



AUDIT SUMMARY

ERNEST A. ALMONTE, CPA, CFE
AUDITOR GENERAL
ernest.almonte@oag.ri.gov

INTEGRITY ♦ RELIABILITY ♦ INDEPENDENCE ♦ ACCOUNTABILITY

JANUARY 2004

STATE OF RHODE ISLAND CAPITAL ASSETS – SUMMARY DATA AND RECOMMENDATIONS TO IMPROVE CONTROLS AND REPORTING AS OF JUNE 30, 2002

We 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 our audit work performed during our Single Audit of the State for the fiscal year ended June 30, 2002.

The State reported its investment in capital assets at more than \$1.2 billion at June 30, 2002. While the State has improved its financial reporting through inclusion of capital assets, which had never before been reported, the information for certain categories of capital assets is still incomplete. Physical and accounting controls over capital assets are lacking and need to be improved. Significant resources must still be committed to complete the recording of all capital assets on the State's financial statements.

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 at the conclusion of the annual audit of the State's financial statements.

Substantial effort was required 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 also required to report on the amounts 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. The report highlights certain of the State's largest capital assets in each category.

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.

AUDIT HIGHLIGHTS

- Capital assets were reported at \$1.2 billion at June 30, 2002 before accumulated depreciation of \$319 million.
- The State owns or controls 97,000 acres of land, which represents 14% of the State's total land area. Historical cost of the State's land is \$373 million.
- Buildings and related improvements were reported at \$576 million before accumulated depreciation of \$214 million.
- We could not satisfy ourselves as to the completeness of certain categories of capital assets because inventories of capital assets are incomplete and accounting controls are lacking.
- The initial recording of capital assets must be completed to ensure all capital assets are reported on the State's financial statements.
- Various steps need to be taken to improve accounting controls over capital assets, reduce duplication of effort, and make information available to support capital asset management efforts.

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 State's 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.

The report includes 14 recommendations to improve controls over the State's capital asset activity.

Copies of this report can be obtained by calling 222-2435 or by visiting our website at www.oag.ri.gov.