		
Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	2,000,793
Special Programs for the Aging-Title III, Part C-Nutrition Services	93.045	1,914,990
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	3,178,629
Maternal and Child Health Federal Consolidated Programs	93.110	89,917
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	380,677
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118	1,870,723
Mental Health Planning and Demonstration Projects	93.125	60,420
Emergency Medical Services for Children	93.127	178,491
Primary Care Services-Resource Coordination and Development Primary Care Offices	93.130	192,576
Injury Prevention and Control Research and State and Community Based Programs	93.136	668,523
Demonstration Grants for the Prevention of Alcohol and Drug Abuse Among High-Risk Populations	93.144	177,058
Projects for Assistance in Transition from Homelessness (PATH)	93.150	288,578
Health Program for Toxic Substances and Disease Registry	93.161	54,516
Grants for State Loan Repayment	93.165	151,929
Disabilities Prevention	93.184	261,601
Community Prevention Coalitions (Partnership) Demonstration Grant (See Note 3)	93.194	186
Childhood Lead Poisoning Prevention Projects–State and Community-Based Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	1,886,312
Family Planning-Services	93.217	430,516
Abstinence Education	93.235	59,060
Mental Health Research Grants	93.242	197,634
Immunization Grants	93.268	1,833,205
Drug Abuse National Research Service Awards for Research Training	93.278	47
Centers for Disease Control and Prevention- Investigations and Technical Assistance	93.283	348,234
Family Preservation and Support Services	93.556	661,710
Temporary Assistance for Needy Families	93.558	89,324,661
Family Support Payments to States-Assistance Payments	93.560	23,330
Child Support Enforcement	93.563	6,910,967
Refugee and Entrant Assistance-State Administered Programs	93.566	383,747
Low-Income Home Energy Assistance	93.568	9,966,017
Community Services Block Grant	93.569	3,038,029
Emergency Community Services for the Homeless	93.572	2,094

*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, 1998**

<u>Federal Grantor</u> <u>Program Title</u>	<u>CFDA</u> <u>Number</u>	<u>Federal</u> <u>Expenditures</u>
Child Care and Development Block Grant	93.575	2,113,475
Empowerment Zones Program	93.585	478,601
State Court Improvement Program	93.586	101,916
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	8,464,768
Grants to States for Access and Visitation Programs	93.597	12,607
Developmental Disabilities Basic Support and Advocacy Grants	93.630	541,024
Developmental Disabilities University Affiliated Programs	93.632	230,523
Child Welfare Services-State Grants	93.645	752,914
Adoption Opportunities	93.652	72,108
Foster Care-Title IV-E	93.658	13,158,143
Adoption Assistance	93.659	3,620,531
Social Services Block Grant	93.667	9,466,625
Child Abuse and Neglect State Grants	93.669	80,697
Family Violence Prevention and Services/Grants for Battered Women's Shelters-		
Grants to States and Indian Tribes	93.671	400,400
Independent Living	93.674	170,120
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	639,504
State Survey and Certification of Health Care Providers and Suppliers	93.777	1,889,760
Medical Assistance Program (See Notes 1 and 4)	93.778	530,670,580
Health Care Financing Research, Demonstrations and Evaluations	93.779	110,873
Grants to States for Operation of Offices of Rural Health	93.913	60,177
Cooperative Agreements for State-Based Comprehensive Breast and Cervical		
Cancer Early Detection Programs	93.919	1,055,273
Cooperative Agreements to Support Comprehensive School Health Programs		
to Prevent the Spread of HIV and Other Important Health Problems	93.938	616,916
HIV Prevention Activities-Health Department Based	93.940	1,278,263
Block Grants for Community Mental Health Services	93.958	1,004,547
Block Grants for Prevention and Treatment of Substance Abuse	93.959	4,167,853
Preventive Health Services-Sexually Transmitted Diseases Control Grants	93.977	321,292
Cooperative Agreements for State-Based Diabetes Control Programs and		
Evaluation of Surveillance Systems	93.988	358,323
Preventive Health and Health Services Block Grant	93.991	898,582
Maternal and Child Health Services Block Grant to the States	93.994	<u>1,820,729</u>
<b>Total U.S. Department of Health and Human Services (See Note 1)</b>		<b>\$ <u>711,477,954</u></b>
Corporation for National and Community Service:		
Learning and Serve America-Higher Education (See Note 3)	94.005	\$ 67,443
AmeriCorps (See Note 3)	94.006	430,139
Foster Grandparent/Senior Companion Cluster:		
Senior Companion Program	94.016	<u>251,137</u>
<b>Total Corporation for National and Community Service (See Note 1)</b>		<b>\$ <u>748,719</u></b>

*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, 1998**

<u>Federal Grantor</u> <u>Program Title</u>	<u>CFDA</u> <u>Number</u>	<u>Federal</u> <u>Expenditures</u>
<b>Social Security Administration:</b>		
Social Security – Disability Insurance	96.001	\$ <u>5,336,433</u>
<b>Total Social Security Administration</b>		<b>\$ <u>5,336,433</u></b>
<b>Research and Development Cluster:</b>		
<b>U.S. Department of Agriculture:</b>		
Agricultural Research – Basic and Applied Research	10.001	\$ 24,120
Plant and Animal Disease, Pest Control, and Animal Care	10.025	21,776
Grants for Agricultural Research, Special Research Grants	10.200	366,560
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203	1,159,310
Grants for Agricultural Research-Competitive Research Grants	10.206	544,017
Animal Health and Disease Research	10.207	381
Sustainable Agriculture Research and Education	10.215	26,408
Buildings and Facilities Program	10.218	43,794
Fund for Rural American-Research, Education, and Extension Activities	10.224	11,390
Cooperative Extension Service	10.500	1,494,893
Forestry Research	10.652	45,591
Soil and Water Conservation	10.902	39,215
Watershed Surveys and Planning	10.906	432
Scientific and Technical Cooperation	10.963	2,847
Other Research and Development	N/A	2,216
<b>U.S. Department of Commerce:</b>		
Economic Development-Public Works Impact Program	11.304	882,975
Sea Grant Support	11.417	3,244,968
Coastal Zone Management Estuarine Research Reserves	11.420	30,463
Fisheries Development and Utilization Research and Development Grants		
Cooperative Agreements Program	11.427	206,102
Undersea Research	11.430	14,701
Climate and Atmospheric Research	11.431	243,051
Environmental Research Laboratories Cooperative Institutes	11.432	28,319
Marine Fisheries Initiative	11.433	17,005
Cooperative Fishery Statistics	11.434	21,526
Research in Oceanographic Database Management	11.442	728
Integrated Flood Observing and Warning System	11.450	28,388
Unallied Industry Projects	11.452	6,727
Cooperative Science and Education Program	11.455	893,038
Unallied Science Center	11.472	188,406
Coastal Services Center	11.473	47,228
Atlantic Coastal Fisheries Cooperative Management Act	11.474	1,731
Other Research and Development	N/A	38,123
<b>U.S. Department of Defense:</b>		
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	75,184
Basic and Applied Scientific Research	12.300	2,727,304
Basic Scientific Research	12.431	132,944
Air Force Defense Research Sciences Program	12.800	100,955
Other Research and Development	N/A	1,005,634

*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, 1998**

<u>Federal Grantor</u> <u>Program Title</u>	<u>CFDA</u> <u>Number</u>	<u>Federal</u> <u>Expenditures</u>
<b>Research and Development Cluster (Continued):</b>		
<b>U.S. Department of Housing and Urban Development:</b>		
Community Outreach Partnership Center Program	14.511	70,229
Public and Indian Housing Drug Elimination Program	14.854	27,492
Other Research and Development	N/A	733
<b>U.S. Department of Interior:</b>		
Fish and Wildlife Management Assistance	15.608	8,070
Assistance to State Water Resources Research Institutes	15.805	22,647
Earthquake Hazards Reduction Program	15.807	13,011
U.S. Geological Survey-Research and Data Acquisition	15.808	75,669
Outdoor Recreation-Acquisition, Development and Planning	15.916	53,762
Migratory Bird Banding and Data Analysis	15.976	248,141
Other Research and Development	N/A	300,861
<b>U.S. Department of Justice:</b>		
Edward Byrne Memorial State and Local Enforcement Assistance Discretionary Grants Program	16.580	11,998
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	54,638
<b>U.S. Department of Labor:</b>		
Employment and Training Research and Development Projects	17.248	1,194
Employment Services and Job Training-Pilot and Demonstration Programs	17.249	1,856
Job Training Partnership Act	17.250	23,969
<b>U.S. Department of State:</b>		
Other Research and Development	N/A	2,450,260
<b>U.S. Department of Transportation:</b>		
State Access to the Oil Spill Liability Trust Fund	20.006	92,581
Aviation Research Grants	20.108	20,902
Highway Planning and Construction	20.205	173,253
University Transportation Centers Program	20.701	13,794
<b>U.S. Department of Treasury:</b>		
Other Research and Development	N/A	7,492
<b>National Aeronautics and Space Administration:</b>		
Aerospace Education Services Program	43.001	798,814
Technology Transfer	43.002	310,084
Other Research and Development	N/A	129,973
<b>National Science Foundation:</b>		
Engineering Grants	47.041	592,069
Mathematical and Physical Sciences and Engineering	47.049	341,238
Geosciences	47.050	6,062,199
Computer and Information Science Engineering	47.070	152,897
Biological Science	47.074	180,650
Social, Behavioral, and Economic Sciences	47.075	327
Education and Human Resources	47.076	73,970
Other Research and Development	N/A	74,186
<b>U.S. Department of Veterans Affairs:</b>		
Other Research and Development	N/A	109,769

*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, 1998**

<u>Federal Grantor</u> <u>Program Title</u>	<u>CFDA</u> <u>Number</u>	<u>Federal</u> <u>Expenditures</u>
<b>Research and Development Cluster (Continued):</b>		
<b>Environmental Protection Agency:</b>		
National Pollutant Discharge Elimination System Related State Program Grants	66.463	12,031
Environmental Protection Consolidated Grants-Program Support	66.600	253,907
Training and Fellowships for the Environmental Protection Agency	66.607	16,997
Wetlands Protection-Development Grants	66.641	24,689
Superfund State Core Program Cooperative Agreements	66.807	26,781
Other Research and Development	N/A	162,366
<b>U.S. Department of Energy:</b>		
Office of Energy Research Financial Assistance Program	81.049	25,880
Other Research and Development	N/A	44,904
<b>U.S. Information Agency:</b>		
College and University Affiliations Programs	82.001	9,705
Other Research and Development	N/A	20,334
<b>U.S. Department of Health and Human Services:</b>		
Biological Response to Environmental	93.113	205,348
Grants to Increase Organ Donations	93.134	857
Nurse Practitioner and Nurse-Midwifery Education Programs	93.298	341,734
Professional Nurse Traineeships	93.358	59,017
Nursing Research	93.361	146,384
Cancer Cause and Prevention Research	93.393	504,772
Cancer Treatment	93.395	119,989
Cancer Control	93.399	3,677,464
Head Start	93.600	45,278
Child Abuse and Neglect Discretionary Activities	93.670	28,218
Cell Biology and Biophysics Research	93.821	101,503
Lung Disease Research	93.838	30,712
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	108,004
Microbiology, Physiology, and Biological Chemistry Research	93.856	261,818
Pharmacology, Physiology, and Biological Chemistry Research	93.859	212,394
Rural Health Medical Education Demonstration Projects	93.906	144,294
HIV Prevention Activities-Health Department Based	93.940	62,053
Grants for Geriatric Education Centers	93.969	214,172
Other Research and Development	N/A	726
<b>Corporation for National and Community Service:</b>		
Planning and Programming Development Grants	94.007	3,738
<b>Total Research and Development Cluster (See Note 1)</b>		<u>\$ 33,083,247</u>
Other Expenditures of Federal Awards (See Note 5)		<u>\$ 8,127,327</u>
<b>Total Expenditures of Federal Awards (See Notes 1 and 2)</b>		<u>\$1,523,922,900</u>

*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, 1998

**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 General-Purpose Financial Statements which are presented in section A of this report (see Note 1 to the general-purpose 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 general-purpose financial statements.

Programs are generally listed in CFDA number order by federal funding agency. The 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 does 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 in the State's general-purpose financial statements (see Note 1 to the general purpose financial statements – Summary of Significant Accounting Policies – D. Basis of Accounting). Program expenditures are reported net of the applicable federal share of rebates collected during fiscal year 1998 (see NOTE 4).

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

- Food Distribution (CFDA 10.550) – reported at the fair market value of food distributed.
- Food Stamps (CFDA 10.551) – reported at the face value of food stamp coupons distributed.
- The following guaranteed/insured mortgage loan programs are reported at the value of loans disbursed during the fiscal year: Farmers' Home Association Loan Guarantee Program – CFDA 10.410; Mortgage Insurance-Homes (Section 203 B) – CFDA 14.117; Property Improvement Loan Insurance for Improving all Existing Structures and Building of New Non-Residential Structures – CFDA 14.142; and Veterans Administration Loan Guarantee Program – CFDA 64.114.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 FISCAL YEAR ENDED JUNE 30, 1998

- Community Lending Reverse Mortgage (HECM) (CFDA 14.183) – reported at the balance of loans outstanding at June 30, 1998.
- Donation of Federal Surplus Personal Property (CFDA 39.003) – reported at the fair market value of the donated property at the time of receipt.
- Federal Family Education Loans (CFDA 84.032) – reported at the value of loans made during the fiscal year.
- Federal Perkins Loan Program (CFDA 84.038) – reported at the balance of loans outstanding at June 30, 1998.

**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, 1998</u>	<u>Insurance, Loans and Loan Guarantees Outstanding - June 30, 1998</u>
10.410	Farmers' Home Association Loan Guarantee Program	\$ 5,549,304	\$ 20,973,590
14.117	Mortgage Insurance – Homes (Section 203 B)	36,247,707	249,600,578
14.142	Property Improvement Loan Insurance for Improving All Existing Structures and Building of New Non-Residential Structures	401,466	1,998,973
14.183	Community Lending Reverse Mortgage (HECM)	20,215,046	20,215,046
64.114	Veterans Administration Loan Guarantee Program	8,536,082	28,297,101
84.032	Federal Family Education Loans	49,220,390	(a)
84.038	Federal Perkins Loan Program	12,402,807	12,402,807
93.108	Health Education Assistance Loan Program	-	1,378,917
	<u>Other Non-Cash Assistance</u>		
10.550	Food Distribution	2,711,771	-
10.551	Food Stamps	59,949,039	-
39.003	Donation of Federal Surplus Personal Property	<u>1,332,539</u>	-
	Total Non-Cash Assistance	<u>\$ 196,566,151</u>	

(a) Loan guarantees outstanding for the FFEL program (CFDA 84.032) at the guaranty agency total \$767,629,612 at June 30, 1998.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 FISCAL YEAR ENDED JUNE 30, 1998

**NOTE 3. FEDERAL AWARDS RECEIVED FROM PASS-THROUGH ENTITIES**

The State expended in fiscal year 1998 the following federal awards received from pass-through entities:

<u>Program</u>	<u>CFDA Number</u>	<u>Expenditures of Federal Awards</u>	<u>Pass-through Entity</u>
Gang-Free Schools and Communities- Community Based Gang Intervention	16.544	\$ 6,300	National Crime Prevention Council
Goals 2000 – State and Local Education Systemic Improvement Grants	84.276	1,650	Big Picture Company
Community Prevention Coalitions (Partnership) Demonstration Grant	93.194	186	Community Partnership for Substance Abuse Prevention
Learning and Serve America - Higher Education	94.005	67,443	Federal Campus Compact Center for Community College; Private American Association of Community Colleges; and State of RI Commission for National and Community Service
AmeriCorps	94.006	<u>430,139</u>	Commission for National and Community Service
Total Expenditures of Federal Awards Received from Pass-through Entities		<u>\$ 505,718</u>	

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 FISCAL YEAR ENDED JUNE 30, 1998

**NOTE 4. REBATES OF PROGRAM EXPENDITURES**

The State received the following program expenditure rebates during fiscal 1998:

<u>Program</u>	<u>CFDA Number</u>	<u>Rebate Amount</u>
Medical Assistance Program	93.778	\$10,607,893
Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	10.557	\$ 3,274,699

Manufacturers of infant formula (WIC) and prescription drugs (Medical Assistance) which had been purchased by program participants made the rebates. The rebates reduced previously-incurred program expenditures.

**NOTE 5. OTHER EXPENDITURES OF FEDERAL AWARDS**

CFDA numbers are either not assigned or unavailable for federal expenditures totaling \$8,127,327 as shown below.

U.S. Department of Defense Programs:

R.I. National Guard:

Federal Grants Air National Guard	\$ 1,121,082
Federal Grants Army National Guard	710,273
Fire Fighting Services	872,806
Security Guards	490,240
Miscellaneous	<u>811,192</u>
Total U.S. Department of Defense	4,005,593
Various Programs	<u>4,121,734</u>
Total Other Expenditures of Federal Awards	<u>\$ 8,127,327</u>

**NOTE 6. UNEMPLOYMENT INSURANCE EXPENDITURES**

Expenditures of federal awards for Unemployment Insurance (CFDA Number 17.225) represent \$144,409,292 funded from the State's account in the federal Unemployment Trust Fund and \$16,431,498 funded by federal grants.

Auditor's Reports

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**Office of the Auditor General  
General Assembl**

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

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 general-purpose financial statements of the State of Rhode Island and Providence Plantations (the State) as of and for the year ended June 30, 1998, and have issued our report thereon dated March 12, 1999. Our report was qualified because insufficient audit evidence exists to support the State's disclosures with respect to the year 2000 issue and because of the omission of the general fixed assets account group which should be included in order to conform with generally accepted accounting principles. Our opinion expressed therein, insofar as it relates to component units whose financial statements were audited by other auditors, was based solely on the reports of the other auditors.

Except as discussed in the preceding paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement.

Compliance

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

The reports of other auditors who audited the component units' compliance with laws, regulations, contracts and grants in accordance with *Government Auditing Standards* were furnished to us and this report, insofar as it relates to these component units, was based solely on the report of the other auditors.

The results of our tests and the reports of the other auditors disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we will report to management of the State in a separate communication. Other auditors also noted certain immaterial instances of noncompliance that they have communicated to management of the component units.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. The reports of the other auditors on the internal control over financial reporting of component units in accordance with *Government Auditing Standards* were furnished to us and this report, insofar as it relates to these component units, was based solely on the reports of the other auditors.

We, and the reports of the other auditors, noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 98-1, 98-2, 98-3, 98-4, 98-5, and 98-6.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting and the reports of the other auditors would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Findings 98-1, 98-2, and 98-6 to be material weaknesses.

We also noted other matters involving the internal control over financial reporting that we will report to management of the State in a separate communication. Other auditors also noted other matters involving the internal control over financial reporting that they have communicated to management of the component units.

Finance Committee  
Joint Committee on Legislative Services  
Page 3

This report is intended for the information 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. However, this report is a matter of public record and its distribution is not limited.

March 12, 1999

Ernest A. Almonte, CPA, CFE  
Auditor General

**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, 1998. We did not audit the compliance of component units administering major federal programs with the requirements described in the preceding sentence. These major federal programs had combined expenditures of federal awards representing 22% of the reporting entity's total major federal program expenditures of federal awards in fiscal year 1998. Those audits were performed by other auditors whose reports on compliance with requirements applicable to the major federal programs administered by these component units were furnished to us, and this report insofar as it relates to the component units that were audited by other auditors, is based solely on the reports of the other auditors. The State's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

Except as discussed in the following two paragraphs, we conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion. Our audit does not provide a legal determination of the State's compliance with those requirements.

We were unable to obtain sufficient documentation supporting the compliance of the State with the State Administrative Matching Grants for Food Stamp Program, Rehabilitation Services – Vocational Rehabilitation Grants to States, Child Support Enforcement, and the Social Services Block Grant programs regarding the equipment and real property management requirement, nor were we able to satisfy ourselves as to the State's compliance with this requirement by other auditing procedures.

The State (1) did not determine eligibility for the Foster Care-Title IV-E program in accordance with federal requirements (2) could not quantify duplicate claims for certain foster care maintenance costs (3) could not quantify the impact on administrative costs allocated to the program because of the eligibility issue previously described. We were not able to apply other auditing procedures to obtain reasonable assurance about whether the State complied, in all material respects, with the requirements that are applicable to the Foster Care-Title IV-E program.

As described in Findings 98-13, 98-15, 98-27, 98-30, and 98-31 in the accompanying schedule of findings and questioned costs, the State did not comply with (1) the requirement regarding subrecipient monitoring that is applicable to its Child Nutrition Cluster, Title I Grants to Local Educational Agencies, and Vocational Education – Basic Grants to States programs, (2) the requirement regarding eligibility that is applicable to its Unemployment Insurance program, (3) the requirement regarding special tests and provisions that is applicable to its Federal Family Education Loans (Guaranty Agency) program, (4) the requirement regarding eligibility that is applicable to its National Early Intervention Scholarship and Partnership program and (5) the requirement regarding reporting applicable to its Temporary Assistance for Needy Families program. Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to those programs.

The scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the requirements referred to above that are applicable to the Foster Care-Title IV-E program for the year ended June 30, 1998. Also, in our opinion, based on the results of our audit and the reports of the other auditors, and except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the State's compliance with the State Administrative Matching Grants for Food Stamp Program, Rehabilitation Services – Vocational Rehabilitation Grants to States, Child Support Enforcement, and the Social Services Block Grant programs regarding the equipment and real property management requirement, and except for the noncompliance described in the preceding paragraph, the State complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended June 30, 1998. 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 98-10, 98-21, 98-22, 98-23, 98-25, 98-26, 98-28, 98-29, 98-38, 98-43, 98-47, 98-48, 98-52, 98-55 and 98-56.

#### Internal Control Over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133. Other auditors have audited certain major federal programs administered by component units which had combined expenditures of federal awards representing 22% of the reporting entity's total major federal program expenditures of federal awards in fiscal year 1998. The other auditors have furnished us their reports on their consideration and testing of the component units' internal control over compliance with requirements that could have a direct and material effect on a major federal program.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. The other auditors also noted certain matters involving the component units' internal control over compliance and its operation that they consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 98-7, 98-8, 98-9, 98-11, 98-12, 98-13, 98-14, 98-15, 98-16, 98-17, 98-18, 98-19, 98-20, 98-24, 98-27, 98-30, 98-32, 98-33, 98-34, 98-35, 98-36, 98-37, 98-39, 98-40, 98-41, 98-42, 98-43, 98-44, 98-45, 98-46, 98-47, 98-49, 98-50, 98-51, 98-53 and 98-54.

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

However, of the reportable conditions described above, we consider, based on our auditing procedures and the reports of other auditors, Findings 98-7, 98-13, 98-14, 98-15, 98-27, 98-30, 98-42 and 98-45 to be material weaknesses.

This report is intended for the information 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. However, this report is a matter of public record and its distribution is not limited.

March 19, 1999

Ernest A. Almonte, CPA, CFE  
Auditor General

Schedule of Findings and  
Questioned Costs

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**Office of the Auditor General**  
**General Assembly**

**State of Rhode Island**

Single Audit Report

For the Fiscal Year Ended June 30, 1998

Schedule of Findings and  
Questioned Costs

**Section I**

Summary of  
Auditor's Results

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**Office of the Auditor General  
General Assembly**

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

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***General-Purpose Financial Statements***

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

***Federal Awards***

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

<b>CFDA Number</b>	<b>Program</b>
Various	Child Nutrition Cluster
10.561	State Administrative Matching Grants for Food Stamp Program
17.225	Unemployment Insurance
84.010	Title I Grants to Local Educational Agencies
84.032	Federal Family Education Loans (Guaranty Agency)
84.048	Vocational Education – Basic Grants to States
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States
84.272	National Early Intervention Scholarship and Partnership
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.667	Social Services Block Grant

- 6.) The audit disclosed findings that must be reported under OMB Circular A-133 provisions.
- 7.) Major programs are listed beginning on the next page.
- 8.) The dollar threshold used to distinguish between Type A and Type B programs was \$4,571,769.
- 9.) The State of Rhode Island did not qualify as a low-risk auditee as defined by OMB Circular A-133.

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

**Major Programs**

<u>Program Title</u>	<u>CFDA Number</u>
Farmers’ Home Association Loan Guarantee Program	10.410
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
Mortgage Insurance – Homes (Section 203B)	14.117
Section 8 Cluster:	
Section 8 Housing Assistance Payments Program – Construction/ Substantial Rehabilitation	14.182
Section 8 Rental Voucher Program	14.855
Section 8 Moderate Rehabilitation Program	14.856
Section 8 Rental Certificate Program	14.857
Community Lending Reverse Mortgage (HECM)	14.183
Employment Services Cluster:	
Employment Service	17.207
Disabled Veterans’ Outreach Program (DVOP)	17.801
Unemployment Insurance	17.225
Trade Adjustment Assistance – Workers	17.245
JTPA Cluster:	
Employment and Training Assistance – Dislocated Workers	17.246
Job Training Partnership Act	17.250
Airport Improvement Program	20.106
Highway Planning and Construction	20.205
Federal Transit Cluster:	
Federal Transit Capital Improvement Grants	20.500
Federal Transit Capital and Operating Assistance Formula Grants	20.507
Veterans Administration Loan Guarantee Program	64.114

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

**Major Programs (cont’d)**

<u>Program Title</u>	<u>CFDA Number</u>
Capitalization Grants for State Revolving Funds	66.458
Student Financial Assistance Cluster:	
Federal Supplemental Educational Opportunity Grant Program	84.007
Federal Family Education Loans	84.032
Federal Work-Study Program	84.033
Federal Perkins Loan Program	84.038
Federal Pell Grant Program	84.063
Title I Grants to Local Educational Agencies	84.010
Federal Family Education Loans (Guaranty Agency)	84.032
Vocational Education – Basic Grants to States	84.048
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126
National Early Intervention Scholarship and Partnership	84.272
Temporary Assistance for Needy Families	93.558
Child Support Enforcement	93.563
Low-Income Home Energy Assistance	93.568
Community Services Block Grant	93.569
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596
Foster Care – Title IV-E	93.658
Social Services Block Grant	93.667
Medicaid Cluster:	
State Medicaid Fraud Control Units	93.775
State Survey and Certification of Health Care Suppliers and Providers	93.777
Medical Assistance Program	93.778
Block Grants for Prevention and Treatment of Substance Abuse	93.959
Research and Development Cluster	Various

**State of Rhode Island**

Single Audit Report

For the Fiscal Year Ended June 30, 1998

Schedule of Findings and  
Questioned Costs

**Section II**

Financial Statement  
Findings

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**Office of the Auditor General  
General Assembly**

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

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**Finding 98-1**

GENERAL FIXED ASSETS ACCOUNT GROUP

The State has not accumulated historical information concerning the cost and classification of its investment in fixed assets. This information is required by generally accepted accounting principles to be presented in the General-Purpose Financial Statements by inclusion of a General Fixed Assets Account Group. Due to the omission of the General Fixed Assets Account Group, we qualified our opinion on the State's general-purpose financial statements.

A statewide fixed asset inventory system is also needed to provide adequate controls over the State's substantial investment in fixed assets and to prepare financial statements in conformance with generally accepted accounting principles. Further, Office of Management and Budget (OMB) Circular A-102 requires States to use, manage, and dispose of equipment acquired with federal funds in accordance with state laws and procedures. The State's lack of adequate fixed asset inventory records 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.

We understand that policies and procedures have been developed to inventory and accumulate fixed asset information, however, the process has not commenced. The State should immediately begin to accumulate and record the cost of all new fixed assets purchased and inventory and assign a value to all other assets beginning with its most material assets (land and buildings).

RECOMMENDATION

98-1 Implement systems and procedures to accumulate and record the information needed to include the General Fixed Assets Account Group in the State's general-purpose financial statements.

**Finding 98-2**

CONTROL OVER LONG TERM OBLIGATIONS

The State lacks adequate accounting controls to accumulate all long term obligations for inclusion in the General Long Term Debt Account Group within the general-purpose financial statements. Controls are also adequate to ensure all required payments are made when due.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section II – Financial Statement Findings

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

A new accounting system is required to capture all categories of long-term obligations, detail all debt service requirements to maturity and prompt payments on the required dates. This will provide information necessary for financial reporting purposes, and generally improve control over the State's long-term obligations.

#### RECOMMENDATION

98-2 Acquire a new accounting system that will accumulate all long-term general obligations of the State to improve controls over financial reporting and debt service payments.

<b>Finding 98-3</b>
---------------------

#### PASSWORD ACCESS CONTROLS OVER THE STATE ACCOUNTING SYSTEM

The Government On-Line Data Entry Network (GOLDEN) component of the State accounting system is used to process disbursements to vendors and record receipts. The GOLDEN system allows data entry of vendor payment information at the agency level rather than at the Office of Accounts and Control.

We found the GOLDEN system lacks adequate controls to ensure that user access is necessary, appropriate to their duties, and sufficiently restricted. These controls are important to maintaining adequate security of any computer system application. We found the following instances of individuals with inappropriate system access.

- Certain computer programmers in the Office of Library and Information Services have access to the GOLDEN system which provides them with the ability to prepare and approve disbursements as well as prepare and approve receipt vouchers. Programmers should not have continued access to the system once it is placed in production but instead should only have access to a test system where system modifications are designed and tested before production.

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

---

- Certain accounting personnel in the Office of Accounts and Control have access allowing them to both initiate and approve vouchers for payment.

Segregation of duties is maintained in the State accounting system by requiring agencies to prepare vouchers on-line but submit a signed and authorized hard-copy voucher, along with supporting documentation, to the pre-audit section within the Office of Accounts and Control. The pre-audit section reviews the voucher and supporting documentation, checks for appropriate authorized signature and approves vouchers for payment. Segregating voucher preparation from the pre-audit approval function is a key internal control in the State accounting system. No individual should have the ability to both initiate and approve the same transactions within the accounting system.

**RECOMMENDATIONS**

98-3a Restrict access to the GOLDEN system so that no individual has the capability to both initiate and approve transactions.

98-3b Remove programmer access to the GOLDEN system.

<b>Finding 98-4</b>
---------------------

**PASSWORD ACCESS CONTROLS OVER THE PAYROLL ACCOUNTING SYSTEM**

Payroll data for the majority of State employees is entered on-line to the payroll accounting system at the department or agency level.

We reviewed the controls over data entry for the State payroll accounting system and found that established procedures do not mandate the assignment of unique passwords for each user to control and restrict access to the system. Computer work stations used to enter payroll data at some larger State agencies were not in secure locations. Further, the existing password control system does not record password information within the data files to identify individuals making specific file changes thereby providing a clear audit trail.

System access controls need to be improved by requiring each user to have a unique password and by utilizing the password to track all transactions initiated by an individual user.

**RECOMMENDATIONS**

98-4a Require that each individual have a unique password to appropriately restrict access to the system.

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

---

98-4b Capture and maintain the employee's unique password within the transaction file to specifically identify transactions by individual user.

**Finding 98-5**

DISASTER RECOVERY PLAN

The Office of Library and Information Services (OLIS) does not have a formal written disaster recovery/business resumption plan for all computer applications utilizing the State Data Center located in Johnston, as well as its operations located at One Capital Hill in Providence. Key computer applications utilizing the State Data Center include the State's centralized accounting, tax collection, employee payroll, and pension payroll systems. Such a plan should be designed to allow the continuation of essential data processing and support functions in the event existing data processing facilities are destroyed, impaired or unavailable. Without a formal plan, the State's ability to re-establish key computer applications in a timely manner may be compromised.

RECOMMENDATION

98-5 Develop a formal written disaster recovery/business resumption plan for the State Data Center and operations at One Capital Hill.

**Finding 98-6**

FISCAL AGENT OVERSIGHT – MEDICAL ASSISTANCE PROGRAM

As described in Finding 98-45 (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.

**State of Rhode Island**

Single Audit Report

For the Fiscal Year Ended June 30, 1998

Schedule of Findings and  
Questioned Costs

**Section III**

Federal Award Findings  
and  
Questioned Costs

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**Office of the Auditor General  
General Assembly**

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

**TABLE OF FINDINGS BY FEDERAL PROGRAM**

	<b>CFDA</b>	
<b>Program Title</b>	<b>Number</b>	<b>Applicable Findings</b>
Farmers' Home Association Loan Guarantee Program	10.410	None Reported
Food Stamp Cluster:		
Food Stamps	10.551	None Reported
State Administrative Matching Grants for Food Stamp Program		98-7, 98-8, 98-9, 98-10, 98-32, 98-33
Child Nutrition Cluster:		
School Breakfast Program	10.553	98-8, 98-11, 98-12, 98-13
National School Lunch Program	10.555	98-8, 98-9, 98-11, 98-12, 98-13
Special Milk Program for Children	10.556	98-8, 98-11, 98-12, 98-13
Summer Food Service Program for Children	10.559	98-8, 98-11, 98-12, 98-13
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	98-8, 98-9, 98-14
Mortgage Insurance – Homes (Section 203B)	14.117	None Reported
Section 8 Cluster:		
Section 8 Housing Assistance Payments Program – Construction/Substantial Rehabilitation	14.182	None Reported
Section 8 Rental Voucher Program	14.855	None Reported
Section 8 Moderate Rehabilitation Program	14.856	None Reported
Section 8 Rental Certificate Program	14.857	None Reported
Community Lending Reverse Mortgage (HECM)	14.183	None Reported
Employment Service Cluster:		
Employment Service	17.207	98-8
Disabled Veterans' Outreach Program (DVOP)	17.801	98-8
Unemployment Insurance	17.225	98-8, 98-9, 98-10, 98-15
Trade Adjustment Assistance – Workers	17.245	98-8, 98-9
JTPA Cluster:		
Employment and Training Assistance – Dislocated Workers	17.246	98-8, 98-9, 98-16, 98-17
Job Training Partnership Act	17.250	98-8, 98-9, 98-16, 98-17

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

**TABLE OF FINDINGS BY FEDERAL PROGRAM**

<b>Program Title</b>	<b>CFDA Number</b>	<b>Applicable Findings</b>
Airport Improvement Program	20.106	98-18, 98-19
Highway Planning and Construction	20.205	98-8, 98-9, 98-20
Federal Transit Cluster:		
Federal Transit Capital Improvement Grants	20.500	98-8, 98-21, 98-22
Federal Transit Capital and Operating Assistance Formula Grants	20.507	98-8, 98-9, 98-21, 98-22
Veterans Administration Loan Guarantee Program	64.114	None Reported
Capitalization Grants for State Revolving Funds	66.458	None Reported
Student Financial Assistance Cluster:		
Federal Supplemental Education Opportunity Grant Program	84.007	None Reported
Federal Family Education Loans	84.032	98-25, 98-26
Federal Work-Study Program	84.033	98-28
Federal Perkins Loan Program	84.038	98-25
Federal Pell Grant Program	84.063	None Reported
Title I Grants to Local Educational Agencies	84.010	98-8, 98-9, 98-12, 98-13, 98-23, 98-24
Special Education – Grants to States	84.027	98-23
Federal Family Education Loans (Guaranty Agency)	84.032	98-27
Vocational Education – Basic Grants to States	84.048	98-8, 98-9, 98-13, 98-23, 98-24
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	98-7, 98-8, 98-9, 98-10, 98-29
Tech-Prep Education	84.243	98-23
National Early Intervention Scholarship and Partnership	84.272	98-30
Goals 2000-State and Local Education Systemic Improvement Grants	84.276	98-23
Temporary Assistance for Needy Families	93.558	98-8, 98-9, 98-10, 98-31, 98-32, 98-33, 98-34, 98-35, 98-36

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

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**TABLE OF FINDINGS BY FEDERAL PROGRAM**

<b>Program Title</b>	<b>CFDA Number</b>	<b>Applicable Findings</b>
Child Support Enforcement	93.563	98-7, 98-8, 98-9, 98-10, 98-37
Low-Income Home Energy Assistance	93.568	98-8, 98-9
Community Services Block Grant	93.569	98-8, 98-32, 98-38, 98-39, 98-40
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	98-8, 98-32, 98-41
Foster Care – Title IV-E	93.658	98-8, 98-9, 98-42
Social Services Block Grant	93.667	98-7, 98-8, 98-9, 98-10, 98-32
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	98-8
State Survey and Certification of Health Care Suppliers and Providers	93.777	98-8
Medical Assistance Program	93.778	98-8, 98-9, 98-10, 98-43, 98-44, 98-45, 98-46, 98-47, 98-48, 98-49, 98-50, 98-51, 98-52, 98-53, 98-54
Block of Grants for Prevention and Treatment of Substance Abuse	93.959	98-8, 98-9
Research and Development Cluster:		
Various programs	Various	98-55
Economic Development – Public Works Impact Program	11.304	98-56

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

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**Finding 98-7**

VARIOUS PROGRAMS – refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

MANAGEMENT OF EQUIPMENT ACQUIRED WITH FEDERAL FUNDS

As described in Finding 98-1 (Section II – Financial Statement Findings), the State lacked statewide systems and procedures to adequately control its substantial investment in fixed assets and to prepare its financial statements in conformance with generally accepted accounting principles. This 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.

Because of the lack of a statewide inventory system and related controls over fixed assets, we were unable to test the State's compliance with the equipment management requirement. In most instances, individual departments or agencies vested with responsibility for administering federal programs also lacked controls to ensure compliance with these requirements.

Questioned Costs: None

**Finding 98-8**

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

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

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The State developed the Cash Management System (CMS) as part of the State accounting system to provide information enabling its departments and agencies to draw federal funds in compliance with the Treasury/State agreement. Of the programs we tested as major programs that are subject to the Treasury/State agreement, only 8 consistently utilized the information provided by the CMS to draw federal cash while 11 programs did not (the terms of the agreement were no longer applicable for one program subject to the agreement). In some instances funds were drawn later than permitted; in other instances funds were drawn more quickly than permitted.

Each department is responsible for drawing federal funds for the programs it manages. The State does not have procedures to centrally administer or monitor compliance with federal cash management requirements.

We believe responsibility for drawing federal funds should be vested in the Office of the General Treasurer where compliance with cash management for federal programs should be integrated with other cash management objectives. In instances where funds are now drawn less frequently than permitted, compliance with the agreement will enhance the State's cash management. Further, overall compliance with the agreement will minimize or eliminate any State interest liability payable to the federal government.

Questioned Costs: None

#### RECOMMENDATIONS

98-8a Comply with cash management requirements when drawing funds for federal programs.

98-8b Implement a centralized monitoring system to ensure compliance with cash management requirements. Vest responsibility for cash management of federal programs with the Office of the General Treasurer.

<b>Finding 98-9</b>
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VARIOUS PROGRAMS – refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

#### CALCULATION OF THE STATE INTEREST LIABILITY

The State reported a net \$0 interest liability to the federal government on its Cash Management Improvement Act (CMIA) Annual Report to the federal government. We reviewed the State's calculation for major programs subject to the agreement and found that the State's procedures to

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

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calculate the interest liability were not in conformance with those specified in the Treasury/State agreement. Specifically, the formula used to calculate the state interest liability by program is not the one specified in the agreement and the formula offsets negative interest when the State failed to draw all permitted amounts against interest incurred when amounts drawn exceeded permitted amounts.

The CMIA Treasury/State agreement provides that the interest calculation for funds drawn from the Unemployment Insurance (UI) Trust Fund (CFDA 17.225) are to be determined by subtracting the actual bank charges from the actual interest earned. Because the bank account used to disburse UI benefits is non-interest bearing and contains a \$2 million compensating balance, no actual interest is credited nor are any bank charges paid. Section 303a(5) of Title III of the Social Security Act requires that all funds drawn from the Unemployment Trust Fund be used solely for benefit payments or refunds. Therefore, we believe interest should have been paid to the Trust Fund for the compensating balance. Based upon prior recommendations, during the close of fiscal 1998 and subsequently, the State is in the process of eliminating the \$2 million compensating balance.

The State should review its interest calculation for all programs subject to the Treasury/State agreement and revise its report to the federal government as required.

Questioned Costs: None

#### RECOMMENDATIONS

- 98-9a Review the fiscal 1998 interest calculation for all major programs subject to the Treasury-State agreement and submit a revised federal report.
- 98-9b Comply with the methods specified in the Treasury/State agreement to calculate the State interest liability.

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

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**Finding 98-10**

STATE ADMINISTRATIVE MATCHING GRANTS FOR FOOD STAMP PROGRAM – CFDA 10.561  
UNEMPLOYMENT INSURANCE – CFDA 17.225  
REHABILITATION SERVICES – VOCATIONAL REHABILITATION GRANTS TO STATES –  
CFDA 84.126  
TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558  
CHILD SUPPORT ENFORCEMENT – CFDA 93.563  
SOCIAL SERVICES BLOCK GRANT – CFDA 93.667  
MEDICAL ASSISTANCE PROGRAM – CFDA 93.778

ALLOWABLE COSTS/COST PRINCIPLES – QUESTIONED COSTS RESULTING FROM  
STATEWIDE POLICIES FOR ALLOCATION OF CERTAIN PERSONNEL COSTS

Office of Management and Budget (OMB) Circular A-87 stipulates that “payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all the activities of the governmental unit or component” {Attachment B, Section 11(d)(3)}. The State’s policy is to charge any payment for unused leave at termination in the same manner as the employee’s last wages. We could not determine the amount of questioned costs for all major federal programs because these payments are not segregated from regular payroll costs in the state accounting system. Ultimately, the amount of questioned costs for any federal program is the difference between amounts charged in accordance with the State’s current policy and the amount that should be charged in accordance with Circular A-87 requirements.

Similarly, OMB Circular A-87 stipulates that “actual claims paid to or on behalf of employees or former employees for workers’ compensation, unemployment or compensation... are allowable in the year of payment provided (1) the governmental unit follows a consistent costing policy and (2) they are allocated as a general administrative expense to all activities of the governmental unit” {Attachment B, Section 25 (e)}. The State is self-insured for these costs and charges actual costs for workers’ compensation and unemployment benefits provided to an employee or former employee directly to the activity (account) that the employee’s last wages were charged.

Questioned Costs:

We determined the amounts charged to major programs in fiscal 1998 for workers compensation and unemployment insurance costs and have summarized below those programs where such costs exceed \$10,000. Additionally, our tests of expenditures for certain major programs identified questioned costs relating to unused leave at termination as summarized below. Ultimately, the amount of questioned

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
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costs for any federal program is the difference between amounts charged in accordance with the State's current policy and the amount that should be charged in accordance with Circular A-87 requirements.

		<b>Workers</b>		
		<b>Compensation</b>		
		<b>and</b>	<b>Unused Leave</b>	
	<b>CFDA</b>	<b>Unemployment</b>	<b>at</b>	
<b>Program</b>	<b>Number</b>	<b>Compensation</b>	<b>Termination</b>	<b>Total</b>
State Administrative Matching Grants for Food Stamp Program	10.561	\$ 23,667	\$ 1,555	\$ 25,222
Unemployment Insurance	17.225	84,899		84,899
Rehabilitation Services – Vocational Rehabilitation Grants To States	84.126	14,876		14,876
Temporary Assistance for Needy Families	93.558		20,022	20,022
Child Support Enforcement	93.563	25,853		25,853
Social Services Block Grant	93.667		10,011	10,011
Medical Assistance Program	93.778		10,395	10,395

**RECOMMENDATION**

98-10 Implement revised policies and procedures to allocate certain personnel costs to programs and activities that comply with federal cost principles (OMB Circular A-87).

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<b>Finding 98-11</b>
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**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 – CFDA 10.559

Administered by: Rhode Island Department of Education (RIDE)

**SUBRECIPIENT MONITORING**

Federal regulation 7 CFR 225.7(2) requires the RIDE to review sponsors and sites for the Summer Food Services Program for Children to ensure compliance with program regulations. The federal regulations prescribe specific requirements for determining the number of sponsors and sites that should be reviewed annually. The department performed five of the twelve scheduled sponsor reviews. Further, the department performed 34 of the 41 site reviews required for fiscal year 1998.

RIDE was cited by the US Department of Agriculture (USDA) for not performing enough reviews for the Summer Food Service Program for fiscal year 1999. The Department agreed to perform additional reviews as a condition of continued USDA funding.

Federal regulations {7 CFR 210.18 and 7 CFR 215.11} require the State agency to perform on-site administrative reviews of school food authorities participating in the National School Lunch Program and the Special Milk Program. Each school food authority participating in the National School Lunch Program must be reviewed at least once every five years. The Department did not perform any administrative reviews for the National School Lunch Program or the Special Milk Program during fiscal 1998 due to lack of personnel.

Questioned Costs: None

**RECOMMENDATION**

98-11 Perform administrative reviews of all Child Nutrition Programs on a timely basis as required by federal regulations.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
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<b>Finding 98-12</b>
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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 – CFDA 10.559

TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES – CFDA 84.010

Administered by: Rhode Island Department of Education (RIDE)

PROCUREMENT, SUSPENSION, AND DEBARMENT

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.

RIDE does not have procedures in place to ensure that subrecipients of the Child Nutrition Programs and Title I program are not suspended or debarred from receiving federal assistance. Such procedures may include obtaining suspension or debarment certifications, or checking subrecipients to the *List of Parties Excluded from Federal Procurement or Nonprocurement Programs* issued by the General Services Administration.

Questioned Costs: None

RECOMMENDATION

98-12 Implement procedures to ensure that subgrantees are not suspended or debarred from receiving federal assistance.

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

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<b>Finding 98-13</b>
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**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 – CFDA 10.559

**TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES – CFDA 84.010**

**VOCATIONAL EDUCATION – BASIC GRANTS TO STATES – CFDA 84.048**

Administered by: Rhode Island Department of Education (RIDE)

**SUBRECIPIENT AUDIT REPORTS**

Pass-through entities are required to monitor subrecipients to (1) provide reasonable assurance that the recipient administers federal awards in compliance with applicable laws and regulations, (2) ensure required audits are performed, (3) require appropriate corrective action on findings, and (4) evaluate the impact of subrecipient activities on the pass-through entity {34 CFR Part 80.26}.

The Department did not have a system in place to monitor the receipt of subrecipient audit reports and to review the reports to determine whether there were instances of non-compliance with federal laws and regulations. As a result, it did not have reasonable assurance that the subrecipients (1) spent federal funds in accordance with applicable laws and regulations, and (2) took prompt and appropriate corrective action on reported findings.

Questioned Costs: None

**RECOMMENDATIONS**

98-13a Monitor the receipt of all required subrecipient audit reports and review such audit reports to determine if subrecipients complied with applicable program requirements.

98-13b Ensure that appropriate corrective action is taken for all reported findings contained in the subrecipient audit reports.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

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<b>Finding 98-14</b>
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SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC) – CFDA 10.557

Administered by: Department of Health

#### DATA TRANSMISSION AND HARDWARE PROBLEMS EXPERIENCED BY WIC COMPUTER SYSTEM

The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) is administered through a computer system network linking each subrecipient clinic to a central host computer located at the Department of Health. Each subrecipient clinic certifies participants and issues checks. Participant and check information is transmitted daily from the subrecipient clinics to the central host computer.

Transmission problems occurred between the subrecipient clinics and the central host computer beginning in January 1998. These problems resulted from outdated hardware and software conflicts. Data received from the subrecipient clinics was incomplete resulting in incorrect updates to WIC's central host database.

Because of these problems the department engaged a consultant to review the WIC system and make recommendations on necessary system enhancements. Additionally, the consultant was required to assist in taking corrective action to ensure the WIC computer system captured any missing data from each subrecipient clinic. As of December 1998, new hardware and software were installed at the subrecipient clinics and the conversion to a new database for the central host computer was initiated. According to WIC personnel, the new hardware and software will eliminate the data transmission problems. We were also informed that none of the source data was lost at the subrecipient clinics. At the time of our audit, the department was in the process of gathering all the missing data.

Program expenditures reported for fiscal 1998 were unaffected by the data transmission problem, however, internal control over compliance with requirements for program rebates, federal reporting, and the reconciliation of food instruments issued and redeemed were significantly weakened as more fully described below.

- Program Rebates

During fiscal 1998, all program rebates were not billed to manufacturers by WIC due to the computer difficulties experienced during the year. The data used to bill manufacturers for program rebates was incomplete, and therefore WIC billed the manufacturers for only what could be supported. WIC plans on billing the rebate manufacturers once the data is completely revised.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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- Federal reporting

Federal reports are prepared based on information (participant and rebate data, etc.) contained in the central database. WIC is required to submit monthly reports to the federal government (USDA), as well as a closeout report every March for the previous federal fiscal year. The reports contain financial and program performance information regarding rebates, food expenditures, and participation figures from the WIC computer system. These federal reports did not reflect accurate and complete information since the data in the computer system was incomplete, due to the data transmission problems previously described. WIC was advised by the federal grantor to submit the monthly reports, even though the data was incomplete. The closeout report for federal fiscal 1998 (October 1997 – September 1998) was filed in March of 1999 with some revised data. However, WIC plans to revise the closeout report further, as necessary, when they are confident that the data is complete and accurate.

- One-to-One reconciliation of food instruments issued to those redeemed

WIC is required to perform a one-to-one reconciliation of food instruments issued to food instruments redeemed within 150 days of the food instrument's first valid date for participant use. WIC also must categorize food instruments as required by federal regulations. WIC utilizes reports from their computer system detailing issuance and redemption data to comply with these requirements. Due to the transmission problems, WIC could not reconcile all food instruments issued with those redeemed. The incomplete data also prevented WIC from being able to classify certain food instruments.

Questioned Costs: None

#### RECOMMENDATIONS

98-14a Complete modifications to the WIC computer system so that it contains accurate and complete information necessary to comply with federal requirements related to rebates, federal reporting and one-to-one reconciliation of food instruments issued and redeemed.

98-14b Make necessary corrections to federal reports once the data is complete.

98-14c Bill manufacturers for any previously unbilled rebates caused by incomplete data.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
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**Finding 98-15**

UNEMPLOYMENT INSURANCE – CFDA 17.225  
Administered by: Department of Labor and Training (DLT)

**ELIGIBILITY – JOB SERVICES REGISTRATION**

Unemployment Insurance (UI) benefits are required to be paid in accordance with State law. UI benefit claimants are required by Rhode Island General Law section 28-44-12 to demonstrate availability for work by registering with the DLT's Job Services Division unless they meet specific exception criteria.

DLT operates a Benefit Accuracy Measurement Unit (BAM) that selects a sample of UI benefit payments and tests the payments for compliance with program regulations. The Unit selects 600 benefit payments per calendar year. We found the work performed and test results of the BAM to be reliable.

The test results of the BAM indicated that 42.7% of the payments in its sample were made to claimants who had not registered with the Job Services Division during calendar 1997. Test results for calendar 1998 indicate that the rate of those that had not registered with the Job Services Division had dropped to 18.5%. While there is significant improvement between the two sampling periods, the sample results continue to indicate that there is material noncompliance with this required element of eligibility for UI benefits and that controls were not adequate to prevent and detect noncompliance with this requirement.

DLT improved job service registrations by instituting a combined application for UI benefits and job service registration. Additionally, computer programming changes were made to automatically transfer information to the Job Services Division, DLT also believes that its procedures to file claims by telephone, which were implemented in April 1998, should further reduce the incidence of claimants not registered with the Job Services Division.

Questioned Costs: None

**RECOMMENDATION**

98-15 Continue to improve controls to ensure all claimants receiving Unemployment Insurance benefits demonstrate their availability for work by registering with the Job Services Division.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

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<b>Finding 98-16</b>
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**JTPA CLUSTER:**

Employment and Training Assistance Dislocated Workers – CFDA 17.246

Job Training Partnership Act – CFDA 17.250

Administered by: Department of Labor and Training (DLT)

**FEDERAL FINANCIAL REPORTING**

Expenditures incurred by the Department of Labor and Training (DLT) are processed through the State's accounting system. The Department also maintains an internal accounting system, the Financial Accounting and Reporting System (FARS), in order to classify and allocate program costs among the appropriate federal grants and state programs.

States are required to report Job Training Partnership Act (JTPA) expenditures to the United States Department of Labor on a quarterly basis for each JTPA program. The Job Training Partnership Office (JTPO), within DLT, prepares the federal reports. The JTPO accumulates data from each of its three service delivery areas as well as the Dislocated Worker Unit (also within DLT) and the Department of Elderly Affairs, and submits one report to the federal grantor for each JTPA program. Expenditures reported by the Greater Rhode Island (GRI) service delivery area and the Dislocated Worker Unit are derived from the FARS.

We examined four federal reports, which included final expenditures for the fiscal year ended June 30, 1998, and related supporting documentation. We found discrepancies between amounts recorded in the FARS and amounts reported to the federal grantor for the Greater Rhode Island service delivery area. In all instances, GRI was able to provide us with support for the reconciling items. GRI, however, does not prepare reconciliations between expenditures reported to the JTPO and expenditures derived from the FARS. Such reconciliations, if submitted with the federal report, would enable the JTPO to confirm amounts reported and ensure that federal reports were supported by the State's accounting records.

Questioned Costs: None

**RECOMMENDATIONS**

98-16a Maintain reconciliations between amounts reported to the federal grantor and amounts derived from the FARS. (GRI and DWU)

98-16b Submit reconciliations along with the federal report to the JTPO. (GRI and DWU)

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98-16c Review reconciliations between amounts reported and amounts derived from the FARS. (JTPO)

<b>Finding 98-17</b>
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**JTPA CLUSTER:**

Employment and Training Assistance Dislocated Workers – CFDA 17.246

Job Training Partnership Act – CFDA 17.250

Administered by: Department of Labor and Training (DLT)

**ELIGIBILITY CRITERIA**

Federal regulations for participant eligibility require states to maintain specific forms of documentation to support compliance with general eligibility, economic eligibility, and hand-to-serve criteria within each JTPA participant’s case file.

We examined 36 JTPA participant files for acceptable forms of documentation to support compliance with each eligibility criteria. General eligibility includes age, residency, citizenship/eligibility to work, and selective service registration. We found six files that did not contain acceptable forms of documentation for citizenship/eligibility to work; one of which also did not contain acceptable documentation for selective service. These six files were maintained by DLT’s Dislocated Worker Unit.

According to the Technical Assistance Guide, issued by the US Department of Labor, acceptable forms of documentation for citizenship/eligibility to work are: birth certificate, public assistance records, voter registration card, United States passport, alien registration card, naturalization certification and social security administration printout.

According to 20 CFR 627.235 (b), states must ensure that all men enrolled in a JTPA program under Titles I, II and III comply with the Military Selective Service Act. This act requires male persons born after December 31, 1959, who have attained their 18<sup>th</sup> birthday, to register with Selective Service. The duty to register remains until age 26.

Questioned Costs: None

**RECOMMENDATION**

98-17 Maintain appropriate supporting documentation for general eligibility requirements, specifically, citizenship/eligibility to work and selective service registration.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
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**Finding 98-18**

AIRPORT IMPROVEMENT PROGRAM – CFDA 20.106  
Administered by: Rhode Island Airport Corporation (RIAC)

EQUIPMENT MANAGEMENT

OMB Circular A-133, Audits of State, Local Governments and Non-Profit Organizations, requires that the auditee maintain proper records for equipment and take a physical inventory of equipment acquired under federal awards every two years. The equipment records should contain the following information about the equipment: description (including serial number or other identification number), source, who holds title, acquisition date and cost, percentage of federal participation in the cost, location, condition and any ultimate disposition data including the date of disposal and sales price or method used to determine current fair market value. RIAC's property records do not contain all of the required information. However, RIAC was able to provide the information utilizing reports from various departments within the organization. A physical inventory of assets purchased under federal awards has not been performed.

Questioned Costs: None

RECOMMENDATION

98-18 We recommend that RIAC modify its property records to include the required information and utilize these records to perform the required physical inventory. In addition, we recommend that titles to the equipment be retained in a locked file cabinet in the administrative offices rather than at the place where the equipment is physically located.

**Finding 98-19**

AIRPORT IMPROVEMENT PROGRAM – CFDA 20.106  
Administered by: Rhode Island Airport Corporation (RIAC)

PROCUREMENT

OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, requires that the auditee maintain contract files that document significant procurement history. In addition, the contracts should be reviewed for compliance with federal procurement policies. RIAC's contract files did not contain information which documented significant procurement history and there was no documentation that the contract complied with federal procurement policies. RIAC was able

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to provide sufficient procurement history for the contracts examined by assembling information from numerous departments and we noted no instances of noncompliance with federal procurement policies.

Questioned Costs: None

#### RECOMMENDATION

98-19 To document significant procurement history and to ensure compliance with federal procurement policies, we recommend that RIAC:

- a. Hire an individual to fill a new purchasing position who is intimately familiar with federal procurement rules to ensure federal procurement policies are followed and that contracts contain clauses that address all applicable federal requirements, among other responsibilities. Additionally, this individual would monitor compliance with applicable regulations and be responsible for contract maintenance and maintain a file of all original asset titles.
- b. Develop a “Contract Checklist” to ensure that every contract file contains all necessary information which would include the procurement history. This checklist would be completed for each contract and would be included in the applicable contract file.
- c. Centralize contract files. Presently, contracts are located throughout the organization and there were instances where the original contract could not be readily located. If the contract is needed in a department, a copy could be provided rather than the original.

<b>Finding 98-20</b>
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HIGHWAY PLANNING AND CONSTRUCTION RPOGRAM – CFDA 20.205

Administered by: Rhode Island Department of Transportation (RIDOT)

#### REAL PROPERTY MANAGEMENT

Federal regulations {23 CFR Section 710.304 (a) and (n)} concerning real property provide that federal funds may be used only for land incorporated into the final right-of-way and any uneconomic remnants. In addition, federal regulations {49 CFR section 18.31 and 23 CFR Part 713} require states to manage real property until it is used for a project, and dispose of unneeded property. RIDOT’S purchases of real property to be used in road projects totaled \$11,760,195 in fiscal 1998.

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We found that RIDOT does not have a system to identify and control parcels of real property acquired by the State using federal and State matching funds. As a result, RIDOT does not know the number, size or value of owned properties, and cannot determine whether it is in compliance with federal regulations concerning management and disposition of real property acquired with federal funds.

An inventory listing of real property could assist RIDOT in complying with federal property management requirements, and ensuring that federally-financed acquisitions are limited to parcels which are incorporated into the project (plus allowable uneconomic remnants).

Questioned Costs: None

**RECOMMENDATION**

98-20 Create and maintain an inventory listing of real property.

<b>Finding 98-21</b>
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**TRANSIT CAPITAL GRANTS CLUSTER:**

Federal Transit Capital Improvement Grants – CFDA 20.500

Federal Transit Capital and Operating Assistance Formula Grants – CFDA 20.507

Administered by: Rhode Island Public Transit Authority

**SPECIAL REPORTING**

The compliance requirements for special reporting require that the report of DBE (Disadvantaged Business Enterprise) Awards and Commitments be submitted quarterly. The Authority has not submitted these reports for the fiscal year ended June 30, 1998.

Questioned Costs: None

**RECOMMENDATION**

98-21 We recommend that the Authority submit all the outstanding DBE reports and continue to submit the required reports as required.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
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**Finding 98-22**

**TRANSIT CAPITAL GRANTS CLUSTER:**

Federal Transit Capital Improvement Grants – CFDA 20.500

Federal Transit Capital and Operating Assistance Formula Grants – CFDA 20.507

Administered by: Rhode Island Public Transit Authority

**PROCUREMENT AND SUSPENSION AND DEBARMENT**

The compliance requirements for procurement and suspension and debarment require that contractors receiving individual awards for \$100,000 or more must certify that the organization and its principals are not suspended or debarred. There was one procurement bid (Bid Number 97-15) that did not have a certification of suspension and debarment.

Questioned Costs: None

**RECOMMENDATION**

98-22 We recommend that the Authority review its bid procedures and request the certification of suspension and debarment as required for awards greater than \$100,000.

**Finding 98-23**

**TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES – CFDA 84.010**

**VOCATIONAL EDUCATION – BASIC GRANTS TO STATES – CFDA 84.048**

**OTHER PROGRAMS NOT TESTED AS MAJOR PROGRAMS WITH QUESTIONED COSTS GREATER THAN \$10,000:**

Special Education – Grants to States – CFDA 84.027

Tech-Prep Education – CFDA 84.243

Goals 2000 – State and Local Education Systemic Improvement Grants – CFDA 84.276

Administered by: Rhode Island Department of Education (RIDE)

**ALLOWABLE COSTS/COST PRINCIPLES**

Federal cost principles (OMB Circular A-87) require that costs charged to federal programs be necessary and reasonable for the proper and efficient administration of the program and also be allocable to the extent of the benefit received.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
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RIDE contracted with a vendor to assist the Department in performing a statewide assessment of education. The vendor is required to provide development, production, scoring, and reporting services as well as consultation on a variety of issues. RIDE paid the vendor a total of \$1,508,475 during fiscal 1998 of which \$380,693 was charged to various federal programs. Documentation was not available to support the amount of costs allocated to each of the federal programs or the benefit derived. Consequently, we were not able to assess the reasonableness of the charges to the federal programs. This finding was also reported for fiscal 1996 and 1997.

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

Questioned Costs: Total amount --\$367,784; amount by federal program is shown below. The total amount represents only those federal programs with charges greater than \$10,000.

<u>Program</u>	<u>CFDA number</u>	<u>Amount</u>
Title I Grants to Local Educational Agencies	84.010	\$11,004
Special Education – Grants to States	84.027	143,477
Vocational Education – Basic Grants to States	84.048	150,173
Tech-Prep Education	84.243	24,869
Goals 2000 – State and Local Education Systemic Improvement Grants	84.276	38,261

**RECOMMENDATION**

98-23 Document the methodology for allocating costs to multiple federal programs.

<b>Finding 98-24</b>
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TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES – CFDA 84.010  
 VOCATIONAL EDUCATION – BASIC GRANTS TO STATES – CFDA 84.048  
 Administered by: Rhode Island Department of Education (RIDE)

**SUBRECIPIENT CASH MANAGEMENT**

RIDE does not have adequate procedures in place to ensure subrecipients do not have federal cash on hand in excess of their immediate needs. Cash requests by subrecipients are generally

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processed once a month and funds are generally advanced based on forecasts prepared by the subrecipient for the month.

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

We tested advances to 16 subrecipients of the Vocational Education program (CFDA 84.048) and ten subrecipients of the Title I program (CFDA 84.010). Our tests disclosed that 3 of the 16 subrecipients for the Vocational Education program and 5 of 10 subrecipients for the Title I program had excess cash on hand for the periods tested.

For those subawards which are primarily used to reimburse personnel costs, we suggest that RIDE advance a prorated amount to the subrecipient on each payday similar to the procedures provided for in 31 CFR 205.10(a).

Questioned Costs: None

**RECOMMENDATION**

98-24 Monitor advances to subrecipients to ensure that they conform to standards required by 34 CFR 80.21(c), 80.37(a), (4), and 31 CFR 205.10(a).

<b>Finding 98-25</b>
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FEDERAL FAMILY EDUCATION LOAN PROGRAM – CFDA 84.032  
PERKINS LOAN PROGRAM – CFDA 84.038  
Administered by: Rhode Island College

**ENTRANCE AND EXIT INTERVIEWS**

The College is required to provide entrance and exit interviews to student borrowers. During our testwork of 25 student files, we noted the following:

- The file for one student who received a Federal Family Education loan did not contain an entrance interview.
- The file for one student who received a Perkins loan did not contain an exit interview form.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
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- Four student files tested did not contain entrance interviews.

Questioned Costs: None

RECOMMENDATION

98-25 We recommend that the College require that entrance and exit interviews be conducted in a timely manner and in accordance with federal regulations. This procedure will document whether the College is in compliance with the required timeframe for completion of such interviews.

<b>Finding 98-26</b>
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FEDERAL FAMILY EDUCATION LOANS – CFDA 84.032  
Administered by: University of Rhode Island

ENTRANCE AND EXIT INTERVIEWS

The University is required to provide entrance and exit interviews to student borrowers. During our eligibility testwork, we found that there was no documentation to support that an entrance interview had been performed for six students for FFEL (Federal Family Education Loan). There was also no documentation to support that an exit interview had been performed for three students for FFEL.

Questioned Costs: None

RECOMMENDATION

98-26 FFEL entrance and exit interviews should be performed for all students. Documentation of entrance and exit interviews should be maintained.

<b>Finding 98-27</b>
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FEDERAL FAMILY EDUCATION LOANS – CFDA 84.032  
Administered by: Rhode Island Higher Education Assistance Authority (Guaranty Agency)

ADMINISTRATIVE REQUIREMENTS

Federal regulation 34 CFR 682.410 requires that “the guaranty agency shall establish and maintain a reserve fund to be used solely for the FFEL program .” In addition, in September

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1998, the United States Congress enacted into law the reauthorization of the Higher Education Act (the Reauthorization). Effective October 1, 1998, the Reauthorization requires the establishment of two separate funds: a Federal Student Loan Reserve Fund, which is the property of the United States, and a Guaranty Agency Operating Fund, which supports the activities and is the property of the Authority. The Reauthorization defines the sources of revenue and allowable expenditures for each fund.

The Authority uses fund accounting and maintains all of its records for the Loan Division in a single fund. Over time, the role of the Authority was expanded State directives and its accounting and reporting system was not revised to take into consideration the requirement of single fund accounting and reporting for the FFEL program. As a result, the Loan Division includes the activity of the Federal Family Education Loan (FFEL) program, the Health Education Assistance Loan (HEAL) program, and maintenance and rental of a building.

In 1997 and prior years, the independent auditor for the Authority cited the failure to comply with 34 CFR 682.410 as a compliance finding and internal control deficiency.

Questioned Costs: None

#### RECOMMENDATION

98-27 While the Authority uses separate general ledger accounts to track the different activities accounted for in the Loan Division's single fund, we recommend that the separate activities of the Loan Division be segregated by establishing the separate funds required by the Reauthorization. Currently, these amounts are all part of the overall fund balance of the Loan Division. Part of the process of establishing the separate funds within the Loan Division will entail the research of past activity to determine the proper allocation of the overall fund balance to each individual fund and the proper segregation and recording of future activities. Once the historical data is accumulated, the Authority should develop control procedures that ensure activity is included in the appropriate fund and determine whether amended prior year filings with the Department are necessary.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
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**Finding 98-28**

FEDERAL WORK – STUDY PROGRAM – CFDA 84.033  
Administered by: Community College of Rhode Island

ELIGIBILITY

During our eligibility testwork, we found two students who did not sign their timesheets for Federal Work Study.

Questioned Costs: None

RECOMMENDATION

98-28 The College should require all employees to sign their timesheets.

**Finding 98-29**

REHABILITATION SERVICES – VOCATIONAL REHABILITATION GRANTS TO STATES –  
CFDA 84.126  
Administered by: Department of Human Services (DHS)

INADEQUATE DOCUMENTATION FOR CERTAIN EXPENDITURES

The Department of Human Services (DHS) charged the Rehabilitation Services – Vocational Rehabilitation Grants to States award for two transactions totaling \$25,599 that were not supported by adequate documentation. The federal share of these costs was \$20,146. In order to be allowable for federal reimbursement, all costs must be adequately supported (OMB Circular A-87, Attachment A, Section C1).

The expenditures in question were made to pay for home and motor vehicle modifications for certain program participants. Such expenditures are expressly allowable under federal regulations (provided they are adequately supported). In fact, the Department has specific policies outlining necessary documentation for home and motor vehicle modification expenditures. We found, however, that the two aforementioned expenditures were not supported by such documentation. Payments were made directly to the program participants based on bills prepared and submitted by the participants.

Questioned Costs: \$20,146

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
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**RECOMMENDATION**

98-29 Obtain adequate documentation to support the questioned costs, or adjust future federal reports to reimburse the federal government for the federal share of these costs.

**Finding 98-30**

NATIONAL EARLY INTERVENTION SCHOLARSHIP AND PARTNERSHIP – CFDA 84.272  
Administered by: The Rhode Island Children’s Crusade

**ELIGIBILITY**

There is no documentation that students who participate in the program fulfill the eligibility requirement as a citizen or national of the United States, a permanent resident of the United States, are in the United States for other than a temporary purpose with the intention of becoming a citizen or permanent resident as evidenced by the Immigration and Naturalization Service, or are a permanent resident of the Trust Territory of the Pacific Islands. The cost of the assistance may be disallowed. Registration forms do not have all relevant questions relating to eligibility.

Questioned Costs: None

**RECOMMENDATION**

98-30 The Rhode Island Children’s Crusade for Higher Education should verify the eligibility of students who receive assistance.

**Finding 98-31**

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

**WORK PARTICIPATION RATE REQUIREMENTS**

The Personal Responsibility and Work Opportunity Reform Act (PRWORA) requires that a State shall achieve a minimum work participation rate for (1) all families receiving assistance and (2) two-parent families receiving assistance. The minimum work participation rates for all families and two parent families are 30 percent and 75 percent, respectively, for fiscal year 1998 {Section 407 (a)}.

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States are required to submit an *Emergency TANF Data Report* (ACF-198), which the federal Department of Health and Human Services utilizes to determine whether a State meets the overall and two-parent work participation rates as required. All States were required to begin reporting six months after the Temporary Assistance for Needy Families (TANF) implementation date. Rhode Island implemented TANF on May 1, 1997.

DHS reported that for the period November 1997 through June 1998 the State's two-parent family participation rate ranged from 30.4 percent to 33.7 percent, and therefore was not in compliance with the required 75 percent minimum work participation rate.

Questioned Costs: None

#### RECOMMENDATION

98-31 Comply with the required work participation rate for two parent families receiving Temporary Assistance for Needy Families benefits.

<b>Finding 98-32</b>
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STATE ADMINISTRATIVE MATCHING GRANTS FOR FOOD STAMP PROGRAM – CFDA 10.561  
TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558  
COMMUNITY SERVICES BLOCK GRANT – CFDA 93.569  
CHILD CARE MANDATORY AND MATCHING FUNDS OF THE CHILD CARE AND  
DEVELOPMENT FUND – CFDA 93.596  
SOCIAL SERVICES BLOCK GRANT – CFDA 93.667  
Administered by: Department of Human Services (DHS)

#### SUSPENSION AND DEBARMENT

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.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
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The department executed various procurement contracts exceeding of \$100,000 while administering several Federal assistance programs. The department also utilizes subrecipients, primarily non-profit organizations, to administer various aspects of certain Federal programs. The department did not require either contractors or subrecipients to certify that the organization and its principals are not suspended or debarred. The department began including the required suspension and debarment certification in subrecipient contracts executed during the last quarter of fiscal 1998. Other vendor contracts including child care contracted services under the Child Care Mandatory and Matching Funds of the Child Care and Development Fund program executed prior to June 1998 do not include suspension and debarment certifications.

Questioned Costs: None

RECOMMENDATION

98-32 Require applicable contractors and subrecipients to certify annually that neither the entity nor its principals are suspended or debarred from participating in federally assisted activities.

<b>Finding 98-33</b>
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STATE ADMINISTRATIVE MATCHING GRANTS FOR FOOD STAMP PROGRAM – CFDA 10.561  
TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558  
Administered by: Department of Human Services (DHS)

PAYROLL DOCUMENTATION

Office of Management and Budget (OMB) *Circular A-87* requires that where employees are expected to work on a single Federal award, charges for their salaries and wages will be supported by periodic certifications. These certifications, which should document that the employees worked exclusively on that program for the specified time period, should be prepared and signed by the individual or a supervisory official at least semi-annually.

The department administers several Federal assistance programs where the majority of personnel costs are for department employees assigned solely to a specific program. The department did not prepare periodic certifications that these employees worked solely on one program as required by OMB *Circular A-87* {Attachment B, Section 11 (h)}.

Questioned Costs: None

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
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**RECOMMENDATION**

98-33 Maintain periodic certifications for employees expected to work solely on one Federal assistance program.

<b>Finding 98-34</b>
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TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558  
Administered by: Department of Human Services (DHS)

**CHILD SUPPORT NON-COOPERATION**

The Personal Responsibility and Work Opportunity Reform Act (PRWORA) requires that if the State determines that an individual is not cooperating with the State in establishing paternity or in establishing, modifying or enforcing a support order with respect to the individual's child without good cause, the State shall deduct not less than 25 percent of the assistance that would otherwise be provided the family {Section 408 (a)(2)}.

DHS policy requires that if child support non-cooperation is without good cause, the individual will be denied assistance without regard to other eligibility factors. As implemented, this policy results in less than a 25 percent reduction of assistance if the number of eligible persons in the assistance plan exceeds two.

Questioned Costs: None

**RECOMMENDATION**

98-34 Modify departmental policy to require at least a 25 percent reduction in assistance in instances where an individual fails to cooperate in obtaining child support without good cause.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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<b>Finding 98-35</b>
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TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558

Administered by: Department of Human Services (DHS)

#### ELIGIBILITY REQUIREMENTS

The Personal Responsibility and Work Opportunity Reform Act (PRWORA) establishes certain prohibitions and eligibility requirements for providing assistance to families with Temporary Assistance for Needy Families (TANF) funding {Section 408 (a)(1) to (11)}. The State Plan and the State's eligibility requirements must comply with these Federal provisions.

We reviewed the State's Plan, the State General Laws (Family Independence Act) and the department's policy and procedures manual noted that the following TANF eligibility criteria required by the PRWORA were either not specifically addressed or were inconsistent with Federal requirements:

- A State may not use any part of the grant to provide assistance for an individual who is a parent of a minor child and fails to notify the State agency of the absence of the minor child from the home within five days of the date that it becomes clear to that individual that the child will be absent {42 USC 608 (a)(10)(C)}.

The State policy at June 30, 1998 does not address the Federal prohibition against providing assistance to the individual failing to notify the TANF agency of an absent minor child. The State policy also allows a 10 day notification period as opposed to the 5 day period as stipulated in the PRWORA.

- A State may not use any part of the grant to provide cash assistance to an individual during the 10 year period that begins on the date the individual is convicted in Federal or State court of having made a fraudulent statement or representation with respect to residence in order to simultaneously receive assistance from two or more States under TANF, Title XIX, Food Stamps or SSI under Title XVI {42 USC 608 (a)(8)}.

The State policy at June 30, 1998 does not address the prohibition against providing TANF assistance to an individual making fraudulent statements or representations with respect to residency, however, the State's Food Stamp policy basically parallels this Federal requirement.

- A State may not use any part of the grant to provide assistance to any individual who is fleeing to avoid prosecution, or custody or confinement after conviction, for a felony or attempt to commit a felony, or who is violating a condition of probation or parole imposed under Federal or State law {42 USC 608 (a)(9)(A)}.

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The State policy at June 30, 1998 does not address the prohibition against providing TANF assistance to an individual fleeing to avoid prosecution, custody or confinement, however, the State's Food Stamp policy basically parallels this Federal requirement.

- Qualified aliens entering the United States on or after August 22, 1996 are not eligible for Federal TANF benefits for a period of five years beginning on the date of the alien's entry, unless they meet an exemption. A State, at its option may provide assistance to qualified aliens entering the United States before August 22, 1996 after the expiration of the five year time period.

The State policy at June 30, 1998 does not address the five-year prohibition against providing TANF assistance to qualified aliens entering the United States on or after August 22, 1996.

- An individual convicted under Federal or State law of any offense which is classified as a felony and which involves the possession, use, or distribution of a controlled substance is ineligible for TANF assistance if the conviction was based on conduct occurring after August 22, 1996.

The State policy regarding controlled substance convictions was in draft form at June 30, 1998.

Questioned Costs: None

RECOMMENDATION

98-35 Modify State policy to incorporate Federal TANF eligibility requirements.

<b>Finding 98-36</b>
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TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558  
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.

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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. Case workers are then electronically prompted about the receipt of new data and are required to investigate and resolve any discrepancies.

We tested a sample of TANF cases to determine whether the information obtained from the IEVS data matching was properly considered in determining TANF eligibility and calculating TANF benefits. We noted several instances where discrepancies resulting from data matches were not investigated and resolved in a timely manner. Failure to promptly investigate and resolve IEVS interface data weakens the Department's controls over the determination of eligibility and benefit levels for the TANF program. Management acknowledged that, due to various factors, IEVS interface discrepancies are not always resolved promptly.

Questioned Costs: None

#### RECOMMENDATION

98-36 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.

<b>Finding 98-37</b>
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CHILD SUPPORT ENFORCEMENT – CFDA 93.563

Administered by: Department of Administration – Rhode Island Child Support Services (RICSS)

#### CHILD SUPPORT COLLECTIONS AND DISTRIBUTIONS

RICSS does not reconcile child support collections and disbursements recorded in its computer system (INRHODES) with amounts recorded in the State accounting system. This is an important control over program receipts and disbursements. Accountability for child support collections is also important

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

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because these collections affect awards from the federal government, which reduce the State share of program costs.

In certain cases, RICSS collects and distributes child support payments for custodial parents but does not provide any other services (e.g., location, paternity establishment, and enforcement). RICSS is not required to report (to the federal government) collections and distributions for these cases; therefore, its system processes these collections and distributions but is not programmed to accumulate these amounts in totals reported by the system. As a result, the amounts recorded in the two systems cannot presently be reconciled.

At June 30, 1998, the State accounting system reported approximately \$2 million more than the amounts reported by the RICSS computer system as undistributed collections. Because routine reconciliations are not performed between the amounts reported by the two systems and because the RICSS system does not report all collections and distributions, the difference could not be explained at the time of our audit.

As previously reported in our audit reports for fiscal years 1992 through 1997, RICSS should accumulate all child support collections and distributions in its accounting system and reconcile these amounts with those recorded in the State accounting system. This would provide further assurances that these collections and distributions, which approximate \$50 million annually, are properly controlled and reported.

Questioned Costs: None

#### RECOMMENDATIONS

98-37a Accumulate all child support collections and distributions in the department computer system and reconcile to the amounts recorded in the State accounting system.

98-37b Investigate and resolve the difference regarding child support collections pending distribution reported by the RICSS and State accounting systems

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**Finding 98-38**

COMMUNITY SERVICES BLOCK GRANT – CFDA 93.569  
Administered by: Department of Human Services (DHS)

UNSUPPORTED PERSONNEL COSTS

Federal regulations require that when employees work on multiple activities a distribution of their salaries will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must 1) account for the total activity for which each employee is compensated, 2) be prepared at least monthly and coincide with one or more pay periods, and 3) be signed by the employee.

The department charges 100 percent of a Contract Management Unit Employee's salary (and employee benefits) to the Community Services Block Grant (CSBG). This employee performs several activities unrelated to CSBG administration. The department could not provide any documentation supporting the allowability of these personnel costs to the CSBG. We were unable to quantify the portion of time the individual spent on activities unrelated to the CSBG.

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

Questioned Costs: \$72,000

RECOMMENDATION

98-38 Require personnel activity reports or equivalent documentation supporting the distribution of salaries when employees work on multiple activities.

**Finding 98-39**

COMMUNITY SERVICES BLOCK GRANT – CFDA 93.569  
Administered by: Department of Human Services (DHS)

SUBRECIPIENT CASH MANAGEMENT

Federal regulations require DHS to provide its subrecipients with funds in amounts that are limited to their immediate needs.

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The Department of Human Services (DHS) uses several non-profit agencies to carry out Community Services Block Grant activities. These subrecipients provide a wide range of community services including needs assessments, drug and alcohol treatment programs, and emergency food and shelter programs and counseling and education programs for children.

Addendum III, Payments and Reports Schedule of the standard Community Services Block Grant contract stipulates that the first contractual payment, generally 25 percent of the contract total, will be made upon receipt of the application and the processing of the required accounting documentation. The payment schedule also requires that the remaining three contractual payments will be made quarterly upon the submission of the appropriate fiscal and program reports.

Program funds are generally provided to subrecipients near to the midpoint of the quarter for which the funding relates. Consequently, federal funds representing between 1 and 2 months of program expenditures may be advanced to the subrecipients and controls are not adequate to ensure funding is limited to the entities' immediate cash needs.

Questioned Costs: None

#### RECOMMENDATION

98-39 Strengthen subrecipient cash management procedures to ensure that subrecipient cash balances are limited to their immediate needs.

<b>Finding 98-40</b>
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COMMUNITY SERVICES BLOCK GRANT – CFDA 93.569  
Administered by: Department of Human Services (DHS)

#### SUBRECIPIENT MONITORING

Federal regulations require that the Department of Human Services (DHS), as a “pass-through” entity, monitor federal awards provided to subrecipients to ensure that (1) federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements, and (2) subrecipients have met applicable federal audit requirements and have taken prompt corrective action on audit findings. Additionally, DHS must evaluate subrecipient activities on its own ability to comply with federal program requirements.

The Department relies entirely on its review of required audit reports to determine if its subrecipients complied with CSBG program requirements. We found weaknesses in the Department's subrecipient monitoring process (audit report review) with respect to its largest Community Services

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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Block Grant (CSBG) subrecipient, a community action agency, as described below. The Department provided federal CSBG funds totaling \$875,278 and \$663,875 during state fiscal years 1998 and 1997, respectively, to this entity.

- The standard CSBG contract audit provision requires that entities receiving in excess of \$300,000 must have an audit performed in accordance with Office of Management and Budget (OMB) Circular A-133. By contract, the audit must be submitted within six months of the entity's fiscal year end. The Department received the entity's fiscal year ended June 30, 1995 audit reports on September 19, 1997 (20 months past its due date), and the fiscal year ended June 30, 1996 audit report November 17, 1998 (22 months past its due date). The Department has yet (March 1999) to review the entity's fiscal 1996 audit report or obtain the separate management letter referenced in the audit report. The Department has not received the entity's June 30, 1997 and 1998 audit reports.
- The entity's independent auditors, in a management letter (dated April 10, 1997) accompanying the fiscal 1996 Single Audit Report, reported in excess of 20 areas that provided opportunities for the entity to strengthen internal controls and operating efficiency. Specific areas cited included lack of basic bookkeeping functions, failure to monitor subrecipients, lack of a formal cost allocation process and interest free loans to employees. Further, the Department awarded and paid the entity \$563,998 relating to its fiscal 1995 contract yet the fiscal year 1995 and 1996 reports indicated CSBG expenditures of only \$355,988 attributable to the 1995 contract. The Department did not request that the entity provide a corrective action plan relating to the auditor's comments until April 1998 (6 months after receiving the report). The entity submitted its June 30, 1995 corrective action plan in December 1998.
- Budgets submitted to the department regarding the intended use of CSBG funds included amounts for audit costs each year. These amounts were funded and paid to the entity each year despite the fact that the reports were seriously overdue and two audit reports are still outstanding.

Throughout this time period the Department has been aware of fiscal problems at the entity. For example, the entity's independent auditors attributed the delays in completing the required audits to "incomplete accounting records and inadequate supporting documentation to substantiate transactions". Despite this awareness, there is no evidence that the Department has taken any additional procedures to ensure that CSBG funds were used for their intended purpose nor has it withheld any funding pending receipt of required audit reports.

Questioned Costs: None

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
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**RECOMMENDATION**

98-40 Strengthen subrecipient monitoring procedures to (1) ensure timely receipt of subrecipient audit reports and management letters, (2) ensure the timely review of audit reports and required corrective action plans, and (3) require alternative monitoring procedures when audit reports do not provide timely and reasonable assurance of a subrecipients compliance with program requirements.

<b>Finding 98-41</b>
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**CHILD CARE MANDATORY AND MATCHING FUNDS OF THE CHILD CARE AND DEVELOPMENT FUND – CFDA 93.596**

Administered by: Department of Human Services (DHS)

**PRO CHILDREN ACT CERTIFICATION**

The federal Pro Children Act of 1994 requires that smoking not be permitted in any indoor facility owned or leased by an entity and used routinely for providing various services to children if the services are funded by federal programs either directly or through state or local governments. The terms and conditions of the fiscal 1998 Child Care Development Fund grant award require that the State agree to include assurances regarding compliance with these provisions in any subawards relating to children's services.

The department did not include the required language in child care provider contracts or require these providers to certify compliance.

Questioned Costs: None

**RECOMMENDATION**

98-41 Modify child care provider contracts to include the required Pro Children Act language and require that providers certify compliance with the provision.

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

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**Finding 98-42**

FOSTER CARE – TITLE IV-E – CFDA 93.658

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

**FOSTER CARE PROGRAM COSTS**

Federal funding is available for certain costs (room and board, day care and clothing allowances) for eligible children in foster care. Additionally, a portion of the Department of Children, Youth and Families' (DCYF) overall administrative costs relative to children eligible for the Foster Care program can be reimbursed by the federal government. We noted issues which impact how DCYF accumulated and determined the amount of such costs eligible for federal reimbursement during fiscal 1998 as described below.

- Eligibility for the Foster Care program was and continues to be linked to the same eligibility guidelines used for the Aid to Families with Dependent Children (AFDC) Program. In past years, DCYF accessed the State's INRHODES computer system, which was used to administer the AFDC program, to assist in determining eligibility for the Foster Care program. The federal Personal Responsibility and Work Opportunity Reform Act replaced the AFDC program with the new Temporary Assistance to Needy Families (TANF) program. In implementing TANF in May 1997, the INRHODES system was reprogrammed to meet these new eligibility requirements. Despite the elimination of AFDC, federal law mandated that eligibility for the Foster Care program continue to be based on AFDC guidelines in effect as of July 16, 1996. DCYF did not implement procedures during fiscal 1998 to determine Foster Care eligibility using the appropriate guidelines (AFDC rules in effect at July 1996) but instead used the information currently available in INRHODES which is based on TANF guidelines. DCYF has not redetermined eligibility for Foster Care using the appropriate guidelines. We could not determine the effect, if any, on the amount of costs reimbursed by the federal government under the Foster Care program.
- DCYF used a new computer system during fiscal 1998 to perform multiple activities including case management, disbursements and administration of federal programs. Maintenance costs allowable under the Foster Care program are determined and accumulated by this computer system. DCYF informed us of situations where duplicate claims have been made for some maintenance costs. In general, these situations occurred when changes in placements occurred and the computer system failed to recognize these placement transactions correctly resulting in an overstatement of program costs. DCYF is in the process of isolating these duplicate claims and determining the amount overcharged to the federal government. Because DCYF has not completed this process, we were unable to determine the amount of the overclaim to the federal government.

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- DCYF uses a cost allocation system to allocate certain administrative costs to multiple federal programs including the Foster Care program. One of the factors used to allocate costs to Foster Care is the number of children eligible for the Foster Care program relative to all children in DCYF’s care. Because eligibility for the program was not based on the appropriate guidelines as described above, the number of children eligible for the Foster Care program may be different than previously claimed and thereby impact the amount of program costs. Because the effect of the eligibility issue is not known, we could not determine the impact, if any, on the amount of departmental administrative costs allocated to the program.

DCYF must conclude its resolution of these issues and determine the effect on costs reimbursed in prior quarters. Because of the interrelated nature of these issues, we were unable to satisfy ourselves as to the allowability of costs reimbursed under the program.

Questioned Costs: None

**RECOMMENDATIONS**

- 98-42a Determine eligibility for the Foster Care program using AFDC program guidelines in effect as of July 16, 1996. Recalculate eligibility for those cases where TANF guidelines were used.
- 98-42b Complete the investigation of duplicate claims processed through the departmental computer system. Reimburse the federal government for any amounts over-claimed.
- 98-42c Determine the effect on the amount of departmental administrative costs allocated to the program as a result of utilizing inappropriate eligibility guidelines.

<b>Finding 98-43</b>
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MEDICAL ASSISTANCE PROGRAM – CFDA 93.778  
Administered by: Department of Human Services (DHS)

**INTERIM PAYMENTS**

DHS has contracted with a fiscal agent to operate a Medicaid Management Information System (MMIS) to pay medical claims and to perform other claims-related functions. At the inception of the MMIS, Medicaid claims submitted by providers were not processing within normal time frames.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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According to DHS, Medicaid providers encountered cash flow difficulties due to these payment delays. DHS began issuing interim payments in January 1994 to temporarily pay providers until claims could be processed within a reasonable time period and to ensure that medical services remained available to recipients.

DHS has continued interim payments or “target” payments to certain providers by making a minimum payment regardless of the amount of claims submitted and cleared for payment. The actual payment to the provider is the greater of the amount of claims processed or the target amount. At June 30, 1998, 78 providers continued to receive target payments.

The federal government will participate in interim payments when medical services have been provided but individual claims have not been completely processed. We found that the department’s procedures for determining target payments during fiscal 1998 had not changed significantly since our prior year audit. We again did not find sufficient evidence of a liability to support the target payments and the related reimbursement by the federal government for its share. Typical evidence of a liability to support an interim payment would include claims received but not processed, suspended claims (those processed but held for further manual review), or claims erroneously denied.

Accounts receivable balances, which represent amounts paid to providers in excess of claims submitted and processed, have accumulated for certain providers as a direct result of the target payment method. The total accounts receivable balance was \$30.5 million at June 30, 1998, which is comprised of \$27.4 million for private providers and \$3.1 million for state-operated group homes. This total has declined from \$95.3 million at June 30, 1997 due to recoupments from providers and the processing of claims previously denied. At June 30, 1998 there were 16 providers with outstanding interim payment balances exceeding \$400,000; four of these providers had balances exceeding \$1 million. These providers were nursing homes, rehabilitation facilities, health centers and durable medical equipment suppliers.

The department anticipates that, in most instances, claims will eventually be adjudicated to offset these interim payments. DHS continues working with providers to resolve outstanding interim payment balances. Under this process new target payments are suspended, outstanding claims are resolved and processed, and any amount due to or due from the provider is settled. DHS must complete this process expeditiously in order to fully resolve the interim payment problem.

Reconciliation efforts during the fiscal year and through January 1999, however, did identify overpayments to 21 nursing facilities totaling approximately \$4.5 million (federal share approximately \$2,393,000). Reconciliation efforts still remain for most group home providers. Accounts receivable balances for these providers represent a significant portion of total provider accounts receivable at June 30, 1998. Approximately 20 group home providers had outstanding receivable balances greater than \$100,000 at June 30, 1998.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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The department continues to reduce the number of providers receiving routine target payments, however, all such payments should be eliminated. Target payments expose the State to the risk of overpaying certain providers and eliminate any incentive for providers to submit claims and settle their accounts with the Medicaid program. Further, this delays resolution of outstanding provider accounts receivable balances. Except for limited and unusual circumstances, payments to providers should be based solely upon actual claims submitted and processed for payment.

As reported in prior audits, DHS needs to improve controls over the monitoring of provider accounts receivable balances. For private providers, DHS relies completely on accounts receivable balances reported by the MMIS. Procedures need to be improved to ensure the reliability of this information. The MMIS either does not report or reports incorrect accounts receivable balances for state-operated providers. DHS has not implemented procedures to adequately report and monitor accounts receivable for state-operated providers.

Questioned Costs: \$2,393,000

#### RECOMMENDATIONS

98-43a Eliminate routine target payments to providers.

98-43b Maintain adequate documentation demonstrating that a program liability has been incurred for interim payments made.

98-43c Complete the resolution of all provider interim payment balances expeditiously. Aggressively recoup all excess interim payment balances. Refund the federal share of provider overpayments to the federal government within 60 days of identification.

98-43d Implement additional controls to improve the reliability of provider balance data.

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**Finding 98-44**

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778  
Administered by: Department of Human Services (DHS)

CONTROL OVER MEDICAL ASSISTANCE ELIGIBILITY DATA

DHS utilizes an integrated computer system (INRHODES) to administer various aspects of federal programs, including Medicaid. INRHODES is 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 some instances, these transactions are either not entered into or are rejected by the MMIS, resulting in differences between the two databases. These differences can be summarized into three categories:

- Cases active in INRHODES, but inactive in the MMIS;
- Cases active in the MMIS, but closed in INRHODES; and
- Other differences, such as personal data, recipient income, category codes, etc.

A monthly variance report identifying the differences between the two systems is generated by the MMIS, and forwarded to DHS for review. DHS is responsible for making the appropriate corrections to ensure the accuracy and reliability of the two systems. Variances occur in about 1,000 cases each month. Although DHS is now researching and making corrections on a relatively timely basis, there is always a substantial number of claims pending resolution. As a result, differences in recipient information could result in incorrect payment amounts or claims could be paid for ineligible individuals. Further, DHS does not summarize the results of its investigation of eligibility variances between the two systems, including payments found to be made on behalf of ineligible recipients. For example, at the time of our audit there were 124 cases where eligibility was still questioned and no accumulation of claims paid had been performed. The Department's inability to provide us with the disposition and action taken on each of these cases precluded us from assessing the dollar magnitude of erroneous payments.

Because of the recurring variances between the eligibility data recorded in INRHODES and the MMIS, DHS lacked adequate controls to ensure claims were only paid for eligible individuals. 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.

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

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

Questioned Costs: None

**RECOMMENDATIONS**

- 98-44a Improve control procedures to ensure that INRHODES eligibility data is accurately replicated in the MMIS by documenting the timely investigation of eligibility variances between the MMIS and INRHODES computer systems.
- 98-44b Determine the amount of claims paid on behalf of ineligible individuals and reimburse the federal government for its share.

<b>Finding 98-45</b>
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MEDICAL ASSISTANCE PROGRAM – CFDA 93.778  
Administered by: Department of Human Services (DHS)

**FISCAL AGENT OVERSIGHT**

DHS is highly dependent on its fiscal agent's extensive and complex computer system (MMIS), which includes controls for processing payments on behalf of eligible Medicaid beneficiaries as well as controls over disbursing state and federal funds. Oversight of these operations by DHS is essential to ensure that the fiscal agent complies with program regulations, and controls are functioning as designed. This is critically important considering the authority delegated to and dollar value of disbursements processed by the fiscal agent.

We have recommended in prior audit reports that DHS improve its oversight by monitoring the internal control procedures and financial activities employed by the fiscal agent. DHS has assigned additional staff to monitor certain contract terms required of the fiscal agent; however, greater emphasis is needed in the area of financial monitoring.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

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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. DHS may need additional resources to fully accomplish these objectives. We noted the following matters:

- *DHS has not developed procedures to effectively monitor the financial activities of the fiscal agent.* For example, DHS does not review the fiscal agent's bank statements to verify that all amounts transferred to the fiscal agent have been disbursed to providers. 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. Further, DHS has not implemented sufficient procedures to verify MMIS financial data used to prepare financial statements and federal reports.
  
- *DHS should ensure that the fiscal agent has adequate internal control policies and procedures in place to pay claims in accordance with program regulations and to control cash disbursements made on behalf of the State.* The internal control structure through which the fiscal agent processes Medicaid claims is totally separate and distinct from the State's accounting system and related control procedures used to disburse other state expenditures. We recommend previously that DHS or its fiscal agent obtain an annual examination of its internal control policies and procedures by independent certified public accountants attesting to the adequacy of the design and operation of key internal controls utilized by the fiscal agent. No examination of control policies was conducted for fiscal year 1998; however, DHS is presently soliciting bids for the performance of such a review.

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

Questioned Costs: None

#### RECOMMENDATIONS

- 98-45a Improve financial oversight of the fiscal agent, including verification of information from the MMIS used to prepare financial statements and federal reports.
- 98-45b Obtain an annual examination performed by independent certified public accountants of the fiscal agent's internal control policies and procedures.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
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<b>Finding 98-46</b>
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MEDICAL ASSISTANCE PROGRAM – CFDA 93.778  
Administered by: Department of Human Services (DHS)

ADP SYSTEM SECURITY REQUIREMENTS AND REVIEW PROCESS

Federal regulation 45 CFR 95.621 requires state agencies operating automated data processing (ADP) systems used to administer federal Department of Health and Human Services' programs to (1) determine and implement appropriate security requirements based on industry standards, (2) establish a security plan, including designation of an ADP security manager, and (3) conduct periodic risk analyses. The plan must include policies and procedures to address physical security of ADP systems, equipment security to protect equipment from theft and unauthorized use, software and data security, telecommunications security, personnel security, contingency plans for claims processing, and emergency preparedness.

DHS has begun developing a system security plan for the MMIS, however, the plan was not in effect during fiscal 1998. Further, the plan must include all required elements as outlined above. For example:

- MMIS Disaster Recovery Plan

A comprehensive disaster recovery plan is an important element of security for a major computer application such as the MMIS. This type of plan allows for the continuation of essential data processing functions in the event existing data processing facilities are destroyed, impaired or unavailable. The fiscal agent has developed a disaster recovery plan that contains the required elements.

The fiscal agent is also responsible for reviewing and updating the plan on a quarterly basis. In our fiscal 1994 through 1997 reports, we disclosed that the DHS copy of the disaster plan contained no documentation that the fiscal agent performed any of these quarterly reviews and updates. This situation continued to exist in fiscal 1998.

In addition to quarterly reviews, the plan calls for annual testing, but does not provide written procedures as to what the testing entails or how it is to be performed. This situation was first reported in our fiscal 1994 report, and continued to exist in fiscal 1998.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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- MMIS Password Access Controls

More than 500 users utilize various functions of the MMIS. Control of system access is maintained through user identifications and unique passwords, and by permitting some users to only view data while allowing others to enter or change system information.

Basic security measures in a computer system require that passwords be changed periodically for all users, as well as when employees transfer or terminate. If passwords are not changed by a preset expiration date, access should be denied. Our fiscal 1994 through 1996 reports disclosed that the MMIS does not require users to change their passwords on a scheduled basis. The fiscal agent has established procedures for some users to change passwords and the designated frequency. This should be expanded to encompass all users. Our fiscal 1994 through 1997 reports recommended that consideration should be given to establishing system access controls within the MMIS similar to those within the INRHODES system, such as:

- all users are required to change their password every 90 days;
- access rights are terminated if passwords are not modified by the expiration date;
- users are assigned roles according to individual responsibilities and job descriptions;
- roles are represented in the system with unique menus associated with each role;
- each menu provides a means to access only the functions required by the role.

The fiscal agent has not established these controls.

DHS, as the State Medicaid agency, must complete implementation of plans and procedures to ensure its fiscal agent has met these requirements. Biennial reviews of ADP system security are required by federal regulation. A review was performed in June 1998, however, such reviews should be comprehensive in scope and reflect elements contained in the complete ADP system security plan.

DHS, as the State Medicaid agency, must complete implementation of plans and procedures to ensure its fiscal agent has met these requirements. Biennial reviews of ADP system security are required by federal regulation. A review was performed in June 1998, however, such reviews should be comprehensive in scope and reflect elements contained in the complete ADP system security plan.

Questioned Costs: None

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

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**RECOMMENDATIONS**

- 98-46a Complete development of a comprehensive security plan for the MMIS which reflects appropriate system security requirements.
- 98-46b Conduct required biennial reviews of ADP system security for the MMIS.
- 98-46c Develop procedures that require all MMIS users to change their passwords periodically. Terminate access if passwords are not modified.
- 98-46d Develop procedures to control access to MMIS functions by assigning “roles” to MMIS users according to individual responsibilities and job descriptions.

<b>Finding 98-47</b>
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MEDICAL ASSISTANCE PROGRAM – CFDA 93.778  
Administered by: Department of Human Services (DHS)

**THIRD PARTY LIABILITY IDENTIFICATION**

Federal regulation (42 CFR 433.138) requires the State to maintain an action plan for pursuing third party liability (TPL) claims. States must develop procedures for determining the legal liability of third parties to pay for Medicaid services and integrate these procedures within the MMIS. Medicaid should exhaust third party resources prior to payment. When a third party liability is established after payment, reimbursement should be sought.

States must submit a TPL Action Plan to the HCFA Regional Office within 90 days after the MMIS becomes operational. DHS did not submit its TPL Action Plan to HCFA until February 12, 1998, over 4 years after the MMIS became operational.

Although DHS performs certain TPL related functions, the fiscal agent is primarily responsible for the TPL process-including verifying recipients’ TPL information, maintaining the systems used to identify TPL-related claims, and collecting from insurance carriers.

TPL information originates from the Department’s INRHODES computer system and is than electronically communicated to the MMIS. The fiscal agent must verify this TPL data before it becomes effective. When the TPL information is verified, the MMIS generates a third party billing for claims paid during the time period when other third party insurance was effective. During fiscal 1998, a substantial backlog of TPL information was verified by the fiscal agent (unverified TPL data segments were reduced from approximately 13,000 to 1,000 during the fiscal year).

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

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During fiscal 1998, potential third party liability was subsequently identified for paid claims totaling \$2,897,931. Recovery from third party insurers was not attempted for claims totaling \$878,091 (federal share - \$466,881) because the time limit for submission of claims had expired. Other claims were submitted for reimbursement but were subsequently denied. This amount cannot be quantified.

DHS's inability to recover for TPL was caused mostly by a lag in verifying TPL information and a delay in the implementation of a cost avoidance matrix in the MMIS. The interim payment process also hindered the department's ability to assess claims for potential third party insurance because, in most instances, actual claims submission and adjudication came much later than the normal lag between service date and billing. Consequently, the request for reimbursement often was initiated after the insurer's time limit for recovery had expired.

We found that delays in identification of Medicare coverage also resulted in lost opportunities to recover TPL. Because of delays in submitting claims for reimbursement to Medicare, patient's benefits had been exhausted by the time recovery was attempted. We were unable to determine the amount of lost Medicare TPL collections based on available data.

During fiscal year 1998, approximately 1,000 unverified TPL data segments were reported at the end of each month. DHS indicated that the high level of manual effort required in verifying TPL information made it difficult to reduce the number further. The timely verification of TPL information is critical to the successful recover of TPL. Unverified TPL information prevents the MMIS from denying a claim when other payment resources are available and delays the identification and subsequent recovery of claims already paid.

We also found weaknesses regarding the monitoring of TPL recoveries by the department's fiscal agent. The fiscal agent was unable to determine the number of outstanding claim facsimiles billed to private insurance carriers and indicated that a significant backlog of denied claim facsimiles still required posting to the system.

Due to the amount of authority delegated to the fiscal agent with respect to TPL identification and collection, DHS should improve its monitoring of the fiscal agent's procedures, and all data (billings and collections) generated by those procedures. Furthermore, DHS should better coordinate the activities of its staff with that of the fiscal agent.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
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Questioned Costs: \$466,881

RECOMMENDATIONS

98-47a Improve monitoring of the fiscal agent’s TPL identification and collection procedures.

98-47b Reimburse the federal government for its share of uncollected third party liability recoveries.

<b>Finding 98-48</b>
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MEDICAL ASSISTANCE PROGRAM – CFDA 93.778  
Administered by: Department of Human Services (DHS)

ACTIVITIES ALLOWED OR UNALLOWED

Claims Processed by the Fiscal Agent

The fiscal agent disbursed \$690 million to providers including \$106.4 million for managed care premiums. An additional \$168.6 million was paid by the State to State operated facilities. Claims for State operated facilities are processed by the fiscal agent but are disbursed by the State. Amounts disbursed were for claims processed and interim payments.

We selected a random sample of 149 fee-for-service claims processed through the MMIS with a total dollar value of \$250,129, and 60 managed care premium payments with a total dollar value of \$7,063. We examined each payment for certain attributes required by the federal grantor, including eligibility (as determined by the INRHODES System), allowability, appropriate fee paid, and payment to a licensed provider. Additionally, we verified that all fee-for-service claims paid for managed care enrollees (services not included under the managed care premium) were for allowable services.

When testing fee-for-service claims processed through the MMIS, we found one recipient for whom eligibility was not reported on the INRHODES System during the service period of the claim. DHS was unable to provide documentation supporting the recipient’s eligibility during the service period. Claims paid for the recipient during the period in which no documentation of eligibility exists totaled \$14,928 (federal share \$7,937).

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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#### Other Medicaid Expenditures

Other Medicaid expenditures totaling \$119 million (federal and state share), representing both program and administrative costs, were disbursed independently of the MMIS. We examined supporting documentation for 69 vouchers with a federal share of \$16.5 million, in order to determine whether the expenditures were allowable according to program guidelines.

We found the Department of Mental Health, Retardation and Hospitals (MHRH) charged the purchase of various computer hardware and software products for the administration of the CHOICES waiver program even though the federal grantor had not approved the waiver at the time of expenditure. Further, MHRH is reimbursed for Medicaid eligible patients through an all-inclusive per diem rate which includes provision for the department's administrative costs. The total cost of this computer software was \$67,979; the federal share was \$33,990.

#### Departmental Allocated Costs

The Department received \$7,209 in error which was subsequently refunded. This refund disbursement was erroneously allocated as indirect administrative cost to multiple programs. The total amount allocated to the Medical Assistance Program was \$1,581 of which the applicable federal share was \$806.

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

Questioned Costs: \$42,733

#### RECOMMENDATIONS

- 98-48a Reimburse the federal grantor for its share of claims paid on behalf of ineligible individuals and for questioned costs deemed unallowable.
  
- 98-48b Implement control procedures to ensure the allowability of administrative expenditures charged to the Medicaid program by other departments.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

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<b>Finding 98-49</b>
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MEDICAL ASSISTANCE PROGRAM – CFDA 93.778

Administered by: Department of Human Services (DHS)

#### PRESCRIPTION DRUG REBATES

The Omnibus Budget Act of 1990 requires manufacturers of pharmaceutical products to establish rebate agreements with the Health Care Financing Administration (HCFA) and allow states to collect rebates for prescribed outpatient drugs. Manufacturers submit price information to HCFA, which in turn forwards data regarding prescription drugs eligible for rebates to each state. In order to claim a rebate, states must submit dispensing information (name of drug and number of units dispensed) and rebate calculations to manufacturers.

During fiscal 1998, the fiscal agent billed pharmaceutical companies based upon claims for prescription drugs processed during each quarter. It obtained dispensing information for drugs eligible for rebates from the MMIS. The fiscal agent maintained a summary of rebates requested, along with copies of invoices sent to manufacturers. In addition, the fiscal agent collected rebates, tracked unpaid balances, and deposited rebate checks.

As noted in prior audits, our review of drug rebate procedures indicated several control weaknesses relating to the collection and monitoring of drug rebates. Control weaknesses include insufficient monitoring of outstanding rebates due from manufacturers, difficulty in matching receipts with actual rebates due from manufacturers, and failure to reconcile rebates received with the fiscal agent's records. DHS needs to improve its oversight of the drug rebate process to ensure that all prescription drug rebates are billed, collected and remitted to the State.

We found also that DHS made substantial manual adjustments to drug rebate billings generated by the MMIS. The MMIS accumulates the number of units of all drugs dispensed that are eligible for rebates and calculates rebate amounts. According to DHS, errors in unit quantities are caused when pharmacies report drug units in dispensing measurements instead of retail units (for example, a pharmacy will report units dispensed of 10,000 mg instead of the number of tablets sold). Manual adjustments were made to correct claims with erroneous unit quantities. However, system edits designed to prevent payment for drug quantities with obvious errors would greatly improve controls over pharmacy payments. Relying on a manual review of pharmacy payments to detect overpayments does not ensure adequate control over pharmacy claims. Conducting manual reviews and adjustments is labor intensive and requires further effort to ensure that all adjustments are made properly.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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DHS and its fiscal agent have been modifying the prescription drug module within the MMIS to recognize obvious errors in the number of units billed and deny the claim. Once the modifications are complete, DHS plans to review claims with potential billing errors and make any necessary adjustments.

Questioned Costs: None

#### RECOMMENDATIONS

98-49a Monitor drug rebates collected by the fiscal agent as well as amounts due from drug manufacturers.

98-49b Improve controls within the MMIS to reject drug claims with obvious unit errors and reduce the need for manual adjustments to drug rebate billings.

<b>Finding 98-50</b>
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MEDICAL ASSISTANCE PROGRAM – CFDA 93.778  
Administered by: Department of Human Services (DHS)

#### FEDERAL FINANCIAL REPORTING

DHS prepares a federal financial report (HCFA-64) each quarter, detailing program disbursements for Medicaid claims and administrative costs.

Total program expenditures are reported on the HCFA-64 based on total Medicaid expenditures recorded in the State accounting system. Because the State accounting system does not categorize program expenditures by type of service, DHS must use data from the fiscal agent and other internally prepared data (for expenditures made independently of the fiscal agent). These expenditure summaries are then compared, but not fully reconciled, to the total of Medicaid expenditures recorded in the State accounting system. DHS adjusts hospital expenditures (which is generally the largest category of expenditures) to absorb, in total, any variance between the total recorded in the accounting system and the detail arrayed by type of service. DHS does not identify and resolve individual variances between the two accounting records.

The accounting structure used to accumulate all Medicaid program expenditures is unnecessarily complex and results primarily from the inadequacy of the state accounting system. DHS needs to improve its controls over preparation of the HCFA-64 report by completely reconciling its accumulation of program expenditures arrayed by category and type of service with the total of all programs expenditures recorded in the State accounting system.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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We compared expenditures reported on the HCFA-64 for fiscal 1998 with expenditures recorded within the State's accounting system. We noted the following exceptions;

- Medical Assistance expenditures totaling \$660,883 were not reported on the HCFA-64.
- Net unreconciled variances totaling \$52,481 were noted during the review of quarterly HCFA-64 reports submitted for fiscal year 1998. DHS adjusted HCFA-64 reported amounts of these variances to agree with the state accounting system but did not identify the source of these variances.

DHS should improve its control procedures to require the complete reconciliation and support of financial data used to prepare financial reports.

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

Questioned Costs: None

#### RECOMMENDATION

- 98-50 Improve controls over preparation of the HCFA-64 report by completely reconciling all program expenditures arrayed by category and type of service with the total of all program expenditures recorded in the State accounting system.

<b>Finding 98-51</b>
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MEDICAL ASSISTANCE PROGRAM – CFDA 93.778  
Administered by: Department of Human Services (DHS)

#### CONTROLS OVER PROGRAM EXPENDITURES

Medical Assistance program expenditures, other than administrative costs, are primarily processed through the MMIS. The MMIS is designed to provide the basic controls over eligibility, types of services allowed and payment rate information as well as enhanced controls to prevent duplicate

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
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payments, identify unusual patterns of utilization of services, and identify and collect third party liabilities.

During fiscal 1998, approximately \$53 million of program expenditures were processed by systems independent of the MMIS. The Department of Children, Youth and Families was responsible for nearly \$35.5 million of expenditures processed independently of the MMIS.

Other independent systems have not been designed to contain all the control procedures of the MMIS. Further, the potential for duplicate payment of the same claim exists – a claim could be submitted and paid from both the MMIS and the independent accounting system.

Questioned Costs: None

**RECOMMENDATION**

98-51 Improve controls by requiring all benefit-type program expenditures to be processed through the MMIS.

<b>Finding 98-52</b>
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MEDICAL ASSISTANCE PROGRAM – CFDA 93.778  
Administered by: Department of Human Services (DHS)

**OUTSTANDING PAYMENTS TO PROVIDERS**

Federal regulation (42CFR 433.40) requires the State to credit the Medical Assistance program for provider payment checks which remain outstanding more than 180 days after issuance. DHS does not have procedures in place to identify checks outstanding more than 180 days and credit the federal government for its share. At June 30, 1998, such checks amounted to \$35,631; the related federal share was \$18,945.

Questioned Costs: \$18,945

**RECOMMENDATION**

98-52 Develop procedures to identify checks outstanding for more than 180 days and reimburse the federal government for its share.

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**Finding 98-53**

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778  
Administered by: Department of Human Services (DHS)

HOSPITAL SETTLEMENTS

DHS requires inpatient hospital providers to file cost settlements reports within one year from the end of the hospital's fiscal year. Such settlements typically result in recovery of significant amounts to the Medicaid program - \$10,277,872 and \$5,186,122 received to date for fiscal years 1994 and 1995, respectively.

We found that, as of June 30, 1998, DHS had not received four settlement reports from fiscal 1994 and nine reports from fiscal 1995. All fiscal 1996 settlements remain outstanding. Most hospitals claim that staffing limitations prevent them from filing cost reports timely. The section of the General Laws requiring settlement reports provides no mechanism to enforce compliance.

Questioned Costs: None

RECOMMENDATION

98-53 Develop procedures to improve the timeliness of hospital settlements.

**Finding 98-54**

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778  
Administered by: Department of Human Services (DHS)

SUSPENSION AND DEBARMENT

DHS utilizes various service providers and contractors for the operation of the Medical Assistance Program. Federal regulations prohibit States from contracting with or making subawards under covered transactions to suspended or debarred parties. Covered transactions include procurement contracts for goods or services equal to or exceeding \$100,000 and all non-procurement transactions (e.g., subawards to subrecipients). Contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
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The department did not require either contractors or providers of medical services to certify that the organization and its principals are not suspended or debarred from participating in the Medical Assistance Program. The standard provider agreement used by the State’s fiscal agent should include a certification regarding suspension and debarment.

Questioned Costs: None

**RECOMMENDATIONS**

98-54a Require applicable contractors to certify annually that neither the entity nor its principals are suspended or debarred from participating in the Medical Assistance Program.

98-54b Revise medical service provider agreements to include a certification that neither the entity nor its principals are suspended or debarred from participating in the Medical Assistance Program.

<b>Finding 98-55</b>
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**RESEARCH AND DEVELOPMENT CLUSTER – CFDA VARIOUS**

Administered by: University of Rhode Island

**SUSPENSION AND DEBARMENT**

OMB A-133 requires contractors receiving individual awards for \$100,000 or more and all subrecipients to certify that the organization and its principals are not suspended or debarred. The University uses the state’s purchasing department. The state is not currently requiring these certification in all federal procurements over the threshold. Although this finding relates to the state, the University is responsible for controls over compliance.

Questioned Costs: None

**RECOMMENDATION**

98-55 The University should have a system to ensure that the proper certifications are obtained before federal funds are obligated.

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Section III – Federal Award Findings and Questioned Costs

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<b>Finding 98-56</b>
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RESEARCH AND DEVELOPMENT CLUSTER

Economic Development – Public Works Impact Program – CFDA 11.304

Administered by: University of Rhode Island

QUARTERLY REPORTS

The terms of the Economic Development – Public Works Impact grant require quarterly reports to be submitted to the Department of Commerce. No quarterly reports were submitted for this grant during the year under audit.

Questioned Costs: None

RECOMMENDATION

98-56 Quarterly reports should be submitted on a timely basis, in accordance with grant requirements.

Corrective Action Plan -  
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**Finding 98-1**

***Corrective Action:***

The Division of Accounts and Control has issued statewide policies and procedures to record all new fixed asset acquisitions since July 1, 1998. Presently, one staff member is completing physical inventories of existing fixed assets on a departmental basis as time allows. Recently, approval was granted to hire another staff member for this unit in the division. The recruitment of this new staff member will begin by May 1<sup>st</sup> and be complete by June 1<sup>st</sup>. The accumulation of fixed asset data is planned to be completed in phases: land and buildings; all other fixed assets; infrastructure assets. This effort will take several years to complete.

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**Finding 98-2**

***Corrective Action:***

The Department of Administration has acquired new integrated, accounting software. The software we acquired does not have a module for debt and debt service accounting. We will be researching the functionality of other commercial, off-the shelf software for this purpose to integrate with our general accounting software. Presently, the implementation of the general accounting software is underway and is planned to be implemented statewide over a three-year period. During this implementation, the Division of Accounts and Control will research debt accounting software, prepare a budget request to acquire it, and plan its implementation.

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**Finding 98-3**

***Corrective Action:***

98-3a

No corrective action plan is necessary. The Division of Accounts and Control performs a statewide payment and accounting function with a staff of less than forty (40) people. In order not to deleteriously affect operations of other departments and this division, and in order not to impede the efficient transfer

Corrective Action Plan -  
Findings Included in 1998 Single Audit Report

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of payments, a few employees who are felt to be strategic to the previously mentioned objectives are allowed the authority to both initiate and approve transactions. However, the transactions they initiate and approve are subject to the preaudit by other employees within this division.

98-3b

Certain computer programmers in the Office of Library and Information Services have their current type of access to the GOLDEN system because they serve in a "help desk" function to the daily users that have problems with the system. Without this type of access, the programmers cannot provide timely responses to user problems which, in turn, would create operational problems and vendor relation problems at user agencies.

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<b>Finding 98-4</b>
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***Corrective Action:***

98-4a

The State Controller has requested the Office of Library and Information Services (OLIS) to assign unique passwords to users of the on-line payroll accounting system. Due to staffing problems and illnesses of the programming staff assigned to the payroll system, this request has not been completed. After the state has completed its Year 2000 readiness efforts, the OLIS staff will be requested to implement this recommendation. Action will not commence until January 2000 or after and will not be completed until June or later.

98-4b

This recommendation cannot be completed until #98-4a is completed. See action plan for #98-4a.

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Corrective Action Plan -  
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**Finding 98-5**

**Corrective Action:**

The Office of Library and Information Services (OLIS) has established a committee to prepare and write a disaster recovery/business resumption plan for all computer applications that utilize the State Operations Center in Johnston. That committee will complete its report by the end of June 1999. The report, in addition to enumerating actions that OLIS can take at present, will also detail gaps in the state's preparedness and needed actions to remedy these gaps. OLIS is simultaneously pursuing additional strategies to boost the state's disaster recovery capabilities: it is soliciting consultants to prepare a feasibility study for renovation and expansion of the Operations Center, including provision for potential disaster recovery/business resumption strategies and facilities; it has submitted a capital budget request to implement findings of the feasibility, again including potential disaster recover/business resumption facilities.

Contact person: Barbara Weaver, Chief Information Officer

**Finding 98-6**

**Corrective Action:**

See corrective action for Finding 98-45.

**Finding 98-7**

**Corrective Action:**

See corrective action for Finding 98-1.

**Finding 98-8**

**Corrective Action:**

98-8a

The Department of Administration thinks that compliance with cash management requirements will improve for those departments that draw federal funds more quickly than permitted. They will have to use their state-funded program funds to pay any state interest liability under CMIA. The Division of Accounts and Control will begin monitoring the cash position of federal program accounts on a daily

Corrective Action Plan -  
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basis to prevent federal funds from being drawn later than permitted.

Contact person: Lawrence Franklin, Jr., State Controller  
Telephone: 401-222-6731; Fax: 401-222-6437  
e-mail: [lfrankli@doa.state.ri.us](mailto:lfrankli@doa.state.ri.us)

98-8b

The Department of Administration will explore with the General Treasurer the possibility of vesting responsibility for federal cash management within the Office of the General Treasurer.

Contact person: Lawrence Franklin, Jr., State Controller  
Telephone: 401-222-6731; Fax: 401-222-6437  
e-mail: [lfrankli@doa.state.ri.us](mailto:lfrankli@doa.state.ri.us)

<b>Finding 98-9</b>
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***Corrective Action:***

98-9a

The formula used to calculate the fiscal year CMIA interest was used for the following reasons. One, several accounts within one or more state departments are used to account for transactions related to the same federal program (CFDA #) and the state program department might have (intentionally or unintentionally) a positive cash balance in one account(s) and a negative cash balance in other accounts. Offsetting "negative interest" (a positive cash balance) against "positive interest" (a negative cash balance) was thought to provide some equity for this situation. Two, an interpretation of CMIA rules appeared to allow this formula. However, re review of the CMIA agreement and rules has led us to an interpretation that coincides with the auditor's. Therefore, the State Controller will re-calculate CMIA interest liability for fiscal year 1998 and include any new state interest liabilities as an adjustment to the fiscal year 1999 annual CMIA report.

98-9b

The state will endeavor to comply with the interest calculation methods outlined in the TSA.

Contact person: Lawrence Franklin, Jr., State Controller  
Telephone: 401-222-6731; Fax: 401-222-6437  
e-mail: [lfrankli@doa.state.ri.us](mailto:lfrankli@doa.state.ri.us)

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**Finding 98-10**

***Corrective Action:***

The Department of Administration agrees with the auditor's interpretation of OMB Circular A-87 concerning the accounting treatment of workers's compensation, unemployment compensation, and payment of unused leave at termination. The State Controller will work with the state budget office to implement these accounting changes and the resulting budget that will result effective for state fiscal year 2000.

Contact person: Lawrence Franklin, Jr., State Controller  
Telephone: 401-222-6731; Fax: 401-222-6437  
e-mail: [lfrankli@doa.state.ri.us](mailto:lfrankli@doa.state.ri.us)

**Finding 98-11**

***Corrective Action:***

Accepted and Implemented

Two additional staff members have been hired during summer of 1998. The 1999 review schedule has been developed and reviews for the Child Nutrition Programs are in process.

*The Department of Education's corrective action plans are pending approval by the Rhode Island Board of Regents for Elementary and Secondary Education.*

Contact person: Adrienne DiMeo  
Telephone: 401-222-4600

**Finding 98-12**

***Corrective Action:***

Accepted and Implemented

A suspension debarment certification will be added to the application approval process, beginning with summer 1999. The certification will be added to the National School Lunch/School Breakfast, Special Milk and Child and Adult Care Food Programs in the application process for Federal FY 2000\*

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(October 1999 – September 2000). The Title I program will add the required certification in FY 2000.

In addition, the List of Seriously Deficient Child and Adult Care Food program institutions issued by the USDA is checked when received to see if any of the agencies operate in Rhode Island.

\* All application materials are scheduled for revision at this time.

*The Department of Education's corrective action plans are pending approval by the Rhode Island Board of Regents for Elementary and Secondary Education.*

Contact person:           Adrienne DiMeo  
                                      Ray Capotosto  
                                      Antonia Gibbs  
                                      Telephone: 401-222-4600

<b>Finding 98-13</b>
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***Corrective Action:***

Child Nutrition Cluster:

Accepted and Implemented

An audit review process has been developed and approved by the USDA in 1998, and it will be followed each year. The process begins with an Audit Responsibility memo and Audit Survey mailed in January to each Child Nutrition Program (CNP) sponsor (except school districts – RIDE has a process in place to receive them). Once the survey and audit reports are received (if applicable) at RIDE, they are indicated on the Program Audit Logs with received data. The log is a tracking mechanism used to send second requests and, if need be, final requests that will state that failure to reply will result in the withholding of Federal CNP reimbursements.

Surveys are checked to ensure that audits are conducted as required. Audits are reviewed using an audit report checklist to ensure that audit reports were completed in accordance with the Single Audit Act and applicable Federal regulations. If noncompliance is indicated, the checklist will document the deficiency. Follow-up to the audits will be coordinated by the Office of Finance to ensure fiscal findings are recovered and program noncompliance issues are referred to the Office of Integrated Social Services for program resolution. Audits are not considered complete until all findings are resolved.

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When the audit report findings have been resolved, the audit review process for that particular sponsor is considered complete. The date of completion is then logged on the Program Audit Log.

### Title I and Vocational Education

Accepted and Will Implement

RIDE reassigned this staff function to ensure compliance with the requirements. Several staff departures contributed to an inconsistent review of audits. However, RIDE does not have procedures to comply with audit review and follow-up and has filled the vacant staff position. The review and monitoring of audits will be in place in the spring of 1999.

*The Department of Education's corrective action plans are pending approval by the Rhode Island Board of Regents for Elementary and Secondary Education.*

Contact person:           Adrienne DiMeo  
                                  Ray Capotosto  
                                  Antonia Gibbs  
                                  Telephone: 401-222-4600

<b>Finding 98-14</b>
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### ***Corrective Action:***

The WIC Office will recapture and verify all FY 1998 check issuance data related to rebates, federal reporting and one-to-one reconciliation of food instruments issued and redeemed by May 1, 1999.

All necessary corrections to federal; reports will be made by June 1, 1999.

The conversion of the WIC central database to Oracle will be completed by June 1, 1999 to improve reliability. Transmission methodology will be upgraded to improve reliability by September 30, 1999.

Contact person:           John L. Smith, MSW, Chief  
                                  Office of Women, Infants and Children (WIC) Program  
                                  Rhode Island Department of Health  
                                  Telephone: 401-222-5929; Fax: 401-222-1442

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**Finding 98-15**

*Corrective Action:*

DLT will continue to monitor the job service registration of UI claimants and analyze any discrepancies in our registration process. Some of the improvements cited in the report may not have been fully utilized during the entire year in question, resulting in less than 100 percent compliance.

All staff have been trained and have been using the combined application for more than a year as of this date, so any non-registered claimants should be an anomaly during subsequent evaluations. As stated, we expect the telephone claims process implemented in April 1998, will further reduce the number of claimants not registered with the Job Service.

Finally, we are in the process of designing an automated process for reviewing the eligibility status of UI claimants on a periodic basis. One aspect of that review will be confirmation of active job service registration.

Contact person: Jack Hurley

**Finding 98-16**

*Corrective Action:*

Both the GRI and DWU units will maintain reconciliations between the amounts reported and the amounts derived from the FARS, and submit copies of the reconciliations to the JTPO, as recommended.

The JTPO will review the reconciliations prior to their acceptance of the expenditure reports from these units.

Contact person: Michael Koback, Richard Beneduce, GRI, SDA, JTPO  
Cynthia Paquette and Patricia McCrea, DWU

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**Finding 98-17**

*Corrective Action:*

The DWU will reissue established procedures with regard to acceptable forms of documentation to the local offices as a reminder of what is required to support compliance with each eligibility criteria. The DWU will also increase its monitoring of these requirements in order to assure compliance with these regulations.

Contact person: Cynthia Paquette

**Finding 98-18**

*Corrective Action:*

The Director of Finance and Administration has appointed a person in the accounting department to handle the responsibility for tagging all new equipment purchased. This person has created a database which includes a description of property, date acquired, cost, serial number, tag number and location of the equipment. All current equipment purchases have been recorded in this system and a plan is being developed to enter prior year equipment purchases. In addition, as a result of the Year 2000 concerns, the Corporation has acquired a new fixed asset module which will incorporate all of the required information. This module, once operational, will replace the aforementioned database. Once the new module becomes operational it will be utilized to perform the required physical inventory.

Contact person: Elaine Roberts  
Telephone: 401-737-4000

**Finding 98-19**

*Corrective Action:*

We concur with the aforementioned recommendations. In addition, steps are being taken to centralize contract files and the development of a "Contract Checklist" is being considered. RIAC is currently advertising for a full-time purchasing position whose responsibilities would include, among others, compliance with federal procurement rules.

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Contact person: Elaine Roberts  
Telephone: 401-737-4000

<b>Finding 98-20</b>
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***Corrective Action:***

The Department of Transportation concurs with the finding and offers the following as a response to the finding:

- The Department of Transportation is undertaking a complete inventory of all property owned or managed by the Department. A computerized database has been established and data entry has begun. Additionally, letters have been sent to all cities and towns in the State asking them to identify property that they list as owned by the Department of Transportation.
- A fulltime FTE was assigned to this effort, and in February of this year, another person was added to the project.
- When the inventory is complete, it will be loaded on the GIS system to give the Department another means of identifying and possibly selling unneeded property. (The new TEA-21 legislation allows the states to sell surplus property and retain any proceeds for any Title 23 project.

Contact person: Brian Peterson, Associate Director for Financial Management  
Telephone: 401-222-6590 x 4634

<b>Finding 98-21</b>
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***Corrective Action:***

Authority personnel assignments were recognized and changes were made relative to DBE reporting requirements within the purchasing department. Due to the reorganization there was an oversight concerning the timely submittals of DBE reports. Within thirty days, the Authority will submit all outstanding reports and will continue to submit the required reports in a timely manner.

Contact person: Henry Kinch, Director of Purchasing  
Telephone: 401-784-9500 ext. 160

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**Finding 98-22**

***Corrective Action:***

Bid No. 97-15 contains a debarment clause in the instruction for bidder section, part number 21, titled ineligible bidders. This section states that the bidders shall be required, upon request, to certify that they are not debarred. The Authority has since changed this report to a mandatory requirement, and will be requested in all awards for \$100,000 or more.

Contact person: Henry Kinch, Director of Purchasing  
Telephone: 401-784-9500 ext. 160

**Finding 98-23**

***Corrective Action:***

Not accepted.

*The Department of Education's corrective action plans are pending approval by the Rhode Island Board of Regents for Elementary and Secondary Education.*

Contact person: Paula Rossi  
Loreto Gandara  
Telephone: 401-222-4600

**Finding 98-24**

***Corrective Action:***

Partially accepted and implemented.

RIDE has instituted several corrective actions with regard to this recommendation. These include ceasing any advance start-up payments; effective in FY 1997 allowing only monthly cash advance requests, and in FY 1998 sending letters to sub-grantees who return significant amounts of cash or maintain excess cash on hand. RIDE will evaluate the effectiveness of the above-listed procedures and consider additional changes, if warranted.

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*The Department of Education's corrective action plans are pending approval by the Rhode Island Board of Regents for Elementary and Secondary Education.*

Contact person:            Antonia Gibbs  
                                      David Luther  
                                      Telephone: 401-222-4600

<b>Finding 98-25</b>
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***Corrective Action:***

The College will be more diligent in ensuring that entrance and exit interviews will be conducted in a timely manner and in accordance with federal regulations.

Contact person:            John J. Fitta, Assistant Vice President for Finance and Controller  
                                      Telephone: 401-456-8224

<b>Finding 98-26</b>
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***Corrective Action:***

The University concurs with the auditors' recommendation. The University student financial aid staff has been directed to exercise due diligence in the filing of all entrance and exit interview documentation. In addition, the student data system is updated to designate that exit interviews have been conducted.

Contact person:            Fred M. Dolor, Office of the Controller  
                                      Telephone: 401-874-2378

<b>Finding 98-27</b>
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***Corrective Action:***

Management began segregating the different functions of the Loan Division for internal income and expense reporting purposes a number of years ago. Reports filed with the Department of Education for the FFEL program include only those activities related to the FFEL program, and exclude activities related to the building, HEAL program, etc. The process of establishing the separate funds requires an analysis of the Loan Division's cumulative activities from inception, and determining the proper fund inclusion for the individual activities. The Authority has contracted an independent consultant to assist management in analyzing the cumulative activities from inception, and researching the initial funding sources to determine the proper fund inclusion of each activity.

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### Comments on Finding and Recommendation

The Authority has not established separate reporting funds as required by Federal Regulation 34 CFR 682.410 and the 1998 Reauthorization.

We recommend that the Authority research and analyze its past activities to establish the separate funds and determine the proper recording of future activities.

### Action Taken

The Authority is analyzing the cumulative activities from inception to determine the fund balance of each activity. The Authority has contracted a consultant to assist management in its analysis and determining the proper fund inclusion of each activity.

Contact person: William Hurry, Executive Director  
Telephone: 401-736-1100

<b>Finding 98-28</b>
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### *Corrective Action:*

It is the College's Policy to have all student employees sign their timesheets. The College will reinforce this policy in writing to all supervisors.

Contact person: John Horodysky

<b>Finding 98-29</b>
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### *Corrective Action:*

DHS, Office of Rehabilitation Services is in the process of obtaining documentation to support this expenditure. Procedures have been established to support all expenditures relating to adaptive housing and vehicle modification.

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Contact person: Stephanie A. DeBonis, Office of Rehabilitation Services  
Telephone: 401-421-7005 ext. 313

**Finding 98-30**

***Corrective Action:***

We concur with the auditor's recommendations. The registration forms have been modified to inquire as to student's eligibility.

Contact person: Mary Sylvia Harrison

**Finding 98-31**

***Corrective Action:***

DHS will continue to work to meet the required work participation rate for two parent families receiving Temporary Assistance for Needy Families. DHS will present our accomplishments to federal HHS officials and seek a good cause waiver.

Contact person: Donalda Carlson  
Telephone: 401-462-3018

**Finding 98-32**

***Corrective Action:***

Effective June 4, 1998, a certification regarding suspension and debarment was added to the DHS general contract boilerplate as Addendum XII. The same certification was included in the child care provider contracts effective March 19, 1999 as Addendum VI. DHS will review all child care provider contracts and establish a schedule to update all contracts to include all required federal and state terms and conditions and regulations.

Contact person: Gail Dunphy  
Telephone: 401-462-2348

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**Finding 98-33**

*Corrective Action:*

DHS believes the current Cost Allocation Plan meets this requirement. DHS will implement procedures to obtain employee certifications of those employees assigned to one federal program. DHS plans to implement this procedure during fiscal year 1999.

Contact person: Ronald H. Gaskin  
Telephone: 401-462-3375

**Finding 98-34**

*Corrective Action:*

DHS agrees with this recommendation. Revision to current regulations have been drafted and published for public review and comment in accordance with the Administrative Procedures Act. A projected date of implementation is June 1, 1999.

Contact person: Donalda Carlson  
Telephone: 401-462-3018

**Finding 98-35**

*Corrective Action:*

DHS agrees with this recommendation. DHS will review current State Policies regarding TANF eligibility requirements and make necessary policy changes to meet Federal TANF eligibility requirements.

Contact person: Donalda Carlson  
Telephone: 401-462-3018

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**Finding 98-36**

***Corrective Action:***

The Department concurs with the Auditor General's finding that some discrepancies resulting from the IEVS matches are not resolved in a timely fashion. There are several factors which have contributed to delays in resolving IEVS matches. These are being addressed and should allow the Family Independence Program Eligibility staff to utilize the control procedures already in place. A significant factor contributing to the delay in resolving matches is the process in INRHODES used by worker to record the results of IEVS match investigations. This process has not worked correctly.

An enhancement to INRHODES is being developed. It is anticipated that this enhancement will be ready for production in May 1999. When this enhancement is introduced, the control procedures that are in place will be reviewed with all FIP eligibility supervisors to ensure there is compliance with the IEVS match process. Also, there will be a change in the Monthly Reporting policy in July 1999, that will increase the time available for eligibility staff to promptly review and resolve the IEVS matches.

Contact person: Edward P. Sneesby  
Telephone: 401-462-2424

**Finding 98-37**

***Corrective Action:***

98-37a

A new federal quarterly report on child support collections and distributions went into effect October 1, 1998 requiring states to report Non-Welfare-Non IVD collections as a line item. INRHODES computer system was reprogrammed to accommodate the inclusion of these figures. Such reprogramming was thought to be the solution for this reconciliation issue. However, the new collections included on the federal reports are only collections received on these types of cases through income wage withholdings. It still does not include those collections received directly from the obligators themselves. CSE has requested another program modification from the maintenance vendor for INRHODES to obtain these figures so that the reconciliation can be completed. It is currently in the change order cue with the vendor. (Also, please note that this finding is the same as finding 1.4 in federal audit RI 96 RSR issued on March 12, 1998, and subsequently cleared by the Regional Administrator on October 6, 1998. In

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addition, the Regional Administrator issued a clearance letter dated February 19, 1999 regarding the State Fiscal 97 Audit findings, ACN -01-99-54113 Child Support Enforcement).

98-37b

Numerous hours of investigation have been invested by the CSE staff and others in an attempt to determine the cause of this "surplus" of funds in the state accounting system. Some of the approximately \$2 million discrepancy has been explained, while a substantial amount still remains unexplained. CSE continues to believe that this discrepancy results from a federal change in the way states draw down federal operating funds. Such changes require states now to draw required operating funds from the federal share of child support receipts. CSE believes adjustment transactions to the receipt accounts during the June 1998 period may account for this discrepancy. CSE continues to investigate this issue currently in order to resolve it.

Contact person:           John Murphy  
  Telephone: 401-222-4300

**Finding 98-38**

***Corrective Action:***

The Department of Human Services charges 100% of one employee to the community Service Block Grant Program (C.S.B.G). This position has primary responsibility for the direct management of the program. The employee performs other contact management activities involving the supervision of other employees assigned to the Contract Management Unit. The other two employees are involved in C.S.B.G activities, however, the associated salary and fringe benefit costs are charged to a 100% state account. The net result is one employee charged to C.S.B.G. with two employees charged to a state account. No corrective action planned.

Contact person:           Ronald H. Gaskin  
  Telephone: 401-462-3375

**Finding 98-39**

***Corrective Action:***

DHS processes payments based on the terms of the contract. DHS will review the current procedure of paying subrecipients with a goal to improve cash management procedures.

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Contact person: Ronald H. Gaskin  
Telephone: 401-462-3375

**Finding 98-40**

*Corrective Action:*

DHS agrees with this recommendation and does have procedures in place to ensure timely receipt and review of audit reports and prompt notification to the subrecipient of required corrective plans. The one agency cited as an example in this finding has been experiencing some unique problems. The agency is currently continuing the process of improving its financial systems. DHS is awaiting audit reports and management letters from the agency auditors. The department does have monitoring procedures in place to ensure program compliance. These procedures include on-site monitoring, review of board of directors meeting minutes, and on-going DHS interaction with each Community Action Agency. DHS senior staff recently initiated a quarterly meeting with agency Directors.

Contact person: Ronald H. Gaskin  
Telephone: 401-462-3372

**Finding 98-41**

*Corrective Action*

Addendum V Certification Regarding Environmental Tobacco Smoke; was incorporated in all new DHS Child Care provider contract effective July 1, 1996. As stated in our response to recommendation number 98-32, DHS will review all Child Care provider contracts with a goal to rewrite all contracts to include all federal and state regulations.

Contact person: Gail Dunphy  
Telephone: 401-462-3248

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<b>Finding 98-42</b>
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***Corrective Action:***

98-42a

Effective January 1, 1999 the department changed form using TANF guidelines to determine Title IV-E eligibility using the AFDC rules that were in effect as of July 6, 1996. To effect this change the Department has modified an Excel worksheet developed by the State of New Hampshire for this purpose , and is utilizing additional screens in INRHODES to determine income and needs levels.

Utilizing this methodology, it is the Department's intention to go back to May 1, 1997 and redetermine all IV-E eligible Foster Care cases open to the Department since that date. The Department will then recompile its IV-E penetration rate for these quarters and return the cost Allocation Plan and make the appropriate claim adjustments.

98-42b

The Department is awaiting Information System's development of an automated system that will automatically develop negative payments when placement end dates are changed. The reimbursement module will then generate negative claims that will offset the old claims associated with the revised placements.

Currently, Information Systems is involved with upgrading software for Y2K compliance. When that task is completed, we have been assured that the development of this module will be made a priority. When this system has been developed the department will return its claims back to the implementation date of this computer system, generating all appropriate negative adjustments, and adjusting claims accordingly.

Recommendation 98-42c

As discussed in the response to recommendation 98-42c, the Department will redetermine eligibility for all Foster Care cases opened to the Department since May 1, 1997. Statistics will be revised and the cost allocation plans will be returned, with appropriate adjustments being made.

We expect that these corrective actions will be implemented by July 31, 1999.

Contact person:           Leo DuCharme  
  Telephone: 401-222-5271

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<b>Finding 98-43</b>
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*Corrective Action:*

98-43a

The department initiated an aggressive program in FY 1998 to reconcile interim payment balances and to terminate payment balances and to terminate target payments. This effort has reduced interim payment balances from \$95.3 million at June 30, 1997 to \$15.9 million as of January 25, 1999, with only 29 providers continuing to receive target payments. Interim payment balances are reconciled on a provider by provider basis and target payments to the provider are terminated. The only provider group where interim payment balances remain to be reconciled are the private DD group homes. Estimated completion date December 31, 1999.

Contact person:           John Young  
  Telephone: 401-462-1880

98-43b

The department continues to disagree with this recommendation, and maintains that it has consistently employed a reasonable methodology for setting target amounts for individual providers based on all data available to the department, including actual and suspended claim activity.

Contact person:           John Young  
  Telephone: 401-462-1880

98-43c

The department agrees with this recommendation, and is working diligently to accomplish this objective. As individual accounts are closed, the federal share of excess payments will be refunded.

Contact person:           John Young  
  Telephone: 401-462-1880

98-43d

The department agrees with this recommendation, and believes that conversion of payment for expenditures by other state agencies to a claim basis will accomplish this. Efforts to convert each state agency to a claim basis for payment has been initiated.

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Contact person: James FitzGerald

**Finding 98-44**

*Corrective Action:*

98-44a and 98-44b

The department disagrees that its control procedures to assure that INRHODES eligibility data is accurate on the MMIS are inadequate. A monthly reconciliation is performed, to research and resolve variances between the two systems. The department agrees to improve the documentation of its reconciliation efforts, including tabulation of any amounts paid determined to be unallowable, based on eligibility span. Estimated completion June 30, 1999.

**Finding 98-45**

*Corrective Action:*

98-45a

The Department disagrees with this recommendation, and believes that it has employed prudent and effective measures with respect to oversight of the fiscal agent, particularly in light of staffing constraints. The Department will explore opportunities to refine these efforts with the fiscal agent, and will draft an oversight plan. Estimated completion date December 31, 1999.

98-45b

The department agrees with this recommendation and has worked with staff from the Auditor General's Office to define the parameters of the requested audit. The department has issued an RFP for these services twice, with no responses received. A third RFP will be prepared and issued. Estimated completion date September 30, 1999.

Contact person: James FitzGerald

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**Finding 98-46**

***Corrective Action:***

98-46a

The department has compiled all of the elements of its security plan into a single document. Completed June 30, 1998.

Contact person: Lynne Harrington

98-46b

The department conducted a review in June 1998.

Contact person: Lynne Harrington

98-6c

The department agrees with this recommendation. The department will update to Solaris 2.6. Estimated completion June 30, 1999.

Contact person: Lynne Harrington

98-46d

A review of user ID's is in progress, in which job required accesses will be defined, as well as a security profile for each position. Estimated completion June 30, 1999.

Contact person: Lynne Harrington

**Finding 98-47**

***Corrective Action:***

98-47a

The TPL action plan was submitted in February, 1998. A monitoring plan will be developed, in cooperation with the fiscal agent. Estimated completion date September 30, 1999.

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Contact person: James FitzGerald

98-47b

The department disagrees with this recommendation. Until such time as a TPL claim has been fully resolved, no credit to the program can be booked.

Contact person: James FitzGerald

<b>Finding 98-48</b>
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***Corrective Action:***

98-48a

The Department agrees to repay the federal share (\$7,937) for the individual for whom eligibility could not be fully documented, as well as the federal share (\$806) for Departmental Allocated Costs.

The Department disagrees that the expenditure for the CHOICES waiver program is not allowable. The State has received preliminary approval of the CHOICES waiver, and has been in negotiation with HCFA for a number of months with respect to the terms and conditions of the final waiver. The State will repay the federal share of this expenditure in the unlikely event that the CHOICES waiver does not receive final approval by HCFA. Estimated completion June 30, 1999.

98-48b

The department disagrees with this recommendation. The department currently requires state departments to report, reconcile, and certify all Medicaid expenditures on a quarterly basis.

Contact person: James FitzGerald

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**Finding 98-49**

*Corrective Action:*

98-49a

The department agrees to track outstanding rebate balances, by manufacturer, and to explore the opportunity to annually reconcile outstanding balances. The Department disagrees that it can control the information received from manufacturers with rebate payments. Estimated completion date June 30, 2000.

98-49b

Controls to ensure correct units on drug claims were established in August, 1998. Upon implementation, provider billing issues were identified that have resulted in additional system modifications. Estimated completion date December 31, 1999.

Contact person: Paula Avarista

**Finding 98-50**

*Corrective Action:*

The department disagrees with this recommendation. Total Medicaid expenditures are reconciled to the state's accounting system on a quarterly basis. As stated in the audit report, "The State Accounting System does not categorize program expenditures by type of services." The \$660,883 noted in the audit report relates to expenditures reported by the Department of Children, Youth and Families (DCYF). HCFA is currently reviewing the nature of these expenditures, and has deferred two quarters pending resolution. The department anticipates a favorable ruling, and plans to report these expenditures on the HCFA-64 for the quarter ending March 31, 1999.

Contact person: Ronald Gaskin  
Telephone: 401-462-3375

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### Finding 98-51

***Corrective Action:***

Work plans have been established with each state department not already reimbursed on claims to convert to this basis. Estimated completion date June 30, 1999.

Contact person: James FitzGerald

### Finding 98-52

***Corrective Action:***

DHS and the fiscal agent developed such a procedure in February 1999 and DHS forwarded an adjustment voucher to the state controller to record the write-off of canceled checks for the period of October 1995 through June 1998. Completed February 1999.

Contact person: Ronald Gaskin  
Telephone: 402-462-3372

### Finding 98-53

***Corrective Action:***

The Department agrees with this recommendation in principle, but disagrees that it has authority to implement such procedures. The prospective reimbursement system for hospitals is a legislatively directed process that does not provide the Department with authority to enforce the timeliness of settlement with any institution.

Contact person: James FitzGerald

### Finding 98-54

***Corrective Action:***

98-54a

The Department's model contract has been modified to reflect this requirement. This change will apply all new contracts. Completed February 1999.

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Contact person: John Young  
Telephone: 401-462-1880

98-54b

The provider agreements will be modified to reflect this requirement for all new providers enrolled. Estimated completion date June 30, 1999.

Contact person: Lynne Harrington

<b>Finding 98-55</b>
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***Corrective Action:***

The University concurs with the auditors' finding and recommendation. The University purchasing department has obtained a listing of Parties Excluded from Federal Procurement and Nonprocurement Programs from the General Services Administration and has furnished a copy to the state purchasing office. Based upon this listing, the University purchasing department has eliminated debarred vendors from its purchasing bid list. In addition, vendors are now required to register with the University purchasing department and to certify that they have not been debarred or suspended by the federal government.

Contact person: Fred M. Dolor, Office of the Controller  
Telephone: 401-874-2378

<b>Finding 98-56</b>
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***Corrective Action:***

The University concurs with the auditors' finding and has submitted all past due quarterly reports as required by the grant. In addition, the University is currently updating the Financial Record System to include reporting attributes for each grant and contract. This update will facilitate timely submission of reports in the future.

Contact person: Fred M. Dolor, Office of the Controller  
Telephone: 401-874-2378

# State of Rhode Island

Single Audit Report

For the Fiscal Year Ended June 30, 1998

<b>Summary Schedule of Prior Audit Findings Table of Prior Findings by Federal Program</b>			
<u>Program Title</u>	CFDA Number	Findings included in the Fiscal 1997 Single Audit Report	Findings from years prior to <u>1997</u>
Farmers Mortgage Home Association Loan Guarantee Program	10.405	97-16, 97-17	
Food Stamp Cluster:			
Food Stamps	10.551	97-33	
State Administrative Matching Grants for Food Stamp Program	10.561	97-10, 97-11, 97-12, 97-30, 97-31, 97-32	
Nutrition Cluster:			
School Breakfast Program	10.553	97-11, 97-13, 97-26	
National School Lunch Program	10.555	97-11, 97-12, 97-13, 97-26	Page F-30
Special Milk Program for Children	10.556	97-11, 97-13, 97-15, 97-26	
Child and Adult Care Food Program	10.558	97-11, 97-13, 97-14, 97-15, 97-26	
Summer Food Service Food Program for Children	10.559	97-11, 97-13, 97-26	
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	97-11, 97-12	
Federal Housing Administration Loan Guarantee Program	14.117	97-16, 97-17	
Section 8 Cluster:			
Section 8 Housing Assistance Payments Program – New Construction/Substantial Rehabilitation	14.182	97-16	
Section 8 Rental Voucher Program	14.855	97-16	
Section 8 Moderate Rehabilitation Program	14.856	97-16	
Section 8 Rental Certificate Program	14.857	97-16	
Sport Fish Restoration	15.605	97-10, 97-11	
Employment Service	17.207	97-11	
Unemployment Insurance	17.225	97-11, 97-12, 97-18	
Trade Adjustment Assistance – Workers	17.245	97-11	
Highway Planning and Construction	20.205	97-11, 97-12, 97-19, 97-20	

**Office of the Auditor General**  
General Assembly

# State of Rhode Island

Single Audit Report

For the Fiscal Year Ended June 30, 1998

<b>Summary Schedule of Prior Audit Findings Table of Prior Findings by Federal Program</b>			
<u>Program Title</u>	<u>CFDA Number</u>	<u>Findings included in the Fiscal 1997 Single Audit Report</u>	<u>Findings from years prior to 1997</u>
Transit Capital Grants Cluster:			
Federal Transit Capital Improvement Grants	20.500	97-11, 97-12, 97-21	
Federal Transit Capital Operating Assistance Formula Grants	20.507	97-11, 97-12, 97-21	
Veterans Administration Loan Guarantee Program	64.114	97-16, 97-17	
Student Financial Assistance Cluster:			
Federal Perkins Loan Program	84.038	97-23	
Federal Pell Grant Program	84.063	97-24	
Title I Grants to Local Educational Agencies	84.010	97-11, 97-12, 97-25, 97-26	Page F-30
Special Education – Grants to States	84.027	97-27	
Federal Family Education Loans (Guaranty Agency)	84.032	97-22	
Vocational Education – Basic Grants to States	84.048	97-11, 97-12, 97-25, 97-26, 97-27, 97-28, 97-29	Page F-30
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	97-10, 97-11, 97-12, 97-30	
Safe and Drug-Free Schools and Communities	84.186	97-27	
Goals 2000-State and Local Education Systemic Improvement Grants	84.276	97-27	
Temporary Assistance for Needy Families	93.558	97-11, 97-12, 97-30, 97-31, 97-32, 97-33	
Family Support Payments to States-Assistance Payments	93.560	97-10, 97-11, 97-12, 97-30, 97-31, 97-32, 97-33, 97-34	
Child Support Enforcement	93.563	97-10, 97-11, 97-12, 97-33, 97-35, 97-36	
Low-Income Home Energy Assistance	93.568	97-11, 97-12, 97-37	
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	97-11, 97-32, 97-33	
Foster Care – Title IV-E	93.658	97-11, 97-12, 97-38, 97-39	

**Office of the Auditor General**  
General Assembly

**State of Rhode Island**

Single Audit Report

For the Fiscal Year Ended June 30, 1998

<b>Summary Schedule of Prior Audit Findings Table of Prior Findings by Federal Program</b>			
<u>Program Title</u>	<u>CFDA Number</u>	<u>Findings included in the Fiscal 1997 Single Audit Report</u>	<u>Findings from years prior to 1997</u>
Adoption Assistance	93.659	97-11, 97-40	
Social Services Block Grant	93.667	97-10, 97-11, 97-12, 97-30, 97-32, 97-33	
Medicaid Cluster:			
State Medicaid Fraud Control Units	93.775	97-11	
State Survey and Certification of Health Care Suppliers and Providers	93.777	97-11	
Medical Assistance Program	93.778	97-11, 97-12, 97-30, 97-33, 97-41 to 97-52	Page F-31
Block Grants for Prevention and Treatment of Substance Abuse	93.959	97-11, 97-12, 97-53	
Social Security-Disability Insurance	96.001		Page F-31
Research and Development Cluster	-	97-54, 97-55	

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**Office of the Auditor General**  
General Assembly

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Implemented	Partially Implemented	Not Implemented	No Longer Valid	Comments
97-10		The State did not comply with regulations governing the use, management and disposition of equipment purchased with federal funds.	1997		X			State Controller's Office has started a program to inventory all fixed assets.
97-11		The State did not comply with the provisions of the Cash Management Improvement Act in drawing federal funds in reimbursement for most major programs. It also did not have sufficient monitoring procedures in place to ensure federal funds were drawn in compliance with requirements.						
	97-11a	Comply with cash management requirements when drawing funds for federal programs.	1995			X		A new policy to us state agency program funds to pay state CMIA liability should improve compliance.
	97-11b	Implement a centralized monitoring system to ensure compliance with cash management requirements. Vest responsibility for cash management of federal programs with the Office of the General Treasurer.	1995			X		The Department of Administration will explore with the General Treasurer the possibility of vesting responsibility for federal cash management within the Office of the General Treasurer.
97-12		The State did not correctly calculate the net interest liability due the federal government because of noncompliance with the Cash Management Improvement Act.						

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
	97-12a	Review the fiscal 1997 interest calculation for all major programs subject to the Treasury-State agreement and submit a revised federal report.	1997			X		State Controller will review other acceptable methods and incorporate one into future CMIA Treasury/State agreement. State Controller will review 1997 interest calculations and submit adjustment to a future fiscal year annual report.
	97-12b	Comply with the methods specified in the Treasury/State agreement to calculate the State interest liability.	1995			X		See above.
	97-12c	Eliminate the \$2 million compensating balance in the bank account used to disburse UI benefit payments.	1997	X				
	97-12d	Improve controls to ensure that interest, when incurred, is calculated in accordance with the provisions of the Treasury/State agreement.	1997		X			Some improvements have been made to the interest calculation process regarding use of information within the State accounting system to make the calculation. Also see response to 97-12a.
97-13		The amount of State Administrative Expenditure Funds as reported on the Financial Status Report could not be reconciled to the state accounting records.						
	97-13a	Accumulate all program costs for the Summer Food Service Program for Children (CFDA 10.559) in one account.	1997	X				

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Implemented	Partially Implemented	Not Implemented	No Longer Valid	Comments
	97-13b	Prepare financial status reports using the data recorded in the State's accounting records and ensure the reports are reconciled to the State's accounting records.	1997	X		X		
97-14		Set-aside funds for audit and/or administrative reviews were unused but reported as expended.						
	97-14	Submit corrected financial status reports and return the unexpended funds to the Food and Consumer Service – Department of Agriculture.	1997	X				
97-15		Administrative reviews to ensure compliance with regulations were not performed.						
	97-15	Perform administrative reviews of all nutrition programs on a timely basis as required by federal regulations.	1997	X				
97-16		Planning for the Year 2000 issue has not begun.						

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.		Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
		<b>FY 1997 FINDINGS AND RECOMMENDATIONS</b>						
	97-16	Because of the significance of this issue to the Corporation, the short time frame involved and the expected escalation in costs as the century turn approaches, we recommend that the Corporation develop a program immediately to review the status of all critical business systems to ensure they will be year 2000 compliant by January 1, 1999. This review should include all systems such as mainframe, midrange, client/server and end-user computing environments. In addition, any other software controlled devices which are clock dependent such as elevators, building lighting and telephone systems should be reviewed.	1997	X		X		
97-17		The Corporation needs to obtain CFDA numbers for all loan guarantee programs and determine its responsibility for monitoring loan guarantees.						
	97-17	The Corporation should continue to research these programs to determine the appropriate CFDA numbers and to obtain documentation regarding compliance and monitoring procedures from the Federal government. If no such documentation can be obtained, a letter from the loan guarantee insurers should be requested stating that no formal compliance policies exist.	1997	X				
97-18		Many individuals receiving unemployment insurance benefits have not registered with the Department of Labor's Job Services Division as required by state law.						

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.		Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
	97-18	FY 1997 FINDINGS AND RECOMMENDATIONS Improve controls to ensure all claimants receiving Unemployment Insurance benefits demonstrate their availability for work by registering with the Job Services Division.	1997		X			DLT will continue to monitor the job service registration of UI claimants and analyze any discrepancies in our registration process. Some of the improvements cited in the current year finding may not have been fully utilized during FY98, resulting in less than 100 percent compliance. All staff have been trained and have been using the combined application for more than a year as of this date, so any nonregistered claimants should be an anomaly during subsequent evaluations. We expect the telephone claims process implemented in April 1998, will further reduce the number of claimants not registered with Job Service. Finally, we are in the process of designing an automated process for reviewing the eligibility status of UI claimants on a periodic basis. One aspect of that review will be confirmation of active job service registration.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Implemented	Partially Implemented	Not Implemented	No Longer Valid	Comments
97-19		The Department of Transportation can not demonstrate compliance with the earmarking requirement for construction engineering costs.						
	97-19a	Calculate the annual limit on reimbursable construction engineering costs in compliance with federal regulations and implement control procedures to ensure compliance with the limit.	1996				X	These recommendations are no longer valid. The Transportation Equity Act for the 21 <sup>st</sup> Century eliminated any cap on construction Engineering Costs for new projects and was retroactive for any open projects.
	97-19b	Seek resolution with the Federal Highway Administration for amounts overclaimed, if any, resulting from noncompliance with the annual limit on reimbursable construction engineering costs.	1996				X	See comments for 97-19a.
	97-19c	Test construction engineering costs to ensure allowability.	1996				X	See comments for 97-19a
97-20		The Department of Transportation does not have an inventory of its real property and therefore cannot ensure compliance with regulations governing management and disposition of real property acquired with federal funds.						

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Implemented	Partially Implemented	Not Implemented	No Longer Valid	Comments
	97-20	Create and maintain an inventory listing of real property.	1997		X			This recommendation has been partially implemented. Land records are being entered into a computerized database. Letters have been sent to cities and towns requesting listings of State property according to their records. An FTE was assigned to this effort, and recently another FTE has been assigned full time.
97-21		Subrecipient monitoring efforts need to be improved.						
	97-21	Monitor federal awards passed through to subrecipients including review and follow-up on audit findings.	1995	X				
97-22		The Authority has not established a reserve fund to be used solely for the activities of the Federal Family Education Loan Program.						

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Implemented	Partially Implemented	Not Implemented	No Longer Valid	Comments
	97-22	While the Authority uses separate general ledger accounts to track the different activities accounted for in the Loan Division's single fund, we again recommend that the separate activities of the Loan Division be further segregated by establishing separate funds. This will enable the Authority to readily identify cumulative excesses or deficiencies of revenue over (under) expenses applicable to each different activity, including the reserve fund as defined by Department of Education regulations. Currently, these amounts are all part of the overall fund balance of the Loan Division. Part of the process of establishing the separate funds within the Loan Division will entail the research of past activity to determine the proper allocation of the overall fund balance to each individual fund. Once the historical data is accumulated, the Authority should develop control procedures that ensure only FFEL program activity is included in the segregated fund and determine whether amended prior year filings with the Department are necessary.	1997		X			The Authority is analyzing the cumulative activities from inception to determine the fund balance of each activity. The Authority has contracted a consultant to assist management in its analysis and determining the proper fund inclusion of each activity.
97-23		There is no evidence that exit interviews were conducted with all student borrowers.						
	97-23	Perkins exit interviews should be performed for all students prior to graduation or withdrawal from the University. Documentation of exit interviews should be maintained.	1997	X				
97-24		The amount of certain Pell grants was inaccurate.						

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
	97-24	Award the proper grant amount to all eligible students.	1997	X	.			
97-25		The department did not have adequate procedures in place to ensure subrecipients did not have federal cash on hand in excess of their immediate needs.						
	97-25	Monitor advances to subrecipients to ensure that they conform to standards required by 34 CFR 80.21(c), 80.37 (a) (4), and 31 CFR 205.10(a).	1995		X			RIDE has instituted several corrective actions with regard to this recommendation. These include ceasing any advance start-up payments; effective in FY1997, allowing only monthly cash advance requests, and in FY98 sending letters to subgrantees who return significant amounts of each or maintain excess cash on hand. RIDE will evaluate the effectiveness of the above-listed procedures and consider additional changes, if warranted.
97-26		Monitoring of subrecipient audit reports needs to be improved.						

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
	97-26a	Monitor the receipt of all required subrecipient audit reports and review such audit reports to determine if subrecipients compiled with applicable program requirements.	1997		X			RIDE assigned this staff function to insure compliance with the requirement. Several staff departures contributed to an inconsistent review of audits. However, RIDE has filled the vacant position and the review and monitoring of audits will be in place.
	97-26b	Ensure that appropriate corrective action is taken for all reported findings contained in subrecipient audit reports.	1997		X			See response for 97-26a.
97-27		No documentation exists to support the allocation of certain costs.	1997			X		No accepted. The methodology for allocating cost to multiple federal programs in support of assessment is RIDE's Strategic Planning, Budgeting and Resource Allocation Process. As soon as the state budget is finalized, the agency's leadership and staff, including the Finance Office, begins this process. Program staff evaluates available resources and makes determinations of how these resources can support both the state's reform agenda and the goals and intent of the federal programs.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
								<p>The State of Rhode Island has developed a five-year State Assessment Plan to support the RI Comprehensive Education Strategy, which emphasizes frameworks (content standards, and accountability. Strong emphasis is placed on testing ALL students, so extensive testing accommodations are offered to schools for consideration. To emphasize the strong connections between the various programs and to bring the program perspective to assessment work, staff members from the Career and Technical area and from Special Education were reassigned to work within the Office of Assessment. They helped form the assessment program procedures and instruments that are being used in the State Assessment Program. At full implementation (planned for the 1999-2000 school year), the Rhode Island State Assessment Program performance assessment component will test all Rhode Island public school students in grades 4, 8, and 10 with hands-on, applied exercises in reading, mathematics, writing, health and science.</p>

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
								The Perkins funds utilized in the finding were used in 1996-1997, the second year of the 5 Year Assessment Plan to support the continuation of authentic writing assessment at grade 8 and the early development and implementation of the writing assessment conducted at grade 10. At these two grade levels more than 20,000 students were administered actual performance writing tests and tests were scored by two readers with score reports returned to schools at the student class, school building and school district level. These funds were also used to facilitate discussions on how the writing assessment in the future could even more clearly link to the emerging School to Work philosophy in the State. These discussions resulted in some changes to the grade 10 testing that took place in spring 1997.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Implemented	Partially Implemented	Not Implemented	No Longer Valid	Comments
97-28		The Vocational Education Program was charged for the full cost of computers provided to employees who are assigned part-time to the program.						
	97-28	Adjust federal reports for the identified questioned costs.	1997			X		Not accepted. During the past five years, the Rhode Island Department of Education, as part of its education reform effort, has moved toward an integrated, collaborative organizational structure. This has meant, among other things, that staff inside and outside the Workforce Development Office makes significant contributions to career education and workforce development.  One computer recipient included in the questioned costs finding has long acted as the primary fiscal support staff for the Workforce Development Office. She processes the major part of their financial transactions, and functions as an essential liaison between that Office and the Finance Office.
97-27		Documentation supporting the allocation of personnel costs was inadequate.						

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Implemented	Partially Implemented	Not Implemented	No Longer Valid	Comments
	97-29	Allocate personnel costs to the Vocational Education – Basic Grants to States program based upon time sheets documenting actual hours worked or periodic certifications as appropriate.	1997	X				
97-30		The Department’s cost allocation plan needs to be improved.						
	97-30a	Assign employees to the correct cost centers to appropriately allocate costs to federal programs.	1996	X				
	97-30b	Allocate expenditures for unused employee leave as departmental indirect costs.	1997			X		HHS consulting with State Controller.
	97-30c	Recover capital expenditures affecting multiple federal awards through use or depreciation allowances as required by federal regulations.	1997			X		Pending HHS resolution.
	97-30d	Adjust federal reports accordingly for amounts over and under charged to federal programs.	1997			X		Pending HHS resolution.
97-31		Semi-annual certifications were not maintained for employees who worked exclusively on one federal program.						
	97-31	Maintain periodic certifications for employees expected to work solely on one Federal assistance program.	1997			X		Pending HHS resolution.
97-32		The department did not obtain suspension and debarment certifications from applicable contractors and subrecipients						

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
	97-32	Require applicable contractors and subrecipients certify annually that neither the entity or its principals are suspended or debarred from participating in federally assisted activities.	1997	X				
97-33		The department did not perform computer system security reviews.						
	97-33	Conduct required biennial reviews of system security for the INRHODES computer system.	1997	X				
97-34		Determination of Continuing Eligibility reviews were not conducted for all cases within required time frames.	1997				X	AFDC replaced by TANF.
97-35		The department did not reconcile child support collections and disbursements recorded in its computer system with amounts recorded in the State's accounting system.						
	97-35	Accumulate all child support collections and distributions in the department computer system and reconcile to the amounts recorded in the State accounting system.	1992		X			A new federal quarterly report on child support collections and distributions went into effect October 1, 1998 requiring states to report Non-Welfare-Non IVD collections as a line item. INRHODES computer system was reprogrammed to accommodate the inclusion of these figures. Such reprogramming was thought to be the solution for this reconciliation issue. However,

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple- mented	Partially Imple-mented	Not Imple- mented	No Longer Valid	Comments
								<p>the new collections included on the federal reports are only collections received on these types of cases through income wage withholdings. It still does not include those collections received from the obligators themselves. CSE has requested another program modification from the maintenance vendor for INRHODES to obtain these figures so that the reconciliation can be completed. It is currently in the change order cue with the vendor. (Also, please note that this finding is the same as finding 1.4 in federal audit RI96 RSR issued on March 12, 1998, and subsequently cleared by the Regional Administrator on October 6, 1998. In addition, the Regional Administrator issued a clearance letter dated February 19, 1999 regarding the State Fiscal 97 Audit findings, CAN -01-99-54113 Child Support Enforcement).</p>

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Implemented	Partially Implemented	Not Implemented	No Longer Valid	Comments
97-36		Documentation to support personnel costs did not meet federal requirements.						
	97-36	Maintain semi-annual certifications for employees charged solely to the CSE program and documentation required for employees working on multiple activities or, alternatively, obtain federal approval for the methods now used to allocate personnel costs.	1997	X				
97-37		Subrecipient cash management procedures can be improved.						
	97-37	Continue to improve subrecipient cash management procedures that will ensure subrecipient cash balances are limited to their immediate needs.	1994	X				
97-38		Unallowable costs were charged to the Foster Care program.						
	97-38	Adjust federal reports to reimburse the federal government for the unallowable maintenance costs charged during fiscal 1997.	1997	X				
97-39		The department needs to improve the process used to compile the federal share of computer development costs and reimburse the federal government for any overcharges.						
	97-39	Review the process used to compile the federal share of costs for computer development and reimburse the federal government for any overcharge.	1997	X				

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Implemented	Partially Implemented	Not Implemented	No Longer Valid	Comments
97-40		Unallowable costs were charged to the Adoption Assistance program.						
	97-40	Adjust federal reports to reimburse the federal government for the unallowable adoption subsidy payments charged in fiscal 1997.	1997	X				
97-41		Control over payments to Medical Assistance Program providers was inadequate. The Department of Human Services did not have sufficient information to monitor the status of provider account balances and recoup interim payments. Additionally, the Department did not always have sufficient documentation of claims received and pending payment to support interim payments made.						
	97-41a	Eliminate routine target payments to providers.	1994		X			The department has initiated an aggressive program to reconcile interim payment balances and to terminate target payments. This effort has reduced accounts receivable from \$95.3 million at June 30, 1997 to \$57.4 million as of February 20, 1998. Approximately 29 providers on target for cycle 2/19/99. The accounts receivable is \$15.9 million as of January 25, 1999.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
	97-41b	Maintain adequate documentation demonstrating that a program liability has been incurred for interim payments made.	1994		X			The department disagrees with this recommendation and maintains that it has consistently employed a reasonable methodology for setting target amounts for individual providers based on all data available to the Department, including actual and suspended claim activity. The Department continues to believe that interim payment balances in the aggregate will be offset by claims. The reconciliation effort to date appears to support this conclusion. Reconciliation of provider A/R balances have increased with positive results. All of the Nursing Homes have met with the Department to reconcile their account receivable balances which currently are \$4.5 million. After the financial cycle of February 19, 1999, there will be 1 home on target payment.
	97-41c	Complete the resolution of all provider interim payment balances expeditiously. Aggressively recoup all excess interim payment balances.	1997		X			Refer to comments for 97-41b.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
	97-41d	Implement additional controls to improve the reliability of provider balance data.	1997		X			The Department agrees with this recommendation and believes that conversion of payment for expenditures by other state agencies to a claim basis (versus A12T's) will accomplish this. This effort has already begun and is expected to be completed by June 30, 1999. DHS has met with each Department participating in the Medicaid program to complete this conversion by June 30, 1999.
97-42		Adequate controls were not in place to ensure that claims were paid only for individuals eligible under the Medical Assisatnce Program.						

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
	97-42a	Document the investigation of eligibility variances between the MMIS and INRHODES computer systems and determine the amount of claims paid on behalf of ineligible individuals. Reimburse the federal government for its share.	1997		X			The backlog of cases pending review cited last year has been eliminated and a routine monthly resolution of new cases established. It should be noted that, in many cases the issue is one of correcting initial data for spelling as to any change in basic eligibility determination. The resolution process corrects and updates both eligibility and federal share, and no reimbursement is therefore necessary. The Department believes that the finding is immaterial. This has been done and continues through a monthly reconciliation process.
	97-42b	Improve control procedures to ensure that INRHODES eligibility data is accurately replicated in the MMIS.	1994			X		The department disagrees with this recommendation and indicates it has control procedures in place to ensure that INRHODES eligibility data is accurate on the MMIS. This is known as the monthly reconciliation process. Every month a match between the systems is done. Monthly variance reports are produced and researched by staff.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Implemented	Partially Implemented	Not Implemented	No Longer Valid	Comments
97-43		The department's oversight of its fiscal agent designated to pay Medical Assistance Program claims were not adequate to ensure the reliability of data reported by the Medical Management Information System and to ensure claims were processed in accordance with the Department's instructions and federal requirements.						
	97-43a	Improve financial oversight of the fiscal agent, including verification of information from the MMIS used to prepare financial statements and federal reports.	1994			X		The department disagrees with this recommendation. The department worked with the State Controller and Treasurer and established a Controlled Disbursement Account. The Treasurer's office reviews this account daily in order to determine the amount of funds to transfer to the fiscal agent. The nature of this account is to have a zero balance at all times, as checks are cleared, a daily cash amount is deposited. This provides the State with upfront control and management information to monitor the financial activities of the fiscal agent.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Implemented	Partially Implemented	Not Implemented	No Longer Valid	Comments
97-43		The department's oversight of its fiscal agent designated to pay Medical Assistance Program claims was not adequate to ensure the reliability of data reported by the Medical Management Information System and to ensure claims were processed in accordance with the Department's instructions and federal requirements.						
	97-43a	Improve financial oversight of the fiscal agent, including verification of information from the MMIS used to prepare financial statements and federal reports.	1994			X		The department disagrees with this recommendation. The department worked with the State Controller and Treasurer and established a Controlled Disbursement Account. The Treasurer's office reviews this account daily in order to determine the amount of funds to transfer to the fiscal agent. The nature of this account is to have a zero balance at all times, as checks are cleared, a daily cash amount is deposited. This provides the State with upfront control and management information to monitor the financial activities of the fiscal agent.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Implemented	Partially Implemented	Not Implemented	No Longer Valid	Comments
	97-43b	Obtain an annual examination performed by independent certified public accountants of the fiscal agent's internal control policies and procedures.	1994		X			The department agrees with this recommendation and has worked with staff from the Auditor General's Office to define the parameters of the requested audit. DHS has issued an RFP for these services (SAS70) twice with no success. A third submission is being prepared at this time with target date later this year.
97-44		The department has not established required system security measures for the Medical Management Information System.						
	97-44a	Establish a security plan for the MMIS which reflects appropriate system security requirements.	1997		X			The MMIS has a security plan which is in multiple documents and locations which identify procedures for physical, personnel, equipment, software and telecommunications security. The Department agrees to compile the documents in one location by June 30, 1998. Plan was submitted in June, 1998; however, some areas require additional work.
	97-44b	Designate an ADP system security manager for the MMIS.	1997	X				

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
	97-44c	Conduct required biennial reviews of ADP system security for the MMIS.	1997		X			The department conducted a review in June 1998 which resulted in identification of the deficiencies mentioned in 97-44a.
97-45		The department's plan and procedures to identify and collect third party liabilities were not fully operational in fiscal 1997 which prevented denial of certain claims when third party resources existed and limited actual reimbursement. The department also did not adequately monitor the activities of its fiscal agent with respect to third party identification and collection.						
	97-45	Improve monitoring of the fiscal agent's TPL identification and collection procedures.	1997		X			The department will review and revise the monitoring procedures pertaining to TPL activities if needed. Based upon the HCFA-64 reports, DHS reported total TPL recoveries of \$1.7 million for fiscal year ending June 30, 1997. TPL activities are continually reviewed and update to improve the system; however, personnel limitations do present a challenge in this area.
97-46		Questioned costs totaling \$275,324 were identified during the fiscal 1997 audit.						

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Implemented	Partially Implemented	Not Implemented	No Longer Valid	Comments
	97-46a	Credit the federal grantor with its share of claims paid on behalf of ineligible individuals and for questioned costs deemed unallowable.	1997			X		These findings of \$383 and \$112 are not material and should not be included in this audit report. Please refer to OMB Circular a-133 , Section 510.
	97-46b	Recoup overpayments from providers.	1994			X		This finding is not material. Please refer to OMB Circular A-133, Section 510.
	97-46c	Implement control procedures to ensure the allowability of expenditures charged to the Medicaid program by other departments.	1997		X			The department has a procedure in place requiring all other state departments to file a fiscal report reconciling total Medicaid expenditures on a quarterly basis. The report is signed by a fiscal official from the other department certifying the expenditures to be reported to the federal government.
97-47		The MMIS disaster recovery plan did not contain documentation to support that the fiscal agent performed required quarterly reviews and updates of the plan.						
	97-47	Ensure the fiscal agent performs the quarterly updates to the disaster recovery plan and tests the plan at least annually.	1994		X			The DRA plan is complete, the first quarterly review was on June 23, 1998 and every quarter since. The schedule to test the plan is being coordinated with a Y2K test in the Spring of 1999.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Implemented	Partially Implemented	Not Implemented	No Longer Valid	Comments
97-48		The MMIS does not require all system users to change passwords on a scheduled basis. System access controls should be improved by creating "roles" which more clearly define and restrict system access.						
	97-48a	Develop procedures that require all MMIS users to change their passwords periodically. Terminate access if passwords are not modified.	1994		X			Novell Netware 3.12 has password aging. The Sun OS 4.1.3 and the Unix OS, do not perform password aging. We are looking to update to Solaris 2.6 which does. This requires software update which is scheduled to be tested in the last quarter SFY99.
	97-48b	Develop procedures to control access to MMIS functions by assigning "roles" to MMIS users according to individual responsibilities and job descriptions.	1994		X			A review of all user id's is in progress. During this review, job required accesses are being identified and will define a security profile for each position. This is also scheduled for completion during the last quarter of SFY99.
97-49		The MMIS did not contain an automatic lag-off procedure for inactive terminals connected to the system.	1994	X				

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Implemented	Partially Implemented	Not Implemented	No Longer Valid	Comments
97-50		The department does not monitor outstanding prescription drug rebates and does not confirm the amount of rebates received with the fiscal agent's records. The department made substantial manual adjustments to drug rebate billings generated by the MMIS.						
	97-50a	Monitor drug rebates collected by the fiscal agent as well as amounts due from drug manufacturers.	1995		X			The department is in the process of redesigning the reports to be more accurate. This was completed in August 1998.
	97-50b	Improve controls within the MMIS to reject drug claims with obvious unit errors and reduce the need for manual adjustments to drug rebate billings.	1997		X			System changes have been implemented, August 1998. However, manual adjustments will still be required.
97-51		The department needs to improve its control over preparation of the HCFA-64 report by completely reconciling its accumulation of program expenditures arrayed by category and type of service with the total of all program expenditures recorded in the State accounting system. Expenditures reported on the HCFA-64 for the quarter ended June 30, 1997 were overstated by \$244,524. The related federal share was \$130,181.						
	97-51a	Improve controls over preparation of the HCFA-64 report by completely reconciling all program expenditures arrayed by category and type of service with the total of all program expenditures recorded in the State accounting system.	1997		X			The department reconciles expenditures to the State's accounting system on a quarterly basis.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Implemented	Partially Implemented	Not Implemented	No Longer Valid	Comments
	97-51b	Adjust the HCFA-64 for the reported overclaim.	1997	X				
97-52		Approximately \$78 million of Medicaid program expenditures were processed independently of the MMIS. These other accounting systems have not been designed to contain all the control procedures of the MMIS.						
	97-52	Improve controls by requiring all benefit-type program expenditures to be processed through the MMIS.	1997		X			This has been identified as a priority item for HCQFP staff. The division's work plan is moving forward with an expected completion date of June 30, 1999. Progress continues to be positive in this effort, our target date remains June 30, 1999.
97-53		The Department of Health did not have adequate procedures to account for all required maintenance of effort expenditures.	1996	X				
97-54		The University did not have an adequate subrecipient monitoring system.						
	97-54	Request and review subrecipient audit reports in a timely manner. Any material findings should be further investigated. The University should also consider performing site visits to the subrecipients to review financial and programmatic records and observe operations.	1997	X				

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding No.	Rec. No.	FY 1997 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
97-55		Inventory records were not updated in a timely fashion.						
	97-55	Update inventory of equipment purchased with federal funds in a timely manner to reflect accurate data.	1997			X		The University concurs with the recommendation and has proceeded to address the continuing problem of untimely tagging of equipment. The existing inventory system requires inventory personnel to obtain paid invoice before equipment could be tagged. This procedure has already been revised whereby equipment is not being tagged and added to the property management system upon the receipt of a purchase order from the University Purchasing Department. A correction is made to the equipment inventory records for the price difference between the purchase order and the paid invoice.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

	Initial Year of Rec.	1996 Report Page No.	Imple- mented	Partially Imple- mented	Not Imple- mented	No Longer Valid	Comments
<p align="center">FY 1996 FINDINGS AND RECOMMENDATIONS            VARIOUS PROGRAMS – U.S. DEPARTMENT OF EDUCATION            Administered by: R.I. Department of Elementary and Secondary            Education</p>							
3. Require all employees to submit timesheets when their time is allocated to federal programs.	1996	E-58	X				
<p>VOCATIONAL EDUCATION – BASIC GRANTS TO STATES –            CFDA Number 84.048            Administered by: R.I. Department of Elementary and Secondary            Education</p> <p>Errors were made in determining the amount of indirect costs            allocated to the federal program.</p>							
4. Adjust indirect costs as soon as the indirect rate is know.	1994	E-82		X			RIDE does adjust indirect costs when the approved rate is known. However, that rate may not be approved until well into the subsequent fiscal year. In the meantime, therefore, RIDE uses its last approved rate for the calculation and then adjusts the charges when the new rate is approved.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

FY 1996 FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	1996 Report Page No.	Implemented	Partially Implemented	Not Implemented	No Longer Valid	Comments
MEDICAL ASSISTANCE PROGRAM – CFDA Number 93.778 Administered by: R.I. Department of Human Services							
16. Request clarification from the federal grantor as to the allowability of tuition and salary costs charged to the Medical Assistance Program for an employee on paid educational leave.	1996	E-133			X		Pending federal resolution.
SOCIAL SECURITY – DISABILITY INSURANCE CFDA Number 96.001 Administered by: R.I. Department of Human Services							
Overtime compensation costs were charged to the federal program even though they did not conform with the requirements of state law. The department discontinued this practice at the end of the fiscal year 1996. We did not quantify the amount of unallowable overtime costs claimed during fiscal year 1996.	1994	E-149			X		Pending resolution with Social Security Administration.