STATE OF RHODE ISLAND

CAPITAL ASSETS - Summary Data and Recommendations to Improve Controls and Reporting

As of June 30, 2002

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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STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS

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February 11, 2004

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We have completed a summary report highlighting key facts and recommendations to improve controls and reporting for the State's significant investment in capital assets. This report emanates from audit work performed during our Single Audit of the State for the fiscal year ended June 30, 2002.

Our report is included herein as outlined in the Table of Contents.

Sincerely,

Ernest A. Almonte

Ernest A. Almonte, CPA, CFE
Auditor General

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State of Rhode Island

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For the first time in its history, the State has compiled an inventory of capital assets and reported these assets in its Comprehensive Annual Financial Report at June 30, 2002. The State recorded an investment in capital assets in excess of $1.2 billion at June 30, 2002 (before recognizing accumulated depreciation of $319 million). The State has made progress in improving its financial reporting through inclusion of capital assets, however, as a result of our audit, we believe the accumulation of data for certain categories of capital assets is still incomplete. Physical and accounting controls over capital assets are lacking and need to be improved. Resources must still be committed to complete this process.

Prior to fiscal 2002, the State was unable to report its investment in capital assets since the necessary accounting information had not been accumulated and maintained over the years. This omission resulted in the repeated qualification of our Independent Auditor's Report issued at the conclusion of the annual audit of the State's financial statements.

Substantial effort was required to attempt to inventory and value (at historical cost) all capital assets owned by the State at June 30, 2002 regardless of the year acquired. This represented a significant challenge for the Office of Accounts and Control in accumulating these amounts due to the time span involved and the lack of records and documentation in many instances. Significant audit effort was expended to satisfy ourselves as to the amount recorded for capital assets and related depreciation at June 30, 2002.

Land and land rights owned by the State were recorded at $373 million at June 30, 2002. The State owns (or has acquired rights to) nearly 97,000 acres, which represents approximately 14% of the State's total land area. Buildings and related improvements were $576 million before accumulated depreciation of $214 million. Other categories of capital assets include infrastructure, computer systems, vehicles and furniture and equipment.

We could not satisfy ourselves as to the completeness of certain categories of capital assets – furniture and equipment (including computer systems) and building improvements – due to an insufficient number of physical inventories and weaknesses in accounting controls over the accumulation of such data.

The initial recording of capital assets must be completed to ensure that all capital assets have been reported on the State's financial statements. Physical and accounting controls over capital assets need to be improved to ensure accurate and reliable reporting of the State's capital asset activity. A temporary solution is needed to capture and report data until a more permanent integrated component to the RISAIL accounting system can be implemented. Controls must be improved to meet federal requirements regarding tracking and controlling assets acquired with federal funds. Infrastructure assets acquired or constructed in prior years must be inventoried and valued at actual or estimated historical cost. Extensive duplication of effort exists among state agencies and capital asset information is not centrally organized or available to support capital asset management efforts.

II. INTRODUCTION

Objectives, Scope, and Methodology

The objectives of this report are to (1) summarize key facts about the State's investment in capital assets at June 30, 2002 which have been reported for the first time in the State's financial statements, and (2) communicate our findings and recommendations to continue efforts to improve controls and reporting over capital assets.

This report results from audit work performed as part of our overall Single Audit of the State for the fiscal year ended June 30, 2002. One of the objectives of that audit was to determine if the State's financial statements are fairly presented in all material respects in accordance with generally accepted accounting principles. Since fiscal 2002 was the first year the State attempted to report its investment in capital assets within its financial statements, a substantial amount of audit effort was expended to satisfy ourselves as to the amount recorded for capital assets and related depreciation at June 30, 2002.

Our audit procedures for capital assets involved:

- assessing the State's control procedures to record capital asset information,
- observing and reviewing the results of inventories of capital assets,
- inspecting deeds and other evidence of ownership,
- confirming information with land evidence records within municipalities,
- inspecting accounting documentation to support historical cost,
- assessing the methodologies employed by the State in estimating historical cost in those instances where historical cost could not be discerned from the accounting records, and
- recalculating depreciation.

Our audit of the State's financial statements was performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Our audit of the State's financial statements was for the year ended June 30, 2002 and included capital assets owned by the State at year-end.

Background

Prior to fiscal 2002, the State was unable to report its investment in capital assets since the necessary accounting information had not been accumulated and maintained over the years. This omission resulted in the repeated qualification of the Independent Auditor's Report issued by the Auditor General at the conclusion of the annual audit of the State's financial statements.

For the first time in its history, the State has compiled an inventory of capital assets and reported these assets in its Comprehensive Annual Financial Report at June 30, 2002. The State recorded an investment in capital assets in excess of $1.2 billion at June 30, 2002 (before recognizing accumulated depreciation of $319 million). The State has made progress in improving its financial reporting through inclusion of capital assets, however, as a result of our audit, we believe the accumulation of data for certain categories of capital assets is still incomplete. Physical and accounting controls over capital assets are lacking and need to be improved. Resources must still be committed to complete this process.

The following sections provide additional background information relative to capital asset accounting and the processes followed by the State in recording capital assets on its financial statements for the first time. The results of our audit are also summarized. Key facts about the State's capital assets are included in Section III. Section IV includes specific findings and recommendations to complete the process required to meet financial reporting objectives relative to capital assets. Other recommendations outline ways in which operational and management issues may be combined with accounting objectives for enhanced efficiency.

Acquisition of State Capital Assets and Related Financing Mechanisms

The State acquires and constructs capital assets through various means. Most large asset purchases, land acquisitions, and major building projects are financed through general obligation bonds approved by the voters and issued by the State. The State also uses Certificates of Participation (COPS), a lease-type financing mechanism and the financing capabilities of quasi-public entities to finance building construction, renovations, and acquisitions. For example, significant construction or renovation of state buildings was done through the former Public Buildings Authority (now merged with the Refunding Bond Authority). In certain instances assets have been acquired by donation to the State.

In addition to outright land acquisitions, the State has acquired conservation, agricultural and other easements to land that provide permanent control by the State over its use. The State has also partnered with non-profit entities in acquiring land for conservation purposes. In these instances, the non-profit entity provides a portion of the funds required to acquire the land or land rights.

Infrastucture assets of the State (principally the State's transportation network) are typically constructed with federal highway construction funds and state funds.

Other asset acquisitions such as furniture, equipment, vehicles, minor building improvements, and computer systems may be financed through issuance of long-term obligations or through annual appropriations.

Accounting Principles Relative to Capital Assets

Capital assets are defined as land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible and intangible assets that are used in operations and that have initial useful lives extending beyond a single fiscal year.

The State must follow generally accepted accounting principles in preparing its financial statements. Those principles require that capital assets be reported at historical cost on the financial statements. Historical cost is the value of the asset at the date of acquisition (generally the amount paid or fair value if donated). Amounts reported on the financial statements are not intended to reflect current fair value. Depreciation is recorded as an expense based on the estimated useful life of the asset. Land and certain land improvements are not depreciated because they are considered to have an inexhaustible life. Construction in progress is not depreciated until the asset is placed into service.

The State has adopted specific dollar thresholds for capital items and has established estimated useful lives for each category of asset. Items acquired below the capital asset dollar thresholds are expensed in the year of acquisition, however, responsibility for physical control and tracking of items is still required by the acquiring department or agency.

In accordance with current accounting pronouncements, which were implemented by the State in fiscal 2002, the State prepares financial statements which reflect the activity of each fund as well as entity-wide statements which present a more comprehensive view of the State's activities. The entity-wide statements reflect the State's investment in capital assets and related depreciation expense. These new governmental accounting standards increased the overall importance of reporting the State's investment in capital assets. Failure to report its investment in capital assets under these new standards would have caused the State's financial statements to be materially misstated.

One of the significant changes brought about by the new government accounting standards is the reporting of infrastructure assets by government entities. New standards only require the reporting of current year outlay for infrastructure at June 30, 2002. The State has until fiscal year 2006 to report the cost of infrastructure assets acquired in previous fiscal years.

Capital Asset Data Accumulation Process

The State began a two-phase process in fiscal 2000 to begin to accumulate capital asset information for financial reporting purposes. The first step included determining through various means, all capital assets currently owned by the State and determining actual or estimated historical cost. The second part required implementation of new policies and procedures to direct the various State agencies in providing the data necessary for the State Controller to maintain an accurate and complete record of capital assets.

As part of this process, the State created two capital asset protection officer positions to handle the various duties related to the development and maintenance of the State's record of capital assets. These individuals compiled data that was maintained independently by various state agencies and departments, obtained municipal tax records of state-owned property, and conducted physical inventories of furniture and equipment for purposes of determining the State's current investment in capital assets. In addition, the capital asset protection officers were responsible for developing databases to store data elements required for financial reporting purposes. The new policies and procedures developed by the State required the completion of a specific form for each capital asset acquisition to record new assets in the correct database.

In addition, the Department of Administration awarded a contract to a vendor for $300,000 to (1) customize a property management database program to record data for state-owned buildings, and (2) survey and collect data for 200 state-owned buildings. This contract represents the only additional external resources applied by the State to meet the objective of reporting the State's capital assets. This project was scheduled for completion by June 30, 2002 but has not been satisfactorily delivered to the State.

Substantial effort was required to attempt to inventory and value (at historical cost) all capital assets owned by the State at June 30, 2002 regardless of the year acquired. This represented a significant challenge for the Office of Accounts and Control in accumulating these amounts due to the time span involved and the lack of records and documentation in many instances.

The Office of Accounts and Control attempted to use capital asset records that were separately maintained by various departments and agencies. In some instances these records were complete and well maintained, in other instances, key financial reporting data elements were missing and additional investigation was required. Significant effort was also required to avoid duplication when combining data from multiple sources.

Audit Planning

As part of our audit planning, we made an initial assessment of the capital asset records developed by the State. This assessment raised significant concerns related to the completeness and accuracy of the data accumulated by the State. We found the following deficiencies in the State's capital asset records:

- For land and buildings, historical cost was not provided for most assets – instead replacement or appraisal value was provided.
- All databases included incomplete or missing data elements.
- Assets were duplicated in numerous instances.
- Initially, no records were developed to identify land improvements, building improvements, leasehold improvements, or construction in progress.
- Physical inventory inspections of furniture and equipment were incomplete for many agencies.
- The State did not reconcile their databases with the data reported by the State's accounting system or other agency systems.
- No record of asset disposals was maintained in current or past years.
- Agencies did not consistently record capital expenditures in the State's accounting system, making their identification difficult for recording purposes.

Audit Process

Due to the ineffectiveness of the State's accounting controls over the accumulation of capital asset data and our inability to place reliance on those controls, we opted to focus our audit procedures on independently verifying the State's reported investment in capital assets. Our audit process included the following:

- confirming State-owned property with municipal property records;
- reviewing records evidencing ownership by the State such as deeds, easements, titles, etc.;
- reviewing evidence of historical cost when available such as State invoice vouchers, contracts, accounting data from the State's bond fund, bond issuance from the Public Buildings Authority (PBA), Refunding Bond Authority (RBA), as well as Certificates of Participation issued by the State;
- reconciling available data maintained by other State agencies with data reported by the Office of Accounts and Control; and
- testing the reasonableness of estimation methods used to derive the historical cost of assets when actual cost amounts were unavailable.

Significant audit adjustments were made to capital assets amounts initially reported by the State.

Audit Results

We concluded that the State's financial statements, with respect to capital assets reported at June 30, 2002, were fairly stated except that we could not satisfy ourselves as to the completeness of certain categories of capital assets – furniture and equipment (including computer systems) and building improvements – due to an insufficient number of physical inventories and weaknesses in accounting controls over the accumulation of such data. The furniture and equipment, and building improvement categories represent $159 million or 17% of net capital assets of $927 million.

We also highlighted the fact that, as permitted by generally accepted accounting principles, the State only recorded its current year investment in infrastructure assets. This amount for fiscal 2002 alone was $118 million. The State's total investment in infrastructure assets is not known but must be accumulated for inclusion in the State's financial statements no later than fiscal 2006.

We also concluded that the process and procedures implemented by the State to account for their investment in capital assets represented a material weakness in internal control over financial reporting. 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. We have repeated two material weaknesses originally reported in the State Single Audit Report for fiscal 2002 (Financial Statement Finding 2002-4 and Federal Award Finding 2002-16) in this report along with more detailed analysis of the problems and recommendations relating to the State's reporting of capital assets.

III. CAPITAL ASSETS REPORTED AT JUNE 30, 2002 – SUMMARY DATA

For the first time in its history, the State has compiled an inventory of capital assets and reported these assets in its Comprehensive Annual Financial Report at June 30, 2002. The State recorded an investment in capital assets in excess of $1.2 billion at June 30, 2002. This amount represents, but is not limited to the State's cost to construct or acquire land, buildings, furniture, equipment, vehicles and computer systems. It also included amounts expended to substantially improve the State's capital assets and infrastructure investments (fiscal 2002 amounts only). Amounts included in the table below only reflect capital assets of the State's governmental activities and do not include capital assets owned by the various State quasi-public agencies or the State colleges and university.

STATE CAPITAL ASSETS BY CATEGORY - JUNE 30, 2002

Category	Historical Cost (in thousands)	Percent of Total	Accumulated Depreciation (in thousands)	Depreciable Life
Land and land rights	$ 373,185	29.9%	$ -0-	Note (2)
Buildings	369,453	29.6%	123,808	50 Years
Building improvements	206,929	16.5%	90,080	20 Years
Infrastructure	118,277	9.5%	1,971	30 Years
Computer systems (3)	55,495	4.5%	39,804	5 Years
Vehicles (cars and small trucks) (3)	38,357	3.1%	28,242	5 Years
Construction in progress	31,653	2.6%	-0-	Note (2)
Vehicles (heavy equipment) (3)	23,428	1.9%	17,298	10 Years
Furniture and equipment (3)	26,271	2.1%	15,955	5 Years
Depreciable land improvements	3,209	0.3%	1,808	20 Years
Aircraft and boats (3)	165	0.0%	143	10 Years
Totals	$1,246,422	100.0%	$319,109	
Less accumulated depreciation	319,109			
Net capital assets	$927,313			

(1) Includes only governmental capital assets of the primary government – see note 6 to the State's basic financial statements – June 30, 2002.

(2) Land and land rights are not depreciated; construction in progress is depreciated once placed in service.

(3) These categories of capital assets were included as one category – Furniture and Equipment – in note 6 to the State's basic financial statements – June 30, 2002.

LAND AND RELATED LAND RIGHTS

The State's reported investment for land and related land rights at June 30, 2002 was nearly $373.2 million. For reporting purposes this amount includes land acquisitions with a historical costs greater than $100,000 for roadways, parks, beaches, office facilities, hospital grounds, group homes, correctional facilities, etc. In addition to land acquisitions, this amount also includes purchased rights to land. In these instances, the State is not legally the owner of the land, but has obtained permanent control over its use for agricultural, recreational, and/or conservation purposes.

STATE OWNED LAND BY USE CATEGORY - JUNE 30, 2002

Land Use	Acres	Historical Cost (In thousands)	Percentage of Total Historical Cost
Conservation - Open Space	65,830	$ 143,096	38.3%
Transportation - Roads	15,052	162,300	43.5%
Parks and Recreation	11,264	39,225	10.5%
Group Homes	488	13,261	3.6%
Institutional - Office Space	3,404	10,489	2.8%
Other	883	4,814	1.3%
Totals	96,921	$ 373,185	100.0%

In certain instances, the historical cost assigned to land and land rights acquired by the State was derived through estimation since documentation supporting the actual amounts paid was not available. The total amounts reported here include land acquired hundreds of years ago when the State was newly formed and more recent acquisitions within the City of Providence to relocate interstate highway I-195. Regardless of when acquired, amounts are reported on the State's financial statements at historical cost which represents the actual (or estimated) amount paid at the time of acquisition. The current fair value of the State's land holdings has not been determined but would likely be well in excess of the historical cost amount included in the State's financial statements.

More recent acquisitions within the last 25 years have generally been for open space and conservation, transportation projects, and group homes. These acquisitions have been mostly financed through the issuance of the State's general obligation bonds.

The land area owned by the State or controlled through perpetual easements represents approximately 14% of the State's total land area.

TOP TEN LAND AREAS BY HISTORICAL COST – JUNE 30, 2002

Land Description	Department / Agency	Acres	Use	Historical Cost (In thousands)
Interstate 195 Relocation (Providence)	Transportation	(a)	Transportation	$ 33,054
Scarborough Beach (Narragansett)	Environmental Management (DEM)	68	Recreation	12,174
Big River (West Greenwich, Exeter and Coventry)	Water Resources Board	8,600	Conservation	7,500
Newton Swamp (Westerly)	DEM	791	Conservation	3,393
Mount Hope Farm (Bristol)	DEM	53	Conservation	3,000
Old Richmond Townhouse Road (Richmond)	DEM	639	Conservation	2,906
Black Farm (Hopkinton)	DEM	264	Conservation	2,500
Palozzi Farm (Johnston)	DEM	120	Conservation	2,400
Marash / Toste (Tiverton)	DEM	337	Conservation	2,350
Prudence Island (Portsmouth)	DEM	627	Conservation	2,117

(a) not available

LARGEST STATE WILDLIFE MANAGEMENT AREAS

Management Area	Location
Arcadia	Exeter, Hopkinton, West Greenwich, and Richmond
Big River (WRB)	West Greenwich, Exeter and Coventry
Great Swamp	South Kingstown and Richmond
Prudence / Bay Islands	Portsmouth
George Washington	Burrillville and Glocester
Buck Hill	Burrillville
Nicolas Farm	Coventry
Black Hut	Burrillville
Durfee Hill	Glocester
Burlingame	Charlestown
Carolina	Charlestown, Richmond, and Hopkinton

See appendix A for a map of State Management Areas.

BUILDINGS

The State's reported investment in buildings was $369.4 million at June 30, 2002. For financial reporting purposes, this amount included buildings with a historical cost greater than $100,000. This amount represents the initial cost to acquire or construct the building structure, and does not include subsequent amounts for renovations, which are reported in a separate category as building improvements. In many instances, these building improvement costs are substantial.

The State owns buildings for various uses, such as hospitals, group homes, correctional facilities, office buildings, recreational buildings, highway maintenance, etc. Additional buildings are leased by the State for various purposes but are not included in these amounts because they are not owned by the State.

STATE BUILDINGS BY AGENCY – JUNE 30, 2002

Department / Agency	Building Uses	Number of Buildings	Historical Cost (In thousands)	Percent of Total Historical Cost
Corrections	Prisons and Offices	34	$ 124,147	33.6%
Mental Health, Retardation and Hospitals	Hospitals, Group Homes, and Offices	180 *	56,905	15.4%
Administration	Offices and Data Center	8	49,226	13.3%
Education	Career and Technical Centers and Offices	11	33,814	9.2%
Judicial	Judicial Complexes & Offices	7	29,258	7.9%
Labor and Training	Offices	8	22,953	6.2%
Environmental Management	State Park Facilities, Beach Pavilions, and Offices	33	17,625	4.8%
Human Services	Offices	9	12,768	3.5%
Transportation	Highway Maintenance Facilities and Offices	21	5,534	1.5%
National Guard	Armories and Offices	9	4,846	1.0%
State Police	Barracks and Offices	5	960	0.5%
Other	Various	7	11,417	3.1%
Totals		332	$369,453	100.0%
Less accumulated depreciation			123,808	
Net buildings			$245,645	

* includes 158 group homes throughout the State

TOP STATE BUILDINGS BY HISTORICAL COST - JUNE 30, 2002

Building	Use	Department	Location	Historical Cost (In thousands)
John Moran Prison Facility	Prison	Corrections	Cranston	$ 63,200
Intake Service Center	Prison	Corrections	Cranston	36,000
Powers Administration Building	Office	Administration	Providence	35,200
Center General Building	Office	Labor and Training	Cranston	22,000
Davies Vocational School	Education	Education	Lincoln	19,244
Garrahy Judicial Complex	Court	Judicial	Providence	16,400
Veteran's Home	Nursing Facility	Human Services	Bristol	8,626
Scarborough Beach Bathing Pavilion	Recreation	Environmental Management	Narragansett	7,207
McGrath Judicial Complex	Court	Judicial	South Kingstown	6,600
SuperMax Prison	Prison	Corrections	Cranston	6,500
Shepard Building	Office / Education	Elementary and Secondary Education	Providence	6,209
Regan Building	Hospital	Mental Health Retardation and Hospitals	Cranston	5,750

LAND AND BUILDINGS BY MUNICIPALITY – JUNE 30, 2002

	LAND		BUILDINGS		
Municipality	Acres	% of Total Acreage	Number of Buildings	Historical Cost (in thousands)	% of Total Historical Cost
Barrington	487.6	0.6%	4	$ 1,646	0.4%
Bristol	783.6	0.8%	8	10,199	2.8%
Burrillville	7,703.0	7.9%	5	2,246	0.6%
Central Falls	19.3	0.0%	1	103	0.0%
Charlestown	6,406.5	6.6%	13	3,062	0.8%
Coventry	3,376.0	3.5%	7	2,162	0.6%
Cranston	1,884.7	1.9%	76	171,902	46.5%
Cumberland	2,749.6	2.8%	3	722	0.2%
East Greenwich	594.4	0.6%	7	1,530	0.4%
East Providence	458.6	0.5%	3	1,659	0.4%
Exeter	16,408.4	16.9%	10	3,017	0.8%
Foster	690.2	0.7%	4	854	0.2%
Glocester	3,988.1	4.1%	9	2,143	0.6%
Hopkinton	4,928.9	5.1%	5	891	0.3%
Jamestown	995.8	1.0%	3	629	0.3%
Johnston	1,516.6	1.6%	9	2,229	0.6%
Lincoln	1,944.0	2.0%	9	20,709	5.7%
Little Compton	1,182.7	1.2%	1	360	0.1%
Middletown	446.3	0.5%	7	1,556	0.4%
Narragansett	1,213.2	1.3%	6	10,077	2.7%
New Shoreham	496.6	0.5%	0	-	-
Newport	423.3	0.5%	7	2,327	0.6%
North Kingstown	2,461.1	2.5%	7	1,517	0.4%
North Providence	119.0	0.2%	3	932	0.2%
North Smithfield	777.4	0.8%	4	1,071	0.3%
Pawtucket	311.8	0.3%	8	1,640	0.4%
Portsmouth	4,585.0	4.7%	2	263	0.1%
Providence	713.4	0.7%	28	84,314	22.8%
Richmond	3,331.0	3.4%	7	2,696	0.7%
Scituate	687.9	0.7%	7	1,257	0.3%
Smithfield	1,441.8	1.5%	6	2,598	0.7%
South Kingstown	6,365.1	6.6%	13	11,288	3.0%
Tiverton	2,161.5	2.2%	4	794	0.3%
Warren	305.9	0.3%	5	1,405	0.4%
Warwick	1,623.9	1.7%	17	10,805	2.9%
West Greenwich	10,578.9	10.9%	1	215	0.2%
West Warwick	514.7	0.5%	4	884	0.2%
Westerly	2,121.9	2.2%	9	3,086	0.8%
Woonsocket	123.4	0.2%	10	4,665	1.3%
Totals	96,921.1	100.0%	332	$ 369,453	100.0%

BUILDING IMPROVEMENTS

The State reported building improvements totaling nearly $207 million at June 30, 2002. Building improvements represent renovations and repairs other than routine maintenance. Many of the projects listed below involve substantial amounts due to the scope of the project and/or age of the buildings being renovated. Ten of the largest building improvement projects listed below represent more than 60% of the amount reported by the State for this category at June 30, 2002.

BUILDING IMPROVEMENTS – JUNE 30, 2002

Project Description / Related Building	Location	Historical Cost (in thousands)	Percentage of Total Historical Cost
Renovations / State House	Providence	$ 29,321	14.2%
Renovations / Licht Judicial Complex	Providence	21,337	10.3%
Renovations / Shepard Building	Providence	19,600	9.5%
Renovations / State Training School	Cranston	13,217	6.4%
Handicapped Accessibility / Various Buildings	Various	11,982	5.8%
Upgrade and Rehabilitation / Central Power Plant and Steam Lines	Cranston	10,485	5.1%
Renovations and Improvements / Intake Center	Cranston	5,700	2.8%
Renovations / Regan Building	Cranston	4,996	2.4%
Renovations / Davies Vocational School	Lincoln	4,845	2.3%
Renovations / Veteran's Home	Bristol	4,674	2.3%
Other	Various	80,772	38.9%
Totals		$206,929	100.0%
Less accumulated depreciation		90,080	
Net building improvements		$116,849	

We could not satisfy ourselves as to the completeness of the amounts reported by the State for building improvements at June 30, 2002 – see *Audit Results* on page 6.

VEHICLES

The State reported an investment in vehicles of nearly $61.8 million at June 30, 2002. The State's vehicle fleet is categorized into the following two distinct classes for depreciation purposes:

VEHICLES BY TYPE – JUNE 30, 2002

Classification	Number of Vehicles	Historical Cost (in thousands)	Depreciable Life
Cars and Small Trucks	1,706	$ 38,357	5 Years
Heavy Equipment	654	23,428	10 Years
Total	2,360	$ 61,785	
Less accumulated depreciation		45,540	
Net vehicles		$ 16,245	

VEHICLES BY MODEL YEAR – June 30, 2002

Vehicle Year	Number of Vehicles	Historical Cost (in thousands)	Percentage of Total Historical Cost
2002	60	$ 1,295	2.1%
2001	258	6,799	11.0%
2000	234	7,198	11.7%
1999	196	5,045	8.2%
1998	269	7,291	11.8%
1993-1997	435	10,024	16.3%
1988-1992	460	15,496	25.1%
1983-1987	227	6,105	9.9%
1982 and prior	221	2,532	4.1%
Totals	2,360	$ 61,785	100.0%

STATE OWNED VEHICLES BY AGENCY– JUNE 30, 2002

Department / Agency	Number of Vehicles (1)	Percentage of State Fleet
Transportation	814	34.5%
Environmental Management	482	20.4%
State Police	309	13.1%
Mental Health, Retardation, and Hospitals	219	9.3%
Corrections	180	7.6%
Children, Youth, and Their Families	109	4.6%
Administration	86	3.6%
Executive	42	1.8%
Human Services	26	1.1%
Judicial	20	0.9%
Other	73	3.1%
Totals	2,360	100.0%

(1) Agency vehicle data as of August 6, 2002 provided from Division of Central Services.

FURNITURE AND EQUIPMENT

The State's reported investment in furniture and equipment at June 30, 2002 totaled nearly $26.3 million. This amount includes only individual assets with historical costs greater than $5,000 for financial reporting purposes. The following is a breakdown of furniture and equipment by agency at June 30, 2002.

FURNITURE AND EQUIPMENT – JUNE 30, 2002

Department / Agency	Number of Recorded Assets	Historical Cost (in thousands)	Percentage of Total Historical Cost
Board of Elections	* 603	$ 4,465	16.9%
Executive Department	87	2,465	9.3%
Labor and Training	128	2,060	7.8%
Health	91	1,948	7.5%
Environmental Management	135	1,646	6.3%
Mental Health, Retardation, and Hospitals	96	1,549	5.9%
Human Services	59	1,384	5.3%
Corrections	109	1,358	5.2%
Education	70	763	2.9%
Judicial	56	757	2.9%
Transportation	34	573	2.2%
Administration	41	545	2.1%
Children, Youth, and Their Families	13	473	1.8%
General Treasurer	33	341	1.3%
Other Departments and Agencies	91	1,879	7.2%
Internal Service Funds		4,065	15.4%
Totals	1,646	$26,271	100.0%
Less accumulated depreciation		15,955	
Net furniture and equipment		$10,316	

* includes 600 optical scan voting machines

We could not satisfy ourselves as to the completeness of the amounts reported by the State for furniture and equipment at June 30, 2002 – see *Audit Results* on page 6.

COMPUTER SYSTEMS

The State's reported investment in computer systems at June 30, 2002 approximated $55.5 million. This amount includes amounts over $50,000 for the initial investment in computer software purchased or developed, computer licenses and any subsequent system enhancements. Routine system maintenance costs have not been included in these amounts. The following represent major computer systems owned by the State. This listing details the departments responsible for the operations of these systems as well as the costs incurred for their development.

COMPUTER SYSTEMS - JUNE 30, 2002

Computer System	Description	Department	Historical Cost (in thousands)	Fiscal Year Implemented
MMIS	Medical Assistance Provider Payment System	Human Services	$18,467	1993
INRHODES	Case Management System for Various Human Services Programs	Human Services	18,308	1990
RICHIST	Child Welfare Management System	Children, Youth, and Their Families	14,625	1997
RISAIL	State Accounting System	Administration	3,094	2002
E911	Emergency Management	Administration	1,001	1990
Totals			$ 55,495	
Less accumulated depreciation			39,804	
Net computer systems			$ 15,691	

The State uses computer systems for various objectives. Some of these include determining eligibility for human services programs, paying Medical Assistance providers, as well as accounting, purchasing, and disbursement functions for State operations.

We could not satisfy ourselves as to the completeness of the amounts reported by the State for computer systems at June 30, 2002 – see *Audit Results* on page 6.

INFRASTRUCTURE

Infrastructure assets are long-lived capital assets that are normally stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. New accounting standards only require the reporting of current year infrastructure at June 30, 2002. The State has until fiscal year 2006 to report its costs of retroactive infrastructure assets dating back to fiscal year 1981.

The State capitalized infrastructure assets in the amount of approximately $118.3 million for fiscal year 2002. This amount represents costs incurred by the State to maintain its highway network system. The State used U.S. Department of Transportation criteria for categorizing certain expenditures as capital related or non-capital maintenance related. For example, U.S. Department of Transportation guidelines consider certain amounts expended for road resurfacing to be maintenance rather than capital expenditures.

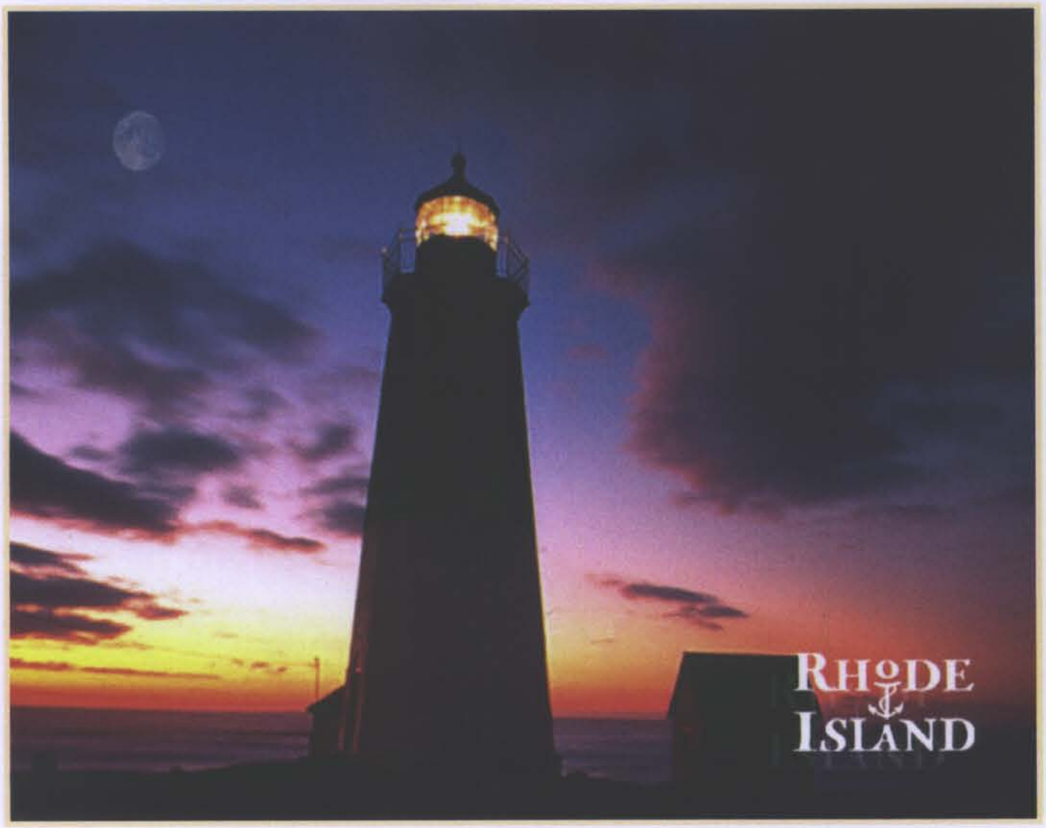
CONSTRUCTION IN PROGRESS

As required for financial reporting purposes, the State has separately reported construction in progress assets that have not been placed into service as of June 30, 2002. Construction in progress was reported at nearly $31.7 million at June 30, 2002. The majority of this amount relates to two main construction projects within the State.

The first project is the construction of the Metropolitan Career and Technical Facility, a vocational and technical school located in Providence. At June 30, 2002, the State had incurred costs of $16.2 million for this project.

The other major construction project in progress at June 30, 2002 was the complete reconstruction of the central power plant at the Pastore Center in Cranston. This steam plant provides the necessary utilities to the office, hospital, and correctional facilities operated by the State in this complex. At June 30, 2002, the State had incurred costs of $8.3 million for this project.

IV. FINDINGS AND RECOMMENDATIONS



IV. FINDINGS AND RECOMMENDATIONS

We have reported the State's lack of accounting and physical controls over capital assets as a material weakness in internal control over financial reporting in the State's Single Audit Report for the fiscal year ended June 30, 2002.

We have also reported the State's lack of controls over the management of equipment acquired with federal funds as a material weakness in internal controls over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs.

We have repeated these findings here for ease of reference. The subsequent findings and recommendations presented in a tabular format detail more specific information relating to weaknesses in the State's reporting of capital assets noted during our audit and provide a more detailed action plan for the State to follow in its implementation of a capital asset reporting system.

ACCOUNTING AND PHYSICAL CONTROL OVER CAPITAL ASSETS

(included as finding 2002-4 in the Fiscal 2002 Single Audit Report)

The State has included for the first time information regarding its investment in capital assets at June 30, 2002 as required by generally accepted accounting principles. An intensive effort was required to accumulate and/or estimate the historical cost of capital assets.

Accounting controls were not adequate during fiscal 2002 to ensure that the acquisition and disposal of capital assets was accurately recorded within the accounting system. Our testing indicated that many items were charged to capital asset natural accounts erroneously and conversely many items that should have been reflected as capital items were charged to operating accounts. Adequate control procedures were not in place to ensure that the acquisition of capital items was identified consistently within the RISAIL accounting system and then recorded at historical cost within the electronic file used by the State to accumulate capital asset data. Additionally, sale, disposal, or transfer of capital assets is not recorded within the accounting system and instead is tracked by a manual process that originates at the department or agency level. This weakness in accounting controls is largely attributable to (1) over reliance on manual accounting procedures to accumulate the data, (2) ineffective monitoring procedures, and (3) a general lack of awareness by accounting personnel in the departments and agencies regarding the importance of account classifications and the distinction between capital and operating items.

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

Physical controls over capital assets were inadequate during fiscal 2002. Departments and agencies at multiple locations did not consistently adhere to required procedures regarding (1) preparation and submission of documentation for the acquisition and disposal of capital assets, and (2) use of capital asset identification tags (bar codes). Additionally an insufficient number of physical inventories were performed of the State's departments and agencies to ensure that furniture and equipment capital assets were fairly presented on the State's financial statements at June 30, 2002.

No coordinated statewide plan now exists to collect capital asset data and maintain the data in a manner which will meet the various needs of the State – capital asset management and financial reporting. Various agencies play a role in the process including the State Properties Committee, the Division of Central Services and the Office of Accounts and Control within the Department of Administration, as well as the agency acquiring and using the capital asset.

A task force should be created to identify the information needs of State agencies regarding capital assets and to develop one system and related procedures to meet those needs. The charge should include eliminating the fragmented approach to information gathering that now exists and assigning responsibility for maintaining the database to eliminate duplication of effort among state agencies. We believe planning should begin immediately to ensure that the data accumulated as a result of this process becomes part of a statewide reporting system designed to meet the State's accounting and operational needs. Data now being gathered is recorded in multiple Access databases that may meet the need on a temporary basis but are not intended to be a complete reporting system. The objectives of the task force should include:

a. Identify the users of capital asset data and their unique needs.

b. Explore options for one reporting system to collect all capital asset data.

c. Identify the appropriate collection point for capital asset data (e.g. Accounts and Control, State Properties Committee, etc).

d. Explore options for linking photos and electronic copies of deeds and other important documents to records within the database.

e. Develop a unique asset identification number for each building and land parcel.

f. Cross-reference each building to the related land parcel.

g. Assign responsibility for maintenance of the database/reporting system.

h. Define how acquisitions and sales of assets can be reconciled to accounting data reflected in the State accounting system.

i. Plan for the eventual interface of accounting system data to the capital asset database/reporting system.

j. Identify the personnel and budgetary requirements to build the database and maintain the data on an ongoing basis.

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

RECOMMENDATION

2002-4 Enhance systems and procedures necessary to provide adequate accounting and physical control over capital assets.

MANAGEMENT OF EQUIPMENT ACQUIRED WITH FEDERAL FUNDS

(included as finding 2002-16 in the Fiscal 2002 Single Audit Report)

As described in Finding 2002-4 (Section II – Financial Statement Findings), accounting controls were not adequate during fiscal 2002 to ensure that the acquisition and disposal of capital assets was accurately recorded within the accounting system. Additionally, insufficient inventories were performed to ensure the completeness of furniture and equipment, computer systems and building improvements in the initial recording of capital assets acquired in previous fiscal years.

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

COMPLETE THE INITIAL INVENTORY AND VALUATION OF CAPITAL ASSETS *The initial recording and valuation of capital assets must be completed to ensure that all capital assets have been reported on the State's financial statements.*	RECOMMENDATIONS
❑ Accumulation of information needed for financial reporting is incomplete for certain categories of capital assets – furniture and equipment, computer systems and building improvements. ❑ The independent auditor's report on the State's financial statements is qualified because the auditors could not satisfy themselves as to the completeness of the amounts recorded for these categories. ❑ Omission of capital asset information from the State's financial statements distorts the State's financial position and results of operations. ❑ Qualifications related to capital assets which are included in the independent auditor's report on the State's financial statements are viewed negatively by bond rating agencies and investors, taxpayers, and other interested parties.	1. Complete initial physical inventories of furniture and equipment for remaining departments and agencies to ensure the recording of all capital assets. 2. Complete an analysis of all significant computer systems and software licenses that meet the State's capital asset criteria. 3. Complete an analysis of all significant building improvement expenditures using bond proceeds data and other available sources. 4. Determine actual or estimated historical cost and related accumulated depreciation for these additional capital assets for inclusion in the State's financial statements.

IMPROVE CONTROLS OVER CAPITAL ASSETS ***Physical and accounting controls over capital assets need to be improved to ensure accurate and reliable reporting of the State's capital asset activity.***	***RECOMMENDATIONS***
❑ Accounting controls over the recording of capital asset acquisitions, disposals and capital outlay expenditures are deficient and must be improved. ❑ The RISAIL accounting system does not generate reliable accounting information relative to capital outlay expenditures because transactions are not appropriately and consistently coded to segregate and accumulate capital asset activity. ❑ Reconciliations between capital asset activity recorded in RISAIL and capital asset inventories are not performed. ❑ Significant analysis and manual intervention is necessary to accumulate capital asset information for financial reporting. ❑ Accounting personnel in the departments and agencies who initiate capital asset transactions need additional training to recognize and appropriately code transactions in RISAIL including recognizing assets acquired through donation and capital leases. ❑ Physical inventories of capital assets are not performed on a routine basis for all departments and agencies.	5. Improve monitoring of new capital asset accounting policies and control procedures and educate the departments and agencies in their application and use. Monitoring procedures should include annual physical inventories and analysis and reconciliation of amounts charged to capital asset account codes. 6. Dedicate an additional supervisory accounting position to oversee (1) completion of the initial recording and valuation of capital assets, (2) compliance with newly instituted control procedures, and (3) transition of accumulated capital asset data into a "temporary" or permanent capital asset accounting system. 7. Consider specific training in capital asset accounting to enhance the ability of accounting personnel to recognize capital assets, and capital lease obligations and apply new State policies and procedures to ensure appropriate and uniform recording in the accounting system. 8. Implement an integrated capital asset module within the RISAIL accounting system so that capital asset activity is simultaneously recorded in the capital asset inventory and depreciation is calculated automatically. Physical location, description, and other key data elements would be recorded for each capital asset in the capital asset module. Other capital asset management and informational needs could be incorporated into this system or could be addressed in a manner which builds on and is compatible with the primary accounting data.

IMPLEMENT A TEMPORARY CAPITAL ASSET REPORTING SYSTEM ***An immediate solution is needed to capture and report data until a more permanent integrated component to the RISAIL statewide accounting system can be implemented.***	***RECOMMENDATIONS***
❑ The "temporary" capital asset inventory files used to accumulate data are inadequate for the task. Multiple databases have been created without appropriate controls to ensure data integrity and additions/ deletions and changes are properly authorized. None of the functions of calculating depreciation and reporting have been automated. Data clean-up resulting from the fiscal 2002 audit has been suspended until a system to house the data has been selected. ❑ The substantial effort invested to accomplish the initial recording of capital assets will be jeopardized if a suitable system is not developed to store, maintain and update this data going forward. ❑ Certain capital asset transactions are not tracked by the accounting system – ▪ Asset sales and related gain/loss ▪ Donated assets – ▪ Contributions for capital acquisitions ▪ Construction in progress ❑ A computer system customized by an outside contractor and intended to be used to manage the State's buildings has not been implemented. Further modification is needed to use the computer system and possibly extend its use to State owned land. At best, use of this system is a partial and temporary solution to store land and building data.	9. Implement, by no later than July 1, 2004, a capital asset accounting and reporting system choosing among available short-term alternatives. Ensure that the immediate solution moves the State closer to the eventual goal of an integrated system. The available alternatives appear to include the following: ▪ Implement the capital asset accounting module to the State's general ledger accounting package. Although the existing configuration of RISAIL does not currently allow system integration, the package may meet the State's financial reporting needs and allow all data to be housed in one system. If the RISAIL configuration is modified to allow true integration in the future and the same general ledger software is utilized, capital asset data would already be in the module. ▪ Choose an independent capital asset accounting package that is designed to meet governmental capital asset accounting and financial reporting needs. ▪ Attempt to utilize the building management database acquired by the State but not yet implemented. Other systems would still be required for capital assets other than land and buildings.

COMPLY WITH FEDERAL REQUIREMENT REGARDING CAPITAL ASSETS ACQUIRED WITH FEDERAL FUNDS ***Controls must be improved to meet federal requirements regarding tracking and controlling assets acquired with federal funds.***	***RECOMMENDATIONS***
❑ As a recipient of federal funds, the State must maintain records indicating which capital assets were purchased with federal funds and must adequately safeguard and maintain the assets. ❑ Dispositions of assets acquired with federal funds must be in accordance with the instructions of the federal awarding agency. ❑ The State's accounting and control procedures for capital assets do not currently provide sufficient information to identify equipment purchased with federal funds in accordance with federal requirements.	10. Ensure the accounting system(s) (both immediate and permanent solutions) track capital assets acquired with federal funds to allow compliance with federal regulations.

ACCUMULATE THE INVESTMENT IN INFRASTRUCTURE ASSETS ***Infrastructure assets acquired or constructed in prior years must be inventoried and valued at actual or estimated historical cost.***	***RECOMMENDATIONS***
❑ Infrastructure assets reported at June 30, 2002 included only additions during fiscal 2002 as permitted by generally accepted accounting principles [1]. The State's cumulative investment and related depreciation must be accumulated (estimated) and reported in the State's financial statements for fiscal 2006. Planning should begin immediately to accomplish this task within the required timeframe. ❑ Reporting all of the State's investment in infrastructure as soon as possible would allow the State to present more meaningful financial statements. Reporting incomplete infrastructure amounts understates the State's assets, yet bonds issued to finance infrastructure projects are included on the financial statements. Consequently, until all assets of the State are reported, net assets will be understated. (1) Governmental Accounting Standards Board Statement No. 34 was implemented by the State in fiscal 2002 and required recording of the State's investment in infrastructure assets. Statement No. 34 required that current (fiscal 2002) infrastructure outlays be recognized but provided additional time for governmental entities to record their prior investment in infrastructure assets.	11. Implement a process in conjunction with the Department of Transportation to accumulate the necessary information to meet the infrastructure financial reporting requirements. Seek outside assistance if considered necessary. 12. Accumulate the following information: ▪ Infrastructure investment by fiscal year back to 1980; ▪ Infrastructure disposal (replacement) by fiscal year back to 1980; and ▪ Estimate of accumulated depreciation for infrastructure.

ELIMINATE DUPLICATION OF EFFORT ***Extensive duplication of effort exists among state agencies and capital asset data is not centrally organized.***	***RECOMMENDATIONS***
❑ Significant duplication of effort exists among state agencies since many have implemented systems to track capital assets to meet their unique departmental needs. ❑ Capital asset data is stored in multiple locations and no one source is complete. ❑ Reference codes for capital assets are not uniform among the various systems used by department and agencies to track the assets – some assets have been assigned as many as 5 distinct reference codes. ❑ The State Properties Committee approves all acquisitions and disposals of State property and accumulates extensive information (including critical legal documents) for each transaction, however, little of the information is easily retrievable or available to support accounting and financial reporting or other operational objectives. ❑ Information is not available in a centralized source to support management in making decisions regarding acquisition, retention, disposal and maintenance of capital assets. When available, data is fragmented and incomplete. ❑ Geographical Information Systems (GIS) data is being used by various state agencies in different ways – a coordinated approach may allow this data to be incorporated into a comprehensive capital asset management system.	13. Determine how, and to what extent, the capital asset management information needs of various agencies can be incorporated into the accumulation of accounting data. Develop an implementation plan to either (1) utilize one system for both accounting and management information or (2) utilize two systems that are compatible and share common data elements. 14. Commence efforts to streamline the gathering and storage of capital asset data among state agencies including the following objectives: ▪ Identify the users of capital asset data and their unique needs. ▪ Identify the appropriate collection point for capital asset data (e.g. Accounts and Control, State Properties Committee, etc). ▪ Explore options for linking photos and electronic copies of deeds and other important documents to records within the database. ▪ Develop a unique asset identification number for each building and land parcel. Cross-reference each building to the related land parcel. ▪ Identify the personnel and budgetary requirements to build the database and maintain the data on an ongoing basis.

AUDITEE VIEWS

FINDINGS INCLUDED IN THE FISCAL 2002 *SINGLE AUDIT REPORT*

The following corrective action plan was included in the State's fiscal 2002 Single Audit.

Finding 2002-4

Corrective Action:

A workgroup was established in FY 2003 to develop one database each for land and buildings. Workgroup plans to complete design phase by January 2004. New databases planned to be operational by July 2004. Updates to the database for vehicle acquisitions are reconciled to State Fleet database. During FY 2003, all purchase requisitions and payments related to furniture & equipment purchases are reviewed prior to payment to insure that the procedures for preparation and submission of capital asset acquisitions is adhered to consistently. Beginning in FY 2005, physical inventories of furniture & equipment will be planned to insure adequate coverage of those agencies with the largest dollar value of assets.

Anticipated completion date: July 1, 2004

Finding 2002-16

The corrective action plan for Finding 2002-16 made reference to the corrective action plan for Finding 2002-4.

CAPITAL ASSETS – SUMMARY FINDINGS AND RECOMMENDATIONS

The additional findings and recommendations included on pages 23-28 were provided to management of the State for comment and they concur with these recommendations.

Appendix A

WILDLIFE MANAGEMENT AREAS IN RHODE ISLAND