



AUDIT SUMMARY

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INTEGRITY ♦ RELIABILITY ♦ INDEPENDENCE ♦ ACCOUNTABILITY

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SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2002

We completed our Single Audit of the State for the fiscal year ended June 30, 2002. This audit is required by both State and Federal law. The *Single Audit Report* includes the State's basic financial statements, a schedule of federal program expenditures, and findings and recommendations pertaining to the financial statements and federal programs. It also includes a corrective action plan prepared by the State's management to address each finding and provide a timetable for implementation.

The *Single Audit Report* is provided to federal funding agencies as a condition of continued federal assistance.

Financial Statements

The State's financial statements for fiscal 2002 are presented in a new format mandated by the Governmental Accounting Standards Board – the body which establishes accounting and financial reporting guidelines for governmental entities. Significant changes include the presentation of Management's Discussion and Analysis and government-wide financial statements which provide a broad view of the State's finances including capital assets and long-term liabilities. The government-wide financial statements are presented in sections – Governmental Activities (includes most of the State's basic services supported by taxes and grants), Business-Type Activities (Lottery,

Convention Center, Employment Security) and Discretely Presented Component Units (entities that are legally separate but for which the State is financially accountable). Financial statements are also presented for major funds of the State which focus on the individual parts of State government and provide more detail than the government-wide financial statements.

We concluded that the State's government-wide financial statements present fairly the State's net assets and the results of its operations for the fiscal year ended June 30, 2002 except for the effects of (1) such adjustments, if any, as might have been required had we been provided sufficient evidence regarding the completeness of the furniture and equipment, and building improvement categories of capital assets, (2) the

incomplete recording of the liability for compensated absences, and (3) the omission of certain fines and penalties revenue and receivable as assessed by the Judicial branch. We also concluded that, except for the omission of encumbrances outstanding as a reserved component of fund balances and the effects of not reporting certain fines and penalties revenue and receivable within the general fund, the State's major governmental funds are fairly presented.

We reported numerous deficiencies in the State's accounting and control procedures. The State implemented a new accounting system during fiscal 2002 which resulted in significant weaknesses in controls over the general ledger, interfund transactions, accounting adjustments, investment transactions and classification of expenditures. Additionally, bank reconciliations were not performed during the fiscal year which

AUDIT HIGHLIGHTS

- We expressed a qualified opinion on the State's government-wide financial statements and major governmental fund statements.
- General fund expenditures and other uses exceeded revenues and other sources by \$104 million.
- We reported significant deficiencies in the State's controls over financial reporting.
- Total expenditures of federal awards were more than \$2 billion in fiscal 2002.
- The State generally complied, in all material respects, with requirements applicable to federal programs; however, we did report instances of material noncompliance and other findings where controls can be improved to enhance compliance.

represented a serious weakness in control over cash receipts and disbursements.

Prior to fiscal 2002, the State had not accumulated information regarding its investment in capital assets. Through an intensive effort, the historical cost of most of the State's capital assets was accumulated (and estimated in certain instances). Approximately \$1.2 billion (before accumulated depreciation) was recorded as the historical cost of the State's capital assets at June 30, 2002. We could not completely satisfy ourselves as to the completeness of certain categories of capital assets (furniture and equipment, building improvements and computer systems) because an insufficient number of physical inventories were performed and because efforts to accumulate costs for these categories were incomplete. We also reported that controls need to be improved to ensure proper identification and recording of capital assets within the accounting system.

Federal Awards

Federal assistance is provided to the State under approximately 400 programs each with specific objectives and requirements. Federal assistance is mostly cash awards that are used to fully or partially fund federal programs. For example, the federal government funds approximately 54% of Medical Assistance program costs with the State funding the remaining share. The Medicaid program, which pays for medical care for needy individuals is the single largest federal program administered by the State. Total program costs were more than \$1.3 billion for fiscal 2002 with the federal government's share totaling \$736 million.

For many of the programs tested, we found that the State complied in all material respects with applicable compliance requirements. We did report instances where the State should improve controls to ensure compliance with federal requirements. For example, federal funds

passed-through to subrecipients must be monitored by the State to ensure compliance with applicable federal program requirements. We found that, for several programs, the State needs to improve its subrecipient monitoring procedures, including cash advanced to subrecipients for program expenditures.

We found other instances where controls should be improved to ensure compliance with federal requirements. For example, controls need to be strengthened over access to the computer systems which are used to authorize and deliver benefits through the electronic benefit delivery system for Food Stamp and Temporary Assistance For Needy Families programs.

Data used to determine eligibility for the Temporary Assistance For Needy Families (TANF) program is matched to data contained in other federal and state computer systems. We found that discrepancies resulting from data matches were not always investigated or resolved promptly which weakens controls over the determination of eligibility and benefit levels for the TANF program.

We reported that the State needs to improve oversight of its fiscal agent that processes claims for the Medicaid program. Additional financial monitoring procedures are 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.

Child Support Enforcement needs to enhance control procedures to ensure that medical coverage information is obtained and recorded within its computer system on a timely basis when the Court has ordered an absent parent to provide medical support.

The State also needs to implement centralized monitoring controls to ensure it draws federal funds in reimbursement of program costs at the appropriate time. We found that, in most instances, the State does not draw cash quickly enough, which

adversely impacts its own cash management.

Other findings reported include the need to strengthen controls to ensure the allowability of program expenditures, eligibility for certain federal programs and reporting of program expenditures.

The audit report includes 15 findings related to controls over financial reporting and 51 findings related to the administration of federal programs. A corrective action plan, prepared by the State's management, is also included which addresses each finding and provides a timetable for implementation. A summary schedule of prior audit findings is also included which reports the status of findings from prior audits.

Copies of the Single Audit Report can be obtained by calling 222-2435 or by visiting our website at www.oag.ri.gov.