

**State of Rhode Island
and Providence Plantations**

SINGLE AUDIT REPORT

Fiscal Year Ended June 30,1999

Ernest A. Almonte, CPA, CFE
Auditor General

March 30, 2000

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, 1999. 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 with requirements applicable to each major federal program and internal control over compliance. A detailed Schedule of Expenditures of Federal Awards is also included as outlined in the Table of Contents on the next page. Findings and related recommendations that are required to be reported in the *Single Audit Report* are included in the Schedule of Findings and Questioned Costs. A corrective action plan, which addresses each current year finding, has been prepared by the State and is included herein. Additionally, the status of prior year findings has also been prepared by the State and is included herein.

Respectfully submitted,

Ernest A. Almonte, CPA, CFE
Auditor General

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**General – Purpose
Financial Statements**

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General Assembly

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying general-purpose financial statements of the State of Rhode Island and Providence Plantations (the State) as of and for the year ended June 30, 1999 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.

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.

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 known.

In our opinion, based on our audit and the reports of other auditors, 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, 1999, 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 I (W), the State changed its definition of the reporting entity.

As discussed in Note 2 1, 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 \$107.3 million at June 30, 1999.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2000, 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 Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries 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-13 3, *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.

February 23, 2000

Ernest A. Almonte, CPA, CTE
Auditor General

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

COMBINED BALANCE SHEET

ALL FUND TYPES, ACCOUNT GROUPS, AND DISCRETELY PRESENTED COMPONENT UNITS

June 30, 1999

(Expressed in thousands)

	<u>Governmental Fund Types</u>				<u>Proprietary Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Enterprise (State Lottery)</u>	<u>Internal Service</u>
Assets						
Cash and cash equivalents	\$226,078	\$ 45,806	\$	\$ 86,937	\$ 12,839	\$ 2,666
Funds on deposit with fiscal agent				22,771		
Investments		27,869		15,846	4,159	
Receivables (net)	92,590	15,497		24	10,697	1,577
Due from other funds	19,093	1,645	4,000	1,922		7,162
Due from component units	1,010	2,797				
Due from primary government						
Due from other governments and agencies (net)	152,537	31,863		3,803		
Inventories					571	2,474
Loans to other funds	7,748					
Loans and real estate held						
Fixed assets (net)					600	6,490
Other assets	4,934			3,483	845	
Amount available in debt service reserves						
Amount to be provided for retirement of General long-term obligations						
Rentals due						
Total assets	<u>\$503,990</u>	<u>\$125,477</u>	<u>\$ 4,000</u>	<u>\$134,786</u>	<u>\$ 29,711</u>	<u>\$ 20,369</u>
Liabilities and Fund Equity						
Liabilities:						
Cash overdraft	\$	\$ 3,097	\$	\$	\$	\$ 33
Vouchers and accounts payable	218,310	25,714		5,202	5,512	4,923
Due to other funds	19,118	6,673		1,252	12,385	1,155
Due to component units	13,933	499		5,170		
Due to primary government						
Due to other governments and agencies	4,035					
Accrued liabilities	17,183	2,100			248	1,976
Deferred revenue	3,272	2,132			897	
Loans from other funds				3,489		4,259
Other current liabilities	19,141			4,461		
Compensated absences						
Notes payable						
Loans payable						
Obligations under capital leases						2,330
Bonds payable						
Other long-term liabilities					10,418	
Total liabilities	294,992	40,215		19,574	29,460	14,676
Fund equity:						
Contributed capital						
Retained earnings:						
Reserved						896
Unreserved (deficit)					251	4,797
Funds balances:						
Reserved	110,698	242,737	4,000	41,266		
Unreserved:						
Designated		25,164		74,071		
Undesignated (deficit)	<u>98,300</u>	<u>(182,639)</u>	<u>4,000</u>	<u>(125)</u>		
Total fund equity	<u>208,998</u>	<u>85,262</u>	<u>4,000</u>	<u>115,212</u>	<u>251</u>	<u>5,693</u>
Total liabilities and fund equity	<u>\$503,990</u>	<u>\$125,477</u>	<u>\$ 4,000</u>	<u>\$134,786</u>	<u>\$ 29,711</u>	<u>\$ 20,369</u>

The accompanying notes are an integral part of these financial statements.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Fiduciary Fund Types Trust and Agency	Account Group General Long-term Debt	TOTAL PRIMARY GOVERNMENT (Memorandum)			Component Units		TOTAL REPORTING ENTITY (Memorandum only)
		(only)	Governmental	Proprietary			
\$ 1,526	\$	\$ 375,852	\$ 35,954	\$ 333,170		\$ 744,976	
240,130		262,901				262,901	
6,617,340		6,665,214	1,818	780,707		7,447,739	
21,259		141,644	35,143	1,969,471		2,146,258	
6,848		40,670	17,507			58,177	
		3,807				3,807	
			5,475	29,183		34,658	
1,069		189,272		20,328		209,600	
		3,045	2,628	1,719		7,392	
		7,748				7,748	
				22,015		22,015	
		7,090	1,992	932,965		942,047	
		9,262	4,935	153,823		168,020	
	22,656	22,656	855			23,511	
	1,482,541	1,482,541	83,351			1,565,892	
				9,150		9,150	
\$6,888,172	\$1,505,197	\$9,211,702	\$189,658	\$4,252,531		\$13,653,891	
\$ 7,979	\$	\$ 11,109	\$ 12,890	\$ 128		\$ 24,127	
4,146		263,807	21,051	22,915		307,773	
87		40,670	17,507			58,177	
		19,602				19,602	
			927	83		1,010	
758		4,793		18,473		23,266	
		21,507		75,942		97,449	
		6,301	11,553	7,261		25,115	
		7,748				7,748	
58,776		82,378	2,433			84,811	
	62,478	62,478	34,033			96,511	
			2,366	28,332		30,698	
			495	43,397		43,892	
	426,530	428,860	7,392	36,265		472,517	
	998,961	998,961	40,322	2,921,156		3,960,439	
	17,228	27,646	1,153	271,974		300,773	
71,746	1,505,197	1,975,860	152,122	3,425,926		5,553,908	
				372,028		372,028	
		896		238,959		239,855	
		5,048	(2,783)	215,618		217,883	
6,813,208		7,211,909	62,508			7,274,417	
		99,235				99,235	
3,218		(81,246)	(22,189)			(103,435)	
6,816,426		7,235,842	37,536	826,605		8,099,983	
\$ 6,888,172	\$ 1,505,197	\$9,211,702	\$189,658	\$4,252,531		\$13,653,891	

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, 1999

(Expressed in thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Revenues:				
Taxes	\$ 1,674,802	\$ 244,206	\$	\$
Licenses, fines, sales, and services	163,031	4,308		8,586
Departmental restricted revenue	106,968	240		
Federal grants	1,002,940	208,499		3,994
Income from investments	7,378	4,284		8,764
Other revenues	29,236	3,421		
Total revenues	2,984,355	464,958		21,344
Other financing sources:				
Bonds and notes issued				146,870
Operating transfers in	211,158	30,759	4,000	39,405
Operating transfers from primary government				
Operating transfers from component units	4,000	6,467		
Other	16,380			5,199
Total revenues and other financing sources	3,215,893	502,184	4,000	212,818
Expenditures:				
Current:				
General government	180,185	31,340		
Human services	1,630,699	131,241		
Education	43,723			
Public safety	246,057			
Environment	47,895	6,834		
Transportation		43,660		
Capital outlays	26,034	172,977		28,562
Intergovernmental	681,374	79		3,437
Debt service:				
Principal	40,655	18,588		
Interest and other charges	33,630	19,621		12,568
Total expenditures	2,930,252	424,340		44,567
Other financing uses:				
Payments to refunded bonds escrow agents				84,763
Operating transfers out	43,845	32,302		73,066
Operating transfers to component units	267,864	45,580		36,749
Other				
Total expenditures and other financing uses	3,241,961	502,222		239,145
Revenues and other financing sources over (under) expenditures and other financing uses	(26,068)	(38)	4,000	(26,327)
Net gain from proprietary operations				
Fund balances, July 1, 1998	235,066	85,300		141,539
Fund balances, June 30, 1999	\$ 208,998	\$ 85,262	\$ 4,000	\$ 115,212

The accompanying notes are an integral part of these financial statements.

**STATE OF RHODE ISLAND AND PROVIDENCE
PLANTATIONS**

<u>Fiduciary Fund Types Expendable</u>	TOTAL PRIMARY GOVERNMENT (Memorandum Only)	Component Units Governmental	TOTAL REPORTING ENTITY (Memorandum Only)
\$ 184,811	\$ 2,103,819	\$	\$ 2,103,819
	175,925	174,263	350,188
	107,208		107,208
1,596	1,217,029	59,681	1,276,710
14,460	34,886		34,886
<u>1,280</u>	<u>33,937</u>	<u>35,170</u>	<u>69,107</u>
202,147	3,672,804	269,114	3,941,918
	146,870		146,870
	285,322	4,732	290,054
		180,991	180,991
	10,467		10,467
<u>5,018</u>	<u>26,597</u>	<u>7,999</u>	<u>34,596</u>
<u>207,165</u>	<u>4,142,060</u>	<u>462,836</u>	<u>4,604,896</u>
	211,525		211,525
145,161	1,907,101		1,907,101
	43,723	424,583	468,306
	246,057		246,057
	54,729		54,729
	43,660		43,660
	227,573	17,473	245,046
	684,890		684,890
	59,243	3,706	62,949
<u>0</u>	<u>65,819</u>	<u>5,465</u>	<u>71,284</u>
145,161	3,544,320	451,227	3,995,547
	84,763		84,763
	149,213	4,653	153,866
	350,193		350,193
<u>3,151</u>	<u>3,151</u>	<u>0</u>	<u>3,151</u>
<u>148,312</u>	<u>4,131,640</u>	<u>455,880</u>	<u>4,587,520</u>
58,853	10,420	6,956	17,376
		1	1
<u>185,332</u>	<u>647,237</u>	<u>30,579</u>	<u>677,816</u>
\$ 244,185	\$ 657,657	\$ 37,536	\$ 695,193

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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, 1999

(Expressed in thousands)

	Proprietary Fund Types		Fiduciary Fund Types Nonexpendable Trust	TOTAL PRIMARY GOVERNMENT (Memorandum Only)	Component Units Proprietary	TOTAL REPORTING ENTITY (Memorandum Only)
	Enterprise (State Lottery)	Internal Service				
Operating revenues:						
Charge for services	\$ 741,170	\$ 76,876	\$ 69	\$ 818,115	\$ 173,189	\$ 991,304
Interest Income			340	340	175,633	175,973
Other operating income	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>34,477</u>	<u>34,477</u>
Total operating revenues	741,170	76,876	409	818,455	383,299	1,201,754
Operating expenses:						
Personal services	2,792	11,680		14,472	87,513	101,985
Supplies, materials, and services	104,382	63,039		167,421	84,710	252,131
Interest expense					123,758	123,758
Grant, scholarships, and contract programs					9,678	9,678
Prize awards	501,224			501,224		501,224
Depreciation, depletion, and amortization	191	655		846	44,575	45,421
Other operating expenses	<u>0</u>	<u>0</u>	<u>131</u>	<u>131</u>	<u>18,627</u>	<u>18,758</u>
Total operating expenses	608,589	75,374	131	684,094	368,861	1,052,955
Operating income	<u>132,581</u>	<u>1,502</u>	<u>278</u>	<u>134,361</u>	<u>14,438</u>	<u>148,799</u>
Nonoperating revenues (expenses):						
Income from investments	528	8		536	7,705	8,241
Grants					22,274	22,274
Gain on sale of property					371	371
Interest expense		(99)		(99)	(41,982)	(42,081)
Other nonoperating revenues	<u>384</u>	<u>0</u>	<u>0</u>	<u>384</u>	<u>9,733</u>	<u>10,117</u>
Total nonoperating revenue (expenses)	<u>912</u>	<u>(91)</u>	<u>0</u>	<u>821</u>	<u>(1,899)</u>	<u>(1,078)</u>
Income before transfers	133,493	1,411	278	135,182	12,539	147,721
Operating transfers in		330		330		330
Operating transfers out	(133,565)			(133,565)		(133,565)
Operating transfers from primary government					112,718	112,718
Operating transfers to primary government	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(4,000)</u>	<u>(4,000)</u>
Income (loss) before extraordinary items and cumulative effect of change in accounting principle	(72)	1,741	278	1,947	121,257	123,204
Extraordinary items					(5,693)	(5,693)
Cumulative effect of change in Accounting principle	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,064</u>	<u>2,064</u>
Net income (loss)	(72)	1,741	278	1,947	117,628	119,575
Other changes in fund equity:						
Increase in contributed capital					40,055	40,055
Other	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(5,493)</u>	<u>(5,493)</u>
Net increase (decrease) in fund equity	(72)	1,741	278	1,947	152,190	154,137
Fund equity, July 1, 1998, as restated	<u>323</u>	<u>3,952</u>	<u>2,940</u>	<u>7,215</u>	<u>674,415</u>	<u>681,630</u>
Fund equity, June 30, 1999	<u>\$ 251</u>	<u>\$ 5,693</u>	<u>\$ 3,218</u>	<u>\$ 9,162</u>	<u>\$ 826,605</u>	<u>\$ 835,767</u>

The accompanying notes are an integral part of these financial statements.

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, 1999

(Expressed in thousands)

	Proprietary Fund Types		Fiduciary Fund Types Nonexpendable Trust	TOTAL PRIMARY GOVERNMENT (Memorandum Only)	Component Units Proprietary	TOTAL REPORTING ENTITY (Memorandum Only)
	Enterprise (State Lottery)	Internal Service				
Cash flows from operating activities:						
Cash received from customers	\$ 758,279	\$ 70,252	\$ 0	\$ 828,531	\$ 553,162	\$ 1,381,693
Cash received from grants					316	316
Collections from loans and receivership Assets					35,691	35,691
Proceeds from the sale of real estate owned					701	701
Cash payments to suppliers for goods and						
Services	(2,872)	(62,438)		(65,310)	(109,970)	(175,280)
Cash payments to employees for services	(2,765)	(11,551)		(14,316)	(76,273)	(90,589)
Loans issued					(138,209)	(138,209)
Cash payments for claims, grants, and Scholarships					(147,837)	(147,837)
Other operating revenue	168	483	69	720	14,362	15,082
Other operating expenses	(623,261)	0	(179)	(623,440)	(447)	(623,887)
Net cash provided by (used for)						
Operating activities	129,549	(3,254)	(110)	126,185	131,496	257,681
Cash flows from noncapital financing Activities:						
Proceeds from issuance of long-term debt					420,173	420,173
Payment of bonds and notes					(360,241)	(360,241)
Payment of interest					(134,258)	(134,258)
Proceeds from grants					19,317	19,317
Loans from other funds		2,139		2,139		2,139
Repayment of loans to other funds		(116)		(116)		(116)
Collection of loans and mortgages					2	2
Contract revenue					3,238	3,238
Operating transfers out	(122,353)			(122,353)	(943)	(123,296)
Operating transfers from primary gov't					112,651	112,651
Operating transfers to primary gov't					(4,000)	(4,000)
Grants issued					(1,522)	(1,522)
Negative cash balance implicitly financed	0	33	0	33	128	161
Net cash provided by (used for)						
noncapital	(122,353)	2,056	0	(120,297)	54,545	(65,752)
Financing activities						
Cash flows from capital and related Financing activities:						
Principal paid on revenue bonds					(13,264)	(13,264)
Proceeds from issuance of long-term debt					22,514	22,514
Payment of interest		(99)		(99)	(33,814)	(33,913)
Payment of notes and loans					(16,347)	(16,347)
Payment of capital lease obligations		(574)		(574)	(3,582)	(4,156)
Payment of financing costs					(1,047)	(1,047)
Payment for the purchase of program rights					(298)	(298)
Acquisition of capital assets	(173)	(2,466)		(2,639)	(93,589)	(96,228)
Contributed capital		330		330	39,259	39,589
Proceeds from capital grants used for Operating activities					5,385	5,385
Proceeds from sale of assets	0	0	0	0	519	519
Net cash provided by (used for) capital and related financing activities	(173)	(2,809)	0	(2,982)	(94,264)	(97,246)
Cash flows from investing activities:						
Purchase of investments			(1,617)	(1,617)	(837,084)	(838,701)
Proceeds from sale and maturity of Investments	1,809		1,744	3,553	627,827	631,380
Interest on investments	529	8	85	622	52,150	52,772
Net cash provided by (used for)						
investing	2,338	8	212	2,558	(157,107)	(154,549)
Activities						
Net increase (decrease) in cash and Cash equivalents	9,361	(3,999)	102	5,464	(65,330)	(59,866)
Cash and cash equivalents, July 1, 1998	3,478	6,665	524	10,667	389,302	399,969
Cash and cash equivalents, June 30, 1999	\$ 12,839	\$ 2,666	\$ 626	\$ 16,131	\$ 323,972	\$ 340,103

The accompanying notes are an integral part of these financial statements.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

	<u>Proprietary Fund Types</u>		<u>Fiduciary</u> <u>Fund Types</u>	<u>TOTAL</u> <u>PRIMARY</u> <u>GOVERNMENT</u> <u>(Memorandum</u> <u>Only)</u>	<u>Component</u> <u>Units</u>	<u>TOTAL</u> <u>REPORTING</u> <u>ENTITY</u> <u>(Memorandum</u> <u>Only)</u>
	<u>Enterprise</u> <u>(State Lottery)</u>	<u>Internal</u> <u>Service</u>	<u>Nonexpendable</u> <u>Trust</u>		<u>Proprietary</u>	
Reconciliation of operating income to net cash						
Provided by (used for) operating activities:						
Operating income	\$ 132,581	\$ 1,502	\$ 278	\$ 134,361	\$ 14,438	\$ 148,799
Adjustments to reconcile operating income						
To net cash provided by (used for)						
Operating Activities:						
Depreciation, depletion, and amortization	191	655		846	44,575	45,421
Interest on investments and other income	(2,080)		(340)	(2,420)	(50,612)	(53,032)
Interest expense					124,849	124,849
Provision for cost of scholarships					2,100	2,100
Landfill postclosure costs					(2,709)	(2,709)
(Increase) decrease in in assets:						
Receivables	(3,675)	(7,405)		(11,080)	(17,252)	(28,332)
Inventories	142	(497)		(355)	189	(166)
Prepaid items					(713)	(713)
Other assets	1,787			1,787	1,142	2,929
Increase (decrease) in liabilities:						
Accounts payable and accrued expenses	(34)	2,362	(48)	2,280	7,008	9,288
Deferred revenue	170			170	(629)	(459)
Escrow deposits					9,110	9,110
Other liabilities	467	129	0	596	0	596
Subtotal	(3,032)	(4,756)	(388)	(8,176)	117,058	108,882
Net cash provided by (used for) operating Activities	\$ 129,549	\$ (3,254)	\$ (110)	\$ 126,185	\$ 131,496	\$ 257,681
Noncash investing, capital, and financing Activities:						
Assets acquired through loan program	\$	\$	\$	\$	\$ 4,943	\$ 4,943
Interest capitalized					3	3
Accretion of interest on investment for Jackpot awards	385			385		385
Increase in funds on deposit and deferred Revenue	271	0	0	271	0	271
Total noncash transactions	\$ 656	\$ 0	\$ 0	\$ 656	\$ 4,946	\$ 5,602
Cash and cash equivalents in the Fiduciary Fund Types on the Combined Balance Sheet include:						
Expendable Trust Funds					\$ 523	
Pension Trust Funds					239	
Agency Fund					138	
Nonexpendable Trust Funds					626	
Total					\$ 1,526	
Cash and cash equivalents for Proprietary Component Units on the Combined Balance Sheet include:						
Cash and cash equivalents from Statement Of Cash Flow					\$ 323,972	
RI Housing Mortgage Finance Corporation						
-						
Affordability Housing Trust					2,168	
RI Higher Education Assistance Authority						
-						
Savings Trust					14	
RI Higher Education Assistance Authority						
-						
Federal Student Loan Reserve Fund					7,016	
Total					\$ 333,170	

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, 1999
(Expressed in thousands)

	Budget	General Fund Actual	Variance
Revenues:			
Taxes	\$ 1,664,950	\$ 1,674,802	\$ 9,852
Licenses, fines, sales, and services	160,200	163,031	2,831
Departmental restricted revenue	110,609	106,968	(3,641)
Federal grants	1,059,177	1,002,940	(56,237)
Other revenues	<u>36,000</u>	<u>36,614</u>	<u>614</u>
Total revenues	3,030,936	2,984,355	(46,581)
Other financing sources:			
Operating transfers in	211,728	211,158	(570)
Operating transfers from component units	4,000	4,000	
Other	<u>15,015</u>	<u>16,380</u>	<u>1,365</u>
Total revenues and other financing sources	<u>3,261,679</u>	<u>3,215,893</u>	<u>(45,786)</u>
Expenditures:			
Current:			
General government	210,667	180,185	30,482
Human services	1,672,800	1,630,699	42,101
Education	51,013	43,723	7,290
Public safety	256,445	246,057	10,388
Environment	68,389	47,895	20,494
Transportation			
Capital outlays	26,034	26,034	
Intergovernmental	681,374	681,374	
Debt service:			
Principal	40,655	40,655	
Interest and other charges	<u>33,630</u>	<u>33,630</u>	<u>0</u>
Total expenditures	3,041,007	2,930,252	110,755
Other financing uses:			
Operating transfers out	39,876	43,845	(3,969)
Operating transfers to component units	<u>266,938</u>	<u>267,864</u>	<u>(926)</u>
Total expenditures and other financing uses	3,347,821	3,241,961	105,860
Revenues and other financing sources over (under)			
Expenditures and other financing uses	(86,142)	(26,068)	60,074
Fund balances, July 1, 1998	<u>235,066</u>	<u>235,066</u>	<u>0</u>
Fund balances, June 30, 1999	<u>\$ 148,924</u>	<u>\$ 208,998</u>	<u>\$ 60,074</u>

The accompanying notes are an integral part of these financial statements.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Budgeted Special Revenue Funds			Total (Memorandum Only)		
Budget	Actual	Variance	Budget	Actual	Variance
\$ 247,120	\$ 244,206	\$ (2,914)	\$ 1,912,070	\$ 1,919,008	\$ 6,938
180	240	60	160,200	163,031	2,831
260,709	208,499	(52,210)	110,789	107,208	(3,581)
2,114	7,050	4,936	1,319,886	1,211,439	(108,447)
<u>510,123</u>	<u>459,995</u>	<u>(50,128)</u>	<u>38,114</u>	<u>43,664</u>	<u>5,550</u>
45,000	36,202	(8,798)	3,541,059	3,444,350	(96,709)
			256,728	247,360	(9,368)
			4,000	4,000	
<u>0</u>	<u>0</u>	<u>0</u>	<u>15,015</u>	<u>16,380</u>	<u>1,365</u>
<u>555,123</u>	<u>496,197</u>	<u>(58,926)</u>	<u>3,816,802</u>	<u>3,712,090</u>	<u>(104,712)</u>
31,912	31,340	572	242,579	211,525	31,054
136,093	131,241	4,852	1,808,893	1,761,940	46,953
			51,013	43,723	7,290
			256,445	246,057	10,388
			68,389	47,895	20,494
67,636	42,167	25,469	67,636	42,167	25,469
201,536	172,977	28,559	227,570	199,011	28,559
	79	(79)	681,374	681,453	(79)
18,588	18,588		59,243	59,243	
<u>19,754</u>	<u>19,621</u>	<u>133</u>	<u>53,384</u>	<u>53,251</u>	<u>133</u>
475,519	416,013	59,506	3,516,526	3,346,265	170,261
27,205	32,302	(5,097)	67,081	76,147	(9,066)
<u>64,289</u>	<u>45,580</u>	<u>18,709</u>	<u>331,227</u>	<u>313,444</u>	<u>17,783</u>
<u>567,013</u>	<u>493,895</u>	<u>73,118</u>	<u>3,914,834</u>	<u>3,735,856</u>	<u>178,978</u>
(11,890)	2,302	14,192	(98,032)	(23,766)	74,266
<u>7,500</u>	<u>80,913</u>	<u>73,413</u>	<u>242,566</u>	<u>315,979</u>	<u>73,413</u>
<u>\$ (4,390)</u>	<u>\$ 83,215</u>	<u>\$ 87,605</u>	<u>\$ 144,534</u>	<u>\$ 292,213</u>	<u>\$ 147,679</u>

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

June 30, 1999

(Expressed in thousands)

	Employees' Retirement System	Municipal Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust	Total (Memorandum Only)
Assets					
Cash and cash equivalents	\$ 0	\$ 0	\$ 124	\$ 115	\$ 239
Receivables:					
Member contributions	8,158	1,375			9,533
Employer contributions	7,680	979			8,659
Due from other funds	<u>6,603</u>	<u>7</u>	<u>1</u>	<u>1</u>	<u>6,612</u>
Total receivables	<u>22,441</u>	<u>2,361</u>	<u>1</u>	<u>1</u>	<u>24,804</u>
Investments, at fair value:					
Equity in short-term investment fund	193	1			194
Equity in pooled trust	5,683,181	831,580	8,509	5,513	6,528,783
Plan specific investments	<u>27,787</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>27,787</u>
Total investments	<u>5,711,161</u>	<u>831,581</u>	<u>8,509</u>	<u>5,513</u>	<u>6,556,764</u>
Total assets	<u>5,733,602</u>	<u>833,942</u>	<u>8,634</u>	<u>5,629</u>	<u>6,581,807</u>
Liabilities					
Cash overdraft	6,786	1,193			7,979
Vouchers and accounts payable	3,609	528	5	4	4,146
Due to other funds	5				5
Payable to certain individuals	<u>654</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>654</u>
Total liabilities	<u>11,054</u>	<u>1,721</u>	<u>5</u>	<u>4</u>	<u>12,784</u>
Net assets held in trust for pension benefits	<u>\$ 5,722,548</u>	<u>\$ 832,221</u>	<u>\$ 8,629</u>	<u>\$ 5,625</u>	<u>\$ 6,569,023</u>

The accompanying notes are an integral part of these financial statements.

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

For the Fiscal Year Ended June 30, 1999

(Expressed in thousands)

	Employees' Retirement System	Municipal Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust	Total (Memorandum Only)
Additions:					
Contributions:					
Member contributions	\$ 106,124	\$ 13,229	\$ 482	\$ 276	\$ 120,111
Employer contributions	92,287	6,609	631	737	100,264
State contributions for teachers	30,203				30,203
Interest on service credits purchased	1,284	195			1,479
Service credit transfer payments	<u>372</u>	<u>130</u>	<u>0</u>	<u>0</u>	<u>502</u>
Total contributions	<u>230,270</u>	<u>20,163</u>	<u>1,113</u>	<u>1,013</u>	<u>252,559</u>
Investment income:					
Net appreciation in fair value of investments	376,448	55,000	578	378	432,404
Interest	114,890	16,511	157	99	131,657
Dividends	41,937	6,133	59	37	48,166
Other investment income	<u>14,062</u>	<u>2,057</u>	<u>20</u>	<u>13</u>	<u>16,152</u>
	547,337	79,701	814	527	628,379
Less investment expense	<u>18,633</u>	<u>2,724</u>	<u>28</u>	<u>17</u>	<u>21,402</u>
Net investment income	<u>528,704</u>	<u>79,977</u>	<u>786</u>	<u>510</u>	<u>606,977</u>
Total additions	<u>758,974</u>	<u>97,140</u>	<u>1,899</u>	<u>1,523</u>	<u>859,536</u>
Deductions:					
Retirement benefits	303,036	28,689			331,725
Refund of contributions	5,485	1,689			7,174
Administrative expense	2,178	319			2,497
Service credit transfer payments	<u>131</u>	<u>372</u>			<u>503</u>
Total deductions	<u>310,830</u>	<u>31,069</u>	<u>0</u>	<u>0</u>	<u>341,899</u>
Net increase	448,144	66,071	1,899	1,523	517,637
Net assets held in trust for pension benefits					
July 1, 1998	<u>5,274,404</u>	<u>766,150</u>	<u>6,730</u>	<u>4,102</u>	<u>6,051,386</u>
June 30, 1999	<u>\$ 5,722,548</u>	<u>\$ 832,221</u>	<u>\$ 8,629</u>	<u>\$ 5,625</u>	<u>\$ 6,569,023</u>

The accompanying notes are an integral part of these financial statements.

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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

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 governments 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 PLANTATION

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, Carloti 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 02903-1721.

Rhode Island Student Loan Authority (RISLA) - This Authority, established in 1981, was created in order to provide a statewide student loan program through the acquisition of student loans. It has the power to issue bonds and notes, payable solely from its revenues. For more detailed information, a copy of the financial statements can be

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

obtained by writing to the R.I. Student Loan Authority, 560 Jefferson Boulevard, Warwick, RI 02886.

Rhode Island Turnpike and Bridge Authority (RITBA) - This Authority was created by the General Assembly as a body corporate and politic, with powers to construct, acquire, maintain and operate bridge projects as defined by law. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Turnpike and Bridge Authority, P.O. Box 437, Jamestown, RI 02835.

Rhode Island Economic Development Corporation (RIEDC) - This Corporation 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, RIEDC created a subsidiary corporation, the R. I. Airport Corporation, to manage the state's six airports. 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. NBC receives contributed capital from the state to upgrade its facilities. For more detailed information, a copy of the financial statements can be obtained by writing to the Narragansett Bay Water Quality District Management Commission, 235 Promenade Street, Suite 500, Providence, RI 02908-5739.

Rhode Island Health and Educational Building Corporation (RIHEBC) - This Corporation has the following purposes: (1) to assist in providing financing for education facilities for colleges and universities operating in the state; (2) to assist hospitals in the state in the financing of health care facilities; (3) to assist stand-alone, non-profit assisted-living and adult daycare facilities; (4) to assist in financing a broad range of non-profit health care providers; and (5) to assist in financing non-profit secondary schools and child care centers. RIHEBC issues bonds, notes and leases which are special obligations of RIHEBC payable from revenues derived from the projects financed or other moneys of the participating education institution or health care institution. The bonds, notes and leases do not constitute a debt or pledge of the faith and credit of RIHEBC or the state and accordingly have not been reported in the accompanying financial statements. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Health and Educational Building Corporation, 400 Westminster Street, Providence, RI 02903.

Rhode Island Resource Recovery Corporation (RIRRC) - This Corporation was established in 1974 in order to provide and/or coordinate solid waste management services to municipalities and persons within the state. RIRRC has the power to issue negotiable

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

bonds and notes to achieve its corporate purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Resource Recovery Corporation, 65 Shun Pike, Johnston, RI 02919.

Rhode Island 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. DEPCO 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 RIPTA determines it is in the public interest to continue such service. Revenues of RIPTA include operating assistance grants from the federal and state governments. For more detailed information, a copy of their financial statements can be obtained by writing to the 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. RICWFA receives capital grants from the state and federal governments and is authorized to issue revenue bonds and notes. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Clean Water Finance Agency, 235 Promenade Street, Providence, RI 02908.

Rhode Island Industrial-Recreational Building Authority (RIIRBA) - This Authority is authorized to insure first mortgages and first security agreements granted by financial

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

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. RIWRBC is authorized to issue revenue bonds which are payable solely from revenues generated by the lease of its facilities or the sale of water. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Water Resources Board Corporate, 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 02907-3124.

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, One Allens Avenue, Providence, RI 02903.

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.

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.

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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.

Debt Service - is used to account for the accumulation of resources for, and the payment of, long-term debt. The state's debt service fund is funded by annual appropriations that approximate the annual interest savings from debt refundings.

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 not 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, agency 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.

Under the modified accrual basis of accounting, revenues, grants, entitlements and related receivables are recorded in the accounting period that they become both measurable and

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

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. Grant revenue is recorded when the related expenditure has been made. Cash advances from grants are reported as deferred revenue.

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 and grants 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

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 non-participating 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.

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.

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

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

L. 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.

M. 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.

Fixed assets used in the operation of internal service funds are generally capitalized in the fund in which they are utilized and are depreciated on the straight-line basis over their estimated useful lives. Certain internal service funds use capital leases to finance 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.

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Notes to General-Purpose Financial Statements

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.

N. 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.

O. 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.

P. Other Liabilities

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

Q. 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.

R. Obligations Under Capital Leases

The construction and acquisition of certain state office buildings, campus facilities and other public facilities, as well as certain equipment acquisitions, have been financed through bonds and notes issued by the R.I. Refunding Bond Authority, the R.I. Convention Center Authority, the R.I. Economic Development Corporation, or by a trustee pursuant to a lease/purchase agreement with the state (See Note 7(D)).

S. 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.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

T. 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.

U. Fund Equity

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from the federal and/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 "11 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. Change in the Reporting Entity

The state had previously reported deferred compensation assets and liabilities in an agency fund. With the implementation of GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans", that agency fund was eliminated.

In fiscal year 1999 the state began reporting the assets and liabilities of custodial deposits in an agency fund. These deposits are required from financial institutions, principally insurance companies, doing business in the state.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

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 Financing 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.

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.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

For the fiscal year ended June 30, 1999 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>
Administration			
General revenue appropriations:			
Accounts and Control			\$ 100
Human Resources			172
Taxation			841
Central Services			2,146
Personnel Appeal Board			7
Federal grants:			
Rural Housing Preservation Grants	10,433		32
Emergency Shelter Grants Program	14,231		167
Motor Carrier Safety	20,217		56
Federal Transit Technical Studies Grants	20,505		9
Weatherization Assistance for Low-Income Persons	81,042		130
Safe and Drug-Free Schools – State Grants	84,186		3
Child Support Enforcement	93,563		1,215
Restricted programs:			
DEPCO Escrow Account		2450-80200	149
Tire Site Remediation – Port Authority		2450-80300	3
Indirect Cost Recovery – Child Support Endorcement		2450-80400	2
Vehicle Value Commission – Municipal		2457-80100	1
Integrated Resource Plan		2460-80400	30
Eastern Utilities Grant – Electric Conservation		2460-80900	12
RI Urban and Community Forest Council		2472-80100	9
RI Independent Insurance Grant		2480-81000	2
Operating transfers in:			
FHWA – T2 Systems Planning		2472-90200	9
Debt Service Special Account		2480-90200	7,088
Business Regulation			
General revenue appropriations:			
Securities Regulation			47
Commercial Licensing and Regulation			16
Restricted programs:			
Assessment for Cost of Rate Fillings		1830-80101	1
Labor and Training			
General revenue appropriations:			
Workforce Regulation and Safety			190
Restricted programs:			
Donley Rehab Center & Second Injury Fund		1652-80000	29
Claims Monitoring & Data Processing Unit		1652-80200	19
Donley Center Operations – Workers Compensation		1652-80300	79
Legislature			
Restricted programs:			
Audit of Federal Assistance Programs		2626-80100	158
Secretary of State			
General revenue apprpriations:			
Administration			19
State Archives			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>
General Treasurer			
General revenue appropriations:			
General Treasurer – General			18
Boards for Design Professionals			
General revenue appropriation			34
Children, Youth and Families			
General revenue appropriations:			
Central Management			11
Child Welfare – General			2,687
Federal grants:			
Blyme Formula Grant Program	16,579		1
Desegregation Assistance, Civil Rights Training, and Advisory Services	84,004		19
Title I Program for Neglected and Delinquent Children	84,013		77
Vocational Education – Basic Grants to States	84,048		16
Comprehensive Community Mental Health Services for Children			
With Serious Emotional Disturbances (SED)	93,104		306
Mental Health Planning and Demonstration Projects	93,125		45
Family Preservation and Support Services	93,556		3
Temporary Assistance for Needy Families	93,558		257
Children’s Justice Grants to States	93,643		8
Independent Living	93,674		129
Other Expenditures of Federal Awards			83
Restricted programs:			
Social Security Income		3340-80200	501
Operating transfers in:			
Delaware – Youth Correctional Center		3330-90100	65
Elderly Affairs			
Federal grants:			
Special Programs for the Aging – Title III, Part B – Grants for			
Supportive Services and Senior Centers	93,044		181
Low-Income Home Energy Assistance	93,568		9
Operating transfers in:			
Almacs – Dislocated Workers		3260-90100	1
Health			
General revenue appropriations:			
Central Management			21
State Medical Examiner			10
Health Laboratories			3
Federal grants:			
Special Supplemental Food Program for Women, Infants, and Children	10,557		1,849
Air Pollution Control Program Support	66,001		70
Emergency Medical Services for Children	93,127		195
Demonstration Grants for the Prevention of Alcohol and Drug Abuse			
Among High Risk Population	93,144		8
Disabilities Prevention	93,184		12
Childhood Lead Poisoning Prevention Projects – State and Community			
Based Childhood Lead Poisoning Prevention and Surveillance of			
Blood Lead Levels in Children	93,197		92
Drug Abuse National Research Service Awards for Research Training	93,278		99
Child Support Enforcement	93,563		21
Preventive Health Services – Sexually Transmitted Diseases Control			
Grants	93,977		25
Restricted programs:			
Indirect Cost Recovery – Central Management		1102-80601	54
Asset Forfeiture		1120-80400	31
Health Care Accessibility and Quality		1142-80400	17

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>
General Treasurer			
General revenue appropriations:			
Health Care Quality, Financing and Purchasing			28
Federal grants:			
State Administrative Matching Grants for Food Stamp Program	10,561		593
Rehabilitation Long – Term Training	84,129		6
State’s Children Insurance Program	93,767		374
Medical Assistance Program	93,778		2,274
Restricted programs:			
Indirect Cost Recovery – Central Management		1210-80101	77
Veterans Home Collections		1235-80100	625
Medicaid Provider Participation		1260-80200	13
Mental Health, Retardation and Hospitals			
General revenue appropriations:			
Central Management			120
Hospital and Community Rehabilitation			2,289
Federal grants:			
Block Grants for Prevention and Treatment of Substance Abuse	93,959		938
Operating transfers in:			
Deleware Asbestos		1032-90100	153
Office of the Child Advocate			
General revenue appropriation			
			14
Federal grants:			
Crime Victim Assistance	16,575		3
Commission on the Handicaped			
Restricted programs:			
Technical Assistance Projects		2041-80100	1
Commission for Human Rights			
Federal grants:			
Fair Housing Assistance Program – State and Local	14,401		3
Elementary and Secondary Education			
General revenue appropriations:			
Rhode Island School for the Deaf			86
Davies Career and Technical School			20
Special Needs Services			12
Integration of Social Services			8
Nutrition Program			5
Board Relations			7
Human Resources			101
Federal grants:			
Summer Food Service Program for Children	10,559		78
Title I Grants to Local Educational Agencies	84,010		1,855
Migrant Education – Basic State Grant Program	84,011		51
Title I Program for Neglected and Delinquent Children	84,013		3
Special Education – Preschool Grants	84,173		54
Bilingual Education Support Services	84,194		2
Goals 2000 – State and Local Education Systemic Improvement Grants	84,276		11
Comprehensive Community Mental Health Services for Children With Serious Emotional Disturbances	93,104		10
Office of Higher Education			
Federal grants:			
National Early Intervention Scholarship and Partnership	84,272		132
Rhode Island State Council on the Acts			
Federal grants:			
Tech-Prep Education	84,243		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>
Historical Preservation and Heritage Commission			
Restricted Programs:			
Survey and Planning – Restricted Fund		2062-80100	2
Historic Preservation Revolving Fund-Interest		2062-80600	21
Rhode Island Public Telecommunications Authority			
Federal grants:			
Telecommunications and Informal Infrastructure Assistance Program	11,552		7
Attorney General			
Federal grants:			
Juvenile Justice and Delinquency Prevention – Allocation to States	16,540		1
Local Law Enforcement Block Grant Program	16,592		2
Restricted programs:			
Forfeiture of Property		2230-80100	25
Corrections			
Federal grants:			
Special Education – Grants to States	84,027		8
Preventive Health Services – Sexually Transmitted Diseases Control Grants	93,977		1
Governor’s Justice Commission			
Federal grants:			
Juvenile Accountability Incentive Block Grant	16,523		201
State Justice Statistics Program for Statistical Analysis Centers	16,550		1
Judicial			
General revenue appropriations:			
Supreme Court			452
Family Court			223
Federal grants:			
Byrne Formula Grant Program	16,579		52
Grants to States for Access and Visitation Programs	93,597		7
Operating Transfers in:			
Delaware – Garrahy Judicial Complex Renovation		2710-90200	4
Military Staff			
General revenue appropriations:			
Emergency Management			13
State Police			
Restricted programs:			
Seized and Forfeited Property – Federal Distribution		2070-80200	151
Operating transfers in:			
Traffic Enforcement		2070-90500	106
Road Construction Detail Reimbursements		2070-90700	388
Sheriffs of Several Counties			
General revenue appropriations			
			220
Environmental Management			
General revenue appropriations:			
Policy and Administration			137
Natural Resources			120
Environmental Protection			39
Federal Grants:			
State Memorandum of Agreement Program for the Reimbursement Of Technical Services	12,113		27
Highway Planning and Construction	20,205		10
Water Pollution Control – State and Interstate Program Support	66,419		339
State Underground Storage Tanks Program	66,804		199

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>
Environmental Management (continued)			
Restricted Programs:			
Fishing License Receipts		1732-80100	17
Shellfish and Marine License Receipts		1732-80400	76
State Forestry Fund		1733-80200	2
Water & Air Protection Program		1754-80600	179
Underground Storage Tank Fees		1759-80100	6
<u>Special Revenue Funds</u>			
Employment Insurance			
Federal Grants:			
Labor Force Statistics	17.002		85
Unemployment Insurance	17.225		1,681
Trade Adjustment Assistance – Workers	17.245		466
Disabled Veterans Outreach Program	17.801		82
Intermodal Surface Transportation			
Federal Grants:			
Capital Assistance for Elderly Persons and Persons with Disabilities	20.513		139
Restricted programs:			
Transit Vehicle Disposal Match		5332-80300	9
Amtrak Projects		Various	237

Note 3. Cash, Cash Equivalents and Investments

Cash Deposits

Primary Government

At June 30, 1999, the carrying amount of the state's cash deposits was \$38,156,911 and the bank balance was \$34,628,254. Of the bank balance, \$1,080,352 was covered by federal depository insurance. The remaining amount, \$33,547,902 was uninsured and uncollateralized. The carrying amount and bank balance include \$11,728,711 of certificates of deposit.

Component Units

At June 30, 1999, the carrying amount of the component units' cash deposits was \$133,495,255 and the bank balance was \$123,187,979. Of the bank balance, \$4,271,467 was covered by federal depository insurance and \$20,080,396 was collateralized with investments held by a bank in a component unit's name. The remaining amount, \$98,836,116 was uninsured and uncollateralized. The carrying amount and the bank balance include \$200,000 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, 1999.

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Notes to General-Purpose Financial Statements

Investments

The State Investment Commission (Commission) is responsible for the investment of all state funds. Pursuant to Chapter 35-10 of the General Laws, the Commission may, in general, "invest in securities as would be acquired by prudent persons of discretion and intelligence in these matters who are seeking a reasonable income and the preservation of their capital."

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

Investments of certain 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, 1999.

- 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>Category</u>			<u>Fair Value</u>
	1	2	3	
U.S. Government and Agency Securities	\$ 1,285,242	\$ 503	\$	\$ 1,285,745
Commercial Paper	161,202			161,202
Repurchase Agreements	34,950			34,950
Corporate Bonds	680,724	171		680,895
Equity Securities	3,142,119	1,519		3,143,638
Foreign Securities	<u>973,076</u>	<u>0</u>	<u>0</u>	<u>973,076</u>
	<u>\$ 6,277,313</u>	<u>\$ 2,193</u>	<u>\$ 0</u>	6,279,506
Money Market Mutual Funds				398,258
Emerging Markets Equity Mutual Funds				21,998
Real Estate and Venture Capital Limited Partnership				233,109
Investments of Statutory Deposits Held in Trust				58,122
Other				<u>11,916</u>
Total				7,002,909
Less amount classified as cash equivalents				<u>337,695</u>
Total Investments				<u>\$ 6,665,214</u>

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

Component Units	Category			Fair Value
	1	2	3	
U.S. Government and				
Agency Securities	\$ 112,259	\$ 230,534	\$ 41,237	\$ 384,030
Commercial Paper	9,500			9,500
Repurchase Agreements	104,864	1,089	65,005	170,958
Equity Securities		72		72
Other	2,061	0	0	2,061
	<u>\$ 228,684</u>	<u>\$ 231,695</u>	<u>\$ 106,242</u>	<u>566,621</u>
Corporate Bonds				2,283
Money Market Mutual Funds				53,802
Investment Agreements				384,870
Investments of the RI Children's Crusade for Higher Education				10,187
Other				<u>391</u>
Total				1,018,154
Less amount classified as cash equivalents				<u>235,629</u>
Total Investments				<u>\$ 782,525</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 mortgagees, which may result from a decline in interest rates. Principal-only strips receive principal cash flows from the underlying mortgages. In periods of rising interest rates, homeowners tend to make fewer mortgage prepayments. 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, 1999.

Cash and Cash Equivalents

Primary Government

Cash and cash equivalents of \$375,852,000 consists of the \$38,157,000 cash carrying amount and \$337,695,000 of investments determined to be cash equivalents.

Component Units

Cash and cash equivalents of \$369,124,000 consists of the \$133,495,000 cash carrying amount and \$235,629,000 of investments determined to be cash equivalents.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

Note 4. Receivables

Receivables at June 30, 1999 (expressed in thousands) consist of the following:

	<u>Taxes</u>	<u>Accounts</u>	<u>Accrued</u> <u>Interest</u>	<u>Notes</u> <u>And</u> <u>Loans</u>	<u>Contributions</u>	Allowance For Uncollectable And Unavailable <u>Amounts</u>	<u>Total</u>
Primary Government:							
General Fund	\$ 125,720	\$ 15,999	\$ 0	\$ 0	\$ 0	\$ (49,129)	\$ 92,590
Special revenue funds	14,612	5,055				(4,170)	15,497
Capital projects funds		24					24
Enterprise fund		10,918				(221)	10,697
Internal service fund		1,567		10			1,577
Trust and agency funds	<u>5,553</u>	<u>8,374</u>	<u>0</u>	<u>0</u>	<u>18,192</u>	<u>(10,840)</u>	<u>21,259</u>
Total Primary Govt.	145,865	41,937	0	10	18,192	(64,360)	141,644
Component Units:							
Governmental		24,218	6	15,814		(4,895)	35,143
Proprietary	<u>0</u>	<u>44,231</u>	<u>26,728</u>	<u>1,931,801</u>	<u>0</u>	<u>(33,289)</u>	<u>1,969,471</u>
Total Receivables	<u>\$ 145,865</u>	<u>\$ 110,386</u>	<u>\$ 26,734</u>	<u>\$ 1,947,625</u>	<u>\$ 18,192</u>	<u>\$ (102,544)</u>	<u>\$ 2,146,258</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

The amount reported in the special revenue funds as due from other governments and agencies, \$31,863,000, is net of \$4,982,000, which is considered unavailable to meet current year expenditures.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

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, 1999, are summarized below (expressed in thousands):

Fund Type/Fund	Due from Other Funds	Due to Other Funds	Due from Component Units	Due to Component Units
General	\$ 19,093	\$ 19,118	\$ 1,010	\$ 13,933
Special Revenue:				
Employment Insurance – Federal Programs	620	463		
Employment Insurance – Job Development	49	688		
Employment Insurance – Interest	77	1		
Employment Insurance – Tardy		208		
R.I. Temporary Disability Insurance	421	444		
Intermodal Surface Transportation	295	4,846	2,797	499
R.I. Underground Storage Tank		2		
Providence River Relocation – Memorial Blvd Ext.	183	21	0	0
Subtotal	<u>1,645</u>	<u>6,673</u>	<u>2,797</u>	<u>499</u>
Debt Service	<u>4,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
Capital Projects:				
Bond Capital	130	1,233		5,170
R.I. Clean Water Act Environmental Trust	1,792	19	0	0
Subtotal	<u>1,922</u>	<u>1,252</u>	<u>0</u>	<u>5,170</u>
Enterprise:				
State Lottery	0	12,385	0	0
Subtotal	<u>0</u>	<u>12,385</u>	<u>0</u>	<u>0</u>
Internal Service:				
Central Utilities	829			
Central Services	1,723	227		
Worker’s Compensation	906	31		
Special Facilities	1,032	860		
Automotive Equipment Maintenance	372	12		
Central Warehouse	137	7		
Correctional Industries	2,084	18		
Records Center Fund	79	0	0	0
Subtotal	<u>7,162</u>	<u>1,155</u>	<u>0</u>	<u>0</u>
Trust and Agency:				
Pension Trust	6,612	5		
Expendable Trust – ES	236	82	0	0
Subtotal	<u>6,848</u>	<u>87</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 40,670</u>	<u>\$ 40,670</u>	<u>\$ 3,807</u>	<u>\$ 19,602</u>

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

	Due from Other <u>Funds</u>	Due to Other <u>Funds</u>	Due to Primary <u>Government</u>	Due from Primary <u>Government</u>
Component Units:				
Governmental:				
University of Rhode Island	\$ 15,167	\$ 15,167	\$ 627	\$ 4,535
Rhode Island College	1,691	1,691	139	531
Community College of Rhode Island	421	421	161	409
Central Falls School District	<u>228</u>	<u>228</u>	<u>0</u>	<u>0</u>
Subtotal	<u>17,507</u>	<u>17,507</u>	<u>927</u>	<u>5,475</u>
Proprietary:				
R.I. Economic Development Corporation				20,226
R.I. Depositors Economic Protection Corporation				8,422
R.I. Higher Education Assistance Authority			6	36
R.I. Public Telecommunications Authority			58	
Narragansett Bay Water Authority			19	
R.I. Public Transit Authority	<u>0</u>	<u>0</u>	<u>0</u>	<u>499</u>
Subtotal	<u>0</u>	<u>0</u>	<u>83</u>	<u>29,183</u>
Total	<u>\$ 17,507</u>	<u>\$ 17,507</u>	<u>\$ 1,010</u>	<u>\$ 34,658</u>
Reconciliation			Due to Component <u>Units</u>	Due from Primary <u>Government</u>
<u>Fund Type/Fund</u>				
Amounts recorded			\$ 19,602	\$ 34,658
Capital Projects:				
Bond Capital			<u>20,226</u>	<u>5,170</u>
			<u>\$ 39,828</u>	<u>\$ 39,828</u>

The R.I. Economic Development Corporation (RIEDC) reported \$20,226,000 as due from the primary government because the state issued general obligation bonds earmarked for a RIEDC project. The Capital Projects Fund reported \$5,170,000 as due to component units that were not reported as due from primary government in the component units. The Intermodal Surface Transportation Fund reported \$2,797,000 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.

	Loans to Other <u>Funds</u>	Loans from Other <u>Funds</u>
<u>Fund Type/Fund</u>		
General	<u>\$ 7,748</u>	<u>\$ 0</u>
Capital Projects:		
Bond Capital		3,437
Certificates of Participation	<u>0</u>	<u>52</u>
Subtotal	<u>0</u>	<u>3,489</u>
Internal Service:		
Workers Compensation		650
Central Services		1,889
Central Warehouse		570
Central Utilities		400
Correctional Industries	<u>0</u>	<u>750</u>
Subtotal	<u>0</u>	<u>4,259</u>
Total	<u>\$ 7,748</u>	<u>\$ 7,748</u>

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

Note 6. Fixed Assets

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

	Land And Improvements	Structures And Improvements 15-100	Machinery And Equipment 5-10	Construction In Progress	Accumulated Depreciation	Net Fixed Assets
Estimated useful lives						
Primary Government:						
Enterprise fund	\$ 0	\$ 1,670	\$ 690	\$ 0	\$ (1,760)	\$ 600
Internal service funds	<u>0</u>	<u>4,313</u>	<u>4,638</u>	<u>0</u>	<u>(2,461)</u>	<u>6,490</u>
Total Primary Government	<u>0</u>	<u>5,983</u>	<u>5,328</u>	<u>0</u>	<u>(4,221)</u>	<u>7,090</u>
Component Units:						
Governmental	526	642	286	1,169	(631)	1,992
Proprietary	<u>158,000</u>	<u>850,784</u>	<u>116,920</u>	<u>75,757</u>	<u>(268,496)</u>	<u>932,965</u>
Total	<u>\$ 158,526</u>	<u>\$ 857,409</u>	<u>\$ 122,534</u>	<u>\$ 79,926</u>	<u>\$ (273,348)</u>	<u>\$ 942,047</u>

The R.I. Economic Development Corporation capitalized interest expense of approximately \$2,070,000. The Narragansett Bay Water Quality Management District Commission capitalized approximately \$3,200 of interest expense as a component of the cost of construction. For the Proprietary Component Units, actual nonoperating interest expense was \$44,055,100 which represents an increase of \$2,073,200 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.

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, 1999, 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
2000	\$ 66,316	\$ 49,909	\$ 1,225	\$ 2,055	\$ 131,554	\$ 159,903
2001	68,278	50,286	1,323	2,005	167,402	153,191
2002	72,281	44,336	1,412	2,022	94,758	145,436
2003	74,572	40,755	1,421	1,992	100,631	139,975
2004	73,875	36,998	1,468	1,959	99,745	134,377
Later Years	<u>609,036</u>	<u>197,856</u>	<u>34,707</u>	<u>21,384</u>	<u>2,362,184</u>	<u>1,676,510</u>
	<u>\$ 964,358</u>	<u>\$ 420,140</u>	<u>\$ 41,556</u>	<u>\$ 31,417</u>	<u>\$ 2,956,274</u>	<u>\$ 2,409,392</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. 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. Interest requirements for the multi-modal variable rate bonds are not reflected in the amortization table shown above since the amounts are indeterminable.

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 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, 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, 1999. 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 21 - 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.

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 provide financing to various cities, towns, private corporations and companies engaged in the sale of potable water and the water supply business.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

A summary of general obligation bonds authorized by the voters and unissued (expressed in thousands) at June 30, 1999 is shown below.

	Authorized And Unissued July 1	Authorized	Issued	Extinguished	Authorized And Unissued June 30
General Obligation Bonds Supported by Taxes:					
Capital Development Plan – 1986	\$ 4,325	\$ 0	\$ 3,365	\$ 0	\$ 960
Capital Development Plan – 1988	1,337				1,337
Capital Development Plan – 1989	8,390		1,145		7,245
Capital Development Plan – 1990	25,635		4,025		21,610
Capital Development Plan – 1994	25,690		6,525		19,165
Capital Development Plan – 1996	129,078		43,495		85,583
Capital Development Plan – 1998		101,690			101,690
R.I. Economic Development Fund	450				450
Heritage Capital Development Fund	779			779	
Underground Storage Tank Replacement Revolving Loan Fund	1,307			705	602
Narragansett Bay Water Quality Management District Commission Fund	34,641		2,110		32,531
Clean Water Act Environmental Trust Fund	4,740		700		4,040
Open Space and Recreational Area Fund	10,188		2,045		8,143
Drinking Water Protection Fund	4,235				4,235
Rhode Island Aqua Fund	645		205		440
Clean Water Finance Agency - Water Pollution Revolving Loan Fund	<u>24,895</u>	<u>0</u>	<u>2,105</u>	<u>0</u>	<u>22,790</u>
General Obligation Bonds Supported by Taxes	276,335	101,690	65,720	1,484	310,821
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>\$ 357,849</u>	<u>\$ 101,690</u>	<u>\$ 65,720</u>	<u>\$ 2,998</u>	<u>\$ 390,821</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 it has insured, \$32,789,599 at June 30, 1999 (See Note 21). The insured mortgages are guaranteed by the state.

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

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

B. Notes Payable

Notes payable (expressed in thousands) at June 30, 1999 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.	\$ 2,366
Component Units – Proprietary	
R.I. Housing and Mortgage Finance Corporation bank Notes, 5% to 6.71% interest, payable through 2008.	\$ 9,587
Narragansett Bay Water Quality Management District Commission, mortgage note, interest reate is 81% of prime, payable through 2001.	323
R.I. Economic Development Corporation (R.I. Airport Corporation) Note payable at 6.75% interest, payable through 2005	691
R.I. Resource Recovery Corporation lanfill Lease notes, 4% interest.	15,000
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.	<u>2,053</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 (\$724,786), to the R.I. Clean Water Finance Agency (RICWFA) (\$42,611,926) and to the R.I. Refunding Bond Authority (\$60,000). 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, 1999 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 state's obligation under capital leases at June 30, 1999 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 appropriations and capital leases not recorded in proprietary fund types is reflected in the general long-term debt account group at June 30, 1999.

Obligation of the state to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

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, 1999. Interest for variable rate COP is not reported since the amount is indeterminable.

Fiscal Year <u>Ending June 30</u>	<u>RICCA</u>	<u>COP</u>	<u>Total</u>
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
2004	23,952	8,930	32,882
Later Years	<u>482,157</u>	<u>92,925</u>	<u>575,082</u>
Total future minimum lease Payments	601,923	137,751	739,674
Amount representing Interest	<u>(272,258)</u>	<u>(40,886)</u>	<u>(313,144)</u>
Present value of future Minimum lease payments	\$ <u>329,665</u>	\$ <u>96,865</u>	\$ <u>426,530</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. Refunding Bond 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.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

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, 1999.

Fiscal Year Ending June 30	Governmental			Proprietary	
	URI	RIC	CCRI	RIEDC	RIPTCA
2000	\$ 581	\$ 685	\$ 317	\$ 3,776	\$ 799
2001	443	664	268	3,595	795
2002	115	444	157	3,563	791
2003	55	439	156	3,593	788
2004	52	443	156	3,407	788
Later Years	34	2,351	3,127	24,723	5,405
Total future minimum Lease payments	1,280	5,026	4,181	42,657	9,366
Amount representing Interest	(149)	(1,188)	(1,858)	(12,782)	(3,198)
Present value of future Minimum lease Payments	\$ 1,131	\$ 3,838	\$ 2,323	\$ 29,875	\$ 6,168

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.

The long-term debt portion of violent crimes' claims was transferred to the general longterm debt account group from the general fund. Also included is an advance from the Federal Highway Authority Right of Way Revolving Fund that will be used to acquire land and rights-of-way for the Quonset access road project. Repayment has been budgeted for fiscal year 2002 with federal funds allowable under federal regulations (23 CFR Subpart G 712.701 to 712.703).

G. Changes in General Long-Term Debt

During the fiscal year ended June 30, 1999, the following changes (expressed in thousands) occurred in general long-term debt

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

Primary Government

	<u>Balance</u> <u>July 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30</u>
General obligation bonds payable:				
Current interest bonds	\$ 726,738	\$ 146,870	\$ (118,293)	\$ 755,315
Capital appreciation bonds	40,894		(6,166)	34,728
Accreted interest on capital appreciation bonds	34,720	5,718	(5,835)	34,603
Revenue bonds – RIRBA	<u>188,420</u>	<u>0</u>	<u>(14,105)</u>	<u>174,315</u>
Bonds Payable	<u>990,772</u>	<u>152,588</u>	<u>(144,399)</u>	<u>998,961</u>
Lease obligations to the RICCA	335,970		(6,305)	329,665
Certificates of Participation (COP)	<u>100,555</u>	<u>0</u>	<u>(3,690)</u>	<u>96,865</u>
Obligation under capital leases	<u>436,525</u>	<u>0</u>	<u>(9,995)</u>	<u>426,530</u>
Compensated absences	59,886	2,592		62,478
Other long-term liabilities	<u>11,606</u>	<u>7,329</u>	<u>(1,707)</u>	<u>17,228</u>
	<u>\$ 1,498,789</u>	<u>\$ 162,509</u>	<u>\$(156,101)</u>	<u>\$ 1,505,197</u>

Governmental Component Units

	<u>Balance</u> <u>July 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30</u>
Compensated absences	\$ 32,954	\$ 3,477	\$ (2,398)	\$ 34,033
Obligations under capital leases	8,234	273	(1,115)	7,392
Notes payable	2,409		(43)	2,366
Loans payable	69	450	(24)	495
Bonds payable	41,175		(853)	40,322
Other liabilities	<u>1,507</u>	<u>0</u>	<u>(354)</u>	<u>1,153</u>
	<u>\$ 86,348</u>	<u>\$ 4,200</u>	<u>\$(4,787)</u>	<u>\$ 85,761</u>

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, 1999, the following bonds and COP outstanding (expressed in thousands) are considered defeased:

	<u>Amount</u>
Primary government:	
General Obligation Bonds (includes \$7,181,000 of NBC)	\$ 192,160
COP	23,135
Revenue Bonds	
R.I. Refunding Bond Authority	88,956
Component Units:	
R.I. Clean Water Finance Agency	14,935
R.I. Convention Center Authority	202,710
R.I. Depositors Economic Protection Corporation	559,365
R.I. Economic Development Corporation	32,535
R.I. Turnpike and Bridge Authority	41,355
R.I. Water Resources Board Corporate	8,860

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In September 1998, the state issued \$82,470,000 Consolidated Capital Development Loan of 1998, Refunding Series with interest rates ranging from 3.35% to 5.25%, maturing from 2000 through 2015. The proceeds were used to advance refund \$46,830,000 of 1992 General Obligation Bonds and \$33,460,000 of 1994 General Obligation Bonds. Interest rates of the refunded bonds ranged from 5.40% to 5.80%. The net proceeds from the sale of the refunding bonds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded bonds. The advance refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the state's General Long-Term Debt Account Group. The refunding decreased total debt service payments over the next 15 years by \$3,094,681 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2,408,924.

The above amounts include \$1,320,000 of refunding bonds issued on behalf of the Narragansett Bay Water Quality Management District Commission (NBC), a component unit, to advance refund \$1,305,000 of outstanding bonds. This advance refunding decreased NBC's total debt service payments over the next 15 years by \$62,106 and resulted in an economic gain of \$59,888.

On February 4, 1999, the Rhode Island Clean Water Finance Agency (RICWFA) issued the 1999 Series B Subordinated Refunding Bonds in the amount of \$16,830,000 at rates varying from 3.0% to 4.75% due annually from October 1, 1999 through October 1, 2015. Proceeds from this issue were used to defease portions of the 1992 and 1994 Series A Bonds totaling \$14,935,000. The advance refunding reduced RICWFA's total debt service payments over the next 17 years by \$1,351,567 and resulted in an economic gain of approximately \$956,000.

During the year ended June 30, 1999, the Rhode Island Depositors Economic Protection Corporation (DEPCO) purchased U.S. Government securities which were deposited into an irrevocable trust with an escrow agent. They are to provide for all future debt service on \$20,520,000 of the 1991 Series A capital appreciation bonds, \$19,390,000 of the 1992 Series A special obligation bonds and \$39,620,000 of the 1993 Series A special obligation bonds. These bonds are legally defeased and the liability has been removed from the financial statements. The defeasance was funded through the liquidation of assets, net settlements and excess State sales tax. It resulted in the recognition of an accounting loss of \$3,674,501. DEPCO reduced its aggregated principal and interest payments by approximately \$124,981,000 over the next 15 years.

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 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, 1999 was \$154,596,413, \$990,050,067 and \$117,898,112, respectively.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

Note 8. Reservations and Designations 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, 1999, the balance of the reserve was \$896,200.

The reservations of retained earnings of the R.I. Housing and Mortgage Finance Corporation (RIHMFC) are restricted by specific bond resolutions, designations by the Board of Commissioners (Board), or by a trust agreement initiated by RIHMFC. These reserves are made up of four major elements: (1) RIHMFC's Housing Endowment Fund (Fund), (2) commitments for housing initiatives, (3) designated funds, and (4) Affordability Housing Trust (Trust). 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 \$57,952,228 at June 30, 1999. Commitments for housing initiatives represent amounts set aside by the Board. In order to properly 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 \$142,856,472 at June 30, 1999. Designated funds represent amounts designated for RIHMFC's self insurance reserve, the operating budget, and cash flow obligations necessary in each of the programs that have bonded indebtedness. Designated funds amounted to \$17,474,047 at June 30, 1999. The Trust was established to assist in activities that involve the creation and preservation of affordable housing in the state. The Trust accounts for funds held by the Trust in a trustee capacity where both the corpus and earnings may be spent in fulfillment of a variety of designated purposes. The balance of the Trust was \$13,025,470 at June 30, 1999.

Reserved retained earnings of the R.I. Turnpike and Bridge Authority (RITBA) consists of \$4,801,547 for debt service.

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, 1999, NBC reported \$73,980 of funds reserved for this purpose.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

The reserved retained earnings of the R.I. Higher Education Assistance Authority (RIHEAA) is the trust fund balance of the R.I. Higher Education Savings Trust (RIHEST). RIHEST was created by law to provide a qualified state tuition savings program under Section 529 of the Internal Revenue Code. RIHEST is managed by an independent contractor under the supervision of the R.I. State Investment Commission and RIHEAA. The balance held in trust at June 30, 1999 was \$2,775,105.

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.

	Governmental Fund Types				Fiduciary	Total	Governmental
	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency	Primary Government	Component Units
Budget reserve	\$ 65,412	\$ 0	\$ 0	\$ 0	\$ 0	\$ 65,412	\$ 0
Appropriations carried forward							
General revenue	16,123					16,123	
Departmental restricted revenue	22,191					22,191	
Operating transfers in	6,809					6,809	
Encumbrances		184,686		22,510		207,196	19,607
Employment insurance programs		58,051			244,185	302,236	
Debt			4,000	18,656		22,656	2,010
Self-insurance				100		100	
Pension benefits					6,569,023	6,569,023	
Academic college overhead							1,879
Inventory							2,588
Asset protection and capital projects	163					163	5,235
Auxiliary enterprises							7,988
Restricted grants, gifts, and aid							2,145
Loan fund							19,761
Trust indenture							1,277
Landscaping fund	0	0	0	0	0	0	18
	<u>\$ 110,698</u>	<u>\$ 242,737</u>	<u>\$ 4,000</u>	<u>\$ 41,266</u>	<u>\$ 6,813,208</u>	<u>\$ 7,211,909</u>	<u>\$ 65,508</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.

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.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

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, 1999:

	Reserved Fund Balance			Reserved Fund Balance
	<u>July 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30</u>
State Budge Reserve Account	\$ 61,208	\$ 43,608	\$ (39,404)	\$ 65,412
Public Facilities Asset Protection Account	184		(21)	163
Appropriations carried toward				
General revenue	13,929	16,123	(13,929)	16,123
Departmental restricted revenue	22,585	22,191	(22,585)	22,191
Operating transfers in	<u>5,120</u>	<u>6,809</u>	<u>(5,120)</u>	<u>6,809</u>
Total	<u>\$ 103,026</u>	<u>\$ 88,731</u>	<u>\$ (81,059)</u>	<u>\$ 110,698</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 (\$24,917,256) and restricted revenue (\$247,024) brought forward to fiscal year 2000.

Designated fund balance in the Capital Projects Funds (\$74,070,9 committed to capital projects.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

Note 9. Operating Transfers

Operating transfers for the fiscal year ended June 30, 1999 are presented below (expressed in thousands):

<u>Fund Type/Fund</u>	<u>In</u>	<u>Out</u>	<u>Operating Transfers</u>	
			<u>From Component Units</u>	<u>To Component Units</u>
Primary Government:				
General	\$ 211,158	\$ 43,845	\$ 4,000	\$ 267,864
Special Revenue:				
Employment Insurance Federal Programs	110	1,291		
Employment Insurance Job Development		206		
R.I. Temporary Disability		563		
Intermodal Surface Transportation	29,625	30,242	6,467	45,580
Providence River Relocation-Memorial Blvd Ext	1,024	0	0	0
Subtotal	<u>30,759</u>	<u>32,302</u>	<u>6,467</u>	<u>45,580</u>
Capital Projects:				
Bond Capital	39,405	73,066		33,352
RI Clean Water Act/Environmental Trust Fund	0	0	0	3,397
Subtotal	<u>39,405</u>	<u>73,066</u>	<u>0</u>	<u>36,749</u>
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Debt Service	<u>4,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Enterprise – State Lottery	<u>0</u>	<u>133,565</u>	<u>0</u>	<u>0</u>
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Internal Service – Central Warehouse	<u>330</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 285,652</u>	<u>\$ 282,778</u>	<u>\$ 10,467</u>	<u>\$ 350,193</u>

	<u>In</u>	<u>Out</u>	<u>Operating Transfers</u>	
			<u>To Primary Government</u>	<u>From Primary Government</u>
Component Units:				
Governmental:				
University of Rhode Island	\$ 2,948	\$ 2,869	\$ 0	\$ 81,509
Rhode Island College	1,287	1,287		37,257
Community College of Rhode Island	497	497		34,364
Central Falls School District	0	0	0	27,861
Subtotal	<u>4,732</u>	<u>4,653</u>	<u>0</u>	<u>180,991</u>
Proprietary:				
R.I. Economic Development Corporation				7,914
R.I. Convention Center Authority				18,346
R.I. Depositors Economic Protection Corporation				53,118
R.I. Higher Education Assistance Authority				7,077
R.I. Public Transit Authority				22,516
R.I. Resource Recovery Corporation			4,000	
R.I. Public Telecommunications Authority				1,729
R.I. Children’s Crusade for Higher Education	0	0	0	2,018
Subtotal	<u>0</u>	<u>0</u>	<u>4,000</u>	<u>112,718</u>
Total Component Units	<u>\$ 4,732</u>	<u>\$ 4,653</u>	<u>\$ 4,000</u>	<u>\$ 293,709</u>

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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	\$ 10,467	\$ 4,000	\$ 350,193	\$ 293,709
Capital Projects			200	
Component Units				
Governmental				
University of Rhode Island				2,056
Rhode Island College				8,125
Community College of Rhode Island				2,718
Proprietary				
R.I. Economic Development Corporation		6,467		13,170
Narragansett Bay Water Quality Management District Commission				2,101
R.I. Clean Water Finance Agency				3,397
R.I. Housing Mortgage Finance Corporation				288
R.I. Public Transit Authority				24,829
	<u>0</u>	<u>0</u>	<u>0</u>	<u>24,829</u>
	<u>\$ 10,467</u>	<u>\$ 10,467</u>	<u>\$ 350,393</u>	<u>\$ 350,393</u>

The difference of \$2,874,000 between operating transfers in/out occurs because the Employees' 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 \$79,000 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, as stated in their notes to the financial statements, operating transfers related to asset protection assistance are based primarily on encumbrances. The state has budgeted for these operating transfers in fiscal year 2000 and does not consider them current year transactions because the agreement is for reimbursement of expenditures. The Intermodal Surface Transportation Fund reported \$6,467,000 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 \$10,400,000 for the fiscal year ended June 30, 1999.

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

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Notes to General-Purpose Financial Statements

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 in one year as of June 30, 1999:

Fiscal Year Ending June 30	
2000	\$ 8,802
2001	7,512
2002	6,069
2003	5,830
2004	5,665
Later Years	<u>10,597</u>
Total	<u>\$ 44,475</u>

The 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, 1999 are summarized as follows:

General fund (\$14,200 to be funded by federal Funds, \$9,900 to be funded substantially By future appropriations and \$8,500 From other sources)	\$ 32,600
Special revenue funds	184,686
Capital projects funds	<u>22,510</u>
	<u>\$ 239,796</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.

In fiscal year 1999, the state initiated the development of an integrated financial management information system. The system will be implemented in phases over a period of years. A pilot phase involving three major agencies has begun and should be completed in fiscal year 2000. The state has expended approximately \$1,000,000 thus far and expects to spend \$3,000,000 in the next two fiscal years.

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 a shopping mall, parking garage and related offsite improvements developed by PPG. The authority to enter into these agreements was provided in legislation passed by the General Assembly and signed by the Governor. This legislation further provided for payments to the developer, during the first 20 years only, of an amount equal to the lesser of (a) two-thirds of the amount of sales tax generated

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from retail transactions occurring at or within the mall or (b) \$3,600,000 in the first five years and \$3,560,000 in years 6 through 20. Subsequent to June 30, 1999, the obligation of the state to make these payments to the developer was eliminated.

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 \$27,722,000 which is expected to be funded from current available resources and future operations.

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 \$6,457,000 at June 30, 1999.

The R.I. Resource Recovery Corporation's (RIRRC) currently licensed landfill consists of areas known as Phases II, III, and IV. 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, 1999, and are included in land and improvement in the financial statements. Phase IV consists of four eleven acre cells of which two cells are expected to be ready to accept refuse on or near October 1, 1999. However, waste disposal cannot commence until completion of construction of the leachate pump station which is expected to be completed April 1, 2000. Cost estimates for future development of an additional landfill, Phase V (not yet licensed), are not available. To date, \$12,866,776 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 a 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, 1999 is approximately \$23,155,000, with \$1,063,000 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 87% of landfill capacity for Phase II and III, which has approximately 8 to 10 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 \$7,636,371 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

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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 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, 1999, the market value of the trust was \$22,538,354. The projected additional deposits into the trust fund on an annual basis are as follows: FYE 2000 - \$1,766,667; FYE 2001 - \$1,000,000 and FYE 2002 - \$166,667. 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 \$16,720,000 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 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 \$17,511,700 under various loan programs at June 30, 1999.

The R.I. Turnpike and Bridge Authority has entered into various contracts for maintenance of its bridges. At June 30, 1999 remaining commitments on these contracts approximated \$5,172,000.

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.

The University of Rhode Island, Rhode Island College and Community College of Rhode Island have begun a technology modernization of core administration systems. This is being accomplished system wide through the Office of Higher Education and will be financed over a seven-year period beginning in fiscal year 2000 at a cost of \$3,700,000, \$2,200,000 and \$2,500,000., respectively.

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Notes to General-Purpose Financial Statements

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.

Federal Grants

The state receives significant amounts of federal financial assistance under grant agreements which specify the purpose of the grant and conditions under which the funds may be used. Generally, these grants are subject to audit. Any disallowances as a result of these audits become a liability of the state. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

Moral Obligation Bonds

Some component units issue bonds with bond indentures requiring capital reserve funds. Moneys in the capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bond holder(s). These bonds are considered "moral obligations" of the state when the General Laws require the executive director to submit to the Governor the amount needed to restore each capital reserve fund to its minimum funding requirement and the Governor is required to include the amount in the annual budget. At June 30, 1999 the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had \$214,199,622 and \$65,324,581, respectively, in "moral obligation" bonds outstanding. Certain of the RIEDC bonds are economic development revenue bonds whereby the state will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. One such employer has certified that the employment level has been exceeded, thereby triggering a credit toward the debt. As a result, the state anticipates paying approximately \$142,000 of the debt on the related economic development revenue bonds in fiscal year 2000.

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

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

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. Public Transit Authority

The R.I. Public Transit Authority has a \$2,000,000 line of credit with a financial institution. The line of credit is due on demand with interest payable at a floating rate at the financial institution's base rate or fixed rate options at the financial institution's cost of funds plus 2.25%. No amount was due under this line of credit at June 30, 1999.

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, 1999. Certain assets of DEPCO are pledged as collateral for any borrowings under this agreement. At June 30, 1999, no amounts are outstanding under this line of credit agreement.

Note 13. Employer Pension Plans

Plan Descriptions

The state, through the Employees' 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, 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.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

Method Used to Value Investments

Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller – this 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 started 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.

	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust
Contribution rates:			
State	9.85%	11.43%	23.36%
Plan members – state employees	8.75%	8.75%	8.75%
State contribution for teachers	4.24% & 4.90%		
Annual pension cost	\$78,729	\$631	\$737
Contributions made – state employees	\$48,526	\$631	\$737
Contributions made – teachers	\$30,203		
Actuarial valuation date	June 30, 1996	June 30, 1996	June 30, 1996
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	19 years	26 years	26 years
Asset valuation method	3 – Year Smoothed Market	3 – Year Smoothed Market	3 – Year Smoothed Market
Actuarial Assumptions:			
Investment rate of return	8.00%	8.00%	8.00%
Projected salary increases	4.50%	5.50%	6.00%
Inflation	3.00%	3.00%	3.00%
Cost-of-living adjustments	3% compounded Annually	\$1,500 per annum	3% of original Retirement, Compounding varies
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

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

	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	6/30/97	\$ 80,275	100%	\$0
	6/30/98	86,313	100%	0
	6/30/99	78,729	100%	0
State Police Retirement Benefits Trust	6/30/97	454	100%	0
	6/30/98	603	100%	0
	6/30/99	631	100%	0
Judicial Retirement Benefits Trust	6/30/97	619	100%	0
	6/30/98	744	100%	0
	6/30/99	737	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 \$9,755,515 during the year ended June 30, 1999.

The R.I. Public Transit Authority has two pension plans that cover employees meeting certain eligibility requirements. Employer contribution paid in fiscal year 1999 was \$2,479,367. At July 1, 1998, the most recent valuation date, the total pension benefit obligation was \$30,793,291 and net assets available for benefits were \$14,829,631.

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

Note 14. 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 1999, the state contributed 0.69% 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, 1999 were \$3,358,416, net of retirees' contributions for the 2,909 retirees receiving benefits.

In addition to the pension benefits described above, expenditures of \$1,018,188 were recognized for postretirement benefits provided under early retirement incentive programs (an average of \$985 for each of the 1,034 retirees covered by the plans).

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

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

Note 15. Deferred Compensation

The state offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The Department of Administration pursuant to Chapter 36-13 of the General Laws administers the plan. The Department of Administration contracts with private corporations to provide investment products related to the management of the deferred compensation plan. Benefit payments are not available to employees earlier than the calendar year in which the participant attains age 70 ½, termination, retirement, death or “unforeseeable emergency”.

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

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

Note 16. Fund Deficits

The Workers’ Compensation Internal Service Fund reported a deficit of \$78,509 at June 30, 1999. This deficit will be funded by future revenues.

The University of Rhode Island proprietary operations reported a deficit of \$2,783,377 at June 30, 1999. This deficit will be funded by future revenues.

The R.I. Convention Center Authority reported a deficit of \$55,044,282 at fiscal year ended June 30, 1999. This deficit will be funded by future revenues.

The R.I. Depositors Economic Protection Corporation reported a deficit of \$43,903,044 at fiscal year ended June 30, 1999. This deficit will be funded by future revenues.

The R.I. Public Transit Authority reported a deficit of \$5,756,413 at fiscal year ended June 30, 1999. This deficit will be funded by future revenues.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

Note 17. Restatement of Fund Equity

Certain restatements of fund equity balances, as of June 30, 1998, are summarized in the following table (expressed in thousands):

	June 30, 1998 Fund Equity As Previously <u>Reported</u>	<u>Increase</u>	July 1, 1998 Fund Equity <u>Restated</u>
Primary Government			
Internal Service Funds			
Central Services	\$ 832	\$ 19	\$ 851
Correctional Industries	434	206	640
Other Internal Service Funds	<u>2,461</u>	<u>0</u>	<u>2,461</u>
	<u>\$ 3,727</u>	<u>\$ 225</u>	<u>\$ 3,952</u>
Proprietary Component Units			
R.I. Housing and Mortgage Finance Corporation	\$ 217,254	\$ 10,718	\$ 227,972
R.I. Turnpike and Bridge Authority	25,140	62	25,202
R.I. Economic Development Corporation	218,305	661	218,966
R.I. Resource Recovery Corporation	43,098	1,210	44,308
	<u>157,967</u>	<u>0</u>	<u>157,967</u>
	<u>\$ 661,764</u>	<u>\$ 12,651</u>	<u>\$ 674,415</u>

The beginning retained earnings of the Central Services and Correctional Industries Internal Service Funds were restated to correct errors resulting in an understatement of previously reported assets.

The R.I. Housing and Mortgage Finance Corporation restated fund equity as a result of including the beginning fund balance of a previously unreported component unit, the Affordability Housing Trust. The beginning retained earnings of the R.I. Turnpike and Bridge Authority and R.I. Resource Recovery Corporation were restated to correct errors resulting in an understatement of previously reported assets. The beginning retained earnings of R.I. Economic Development Corporation were restated to reflect a decrease in net pension obligation.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

Note 18. Segment Information

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

Governmental	<u>URI</u>	<u>RIC</u>	<u>CCRI</u>	<u>CSFD</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	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			

Proprietary	<u>RIHMFC</u>	<u>RISLA</u>	<u>RITBA</u>	<u>RIEDC</u>	<u>RICCA</u>	<u>NBC</u>
Due from primary government	\$ 0	\$ 0	\$ 0	\$ 18,446	\$ 0	\$ 0
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

Proprietary	<u>RIHEBC</u>	<u>RIIRC</u>	<u>DEPCO</u>	<u>RIHEAA</u>	<u>RIPTA</u>	<u>RIIFC</u>
Due from primary government	\$ 0	\$ 0	\$ 8,443	\$ 0	\$ 355	\$ 0
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	

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

Proprietary	<u>RICWFA</u>	<u>RIIRBA</u>	<u>RIWRBC</u>	<u>RIPTCA</u>	<u>RICCHE</u>
Due from primary government	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
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 19. 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 \$3000,000 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.

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 20. 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 \$2,018,518 were reported as an extraordinary loss in fiscal year 1999.

The R.I. Depositors Economic Protection Corporation reported an extraordinary item of \$3,674,501. 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.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

The R.I. Airport Corporation (RIAC), a subsidiary of the R.I. Economic Development Corporation, reported \$2,064,129 as the cumulative effect of a change in accounting principle. RIAC recognized a Passenger Facility Charges (PFC) receivable and contributed capital for the portion of construction costs incurred that related to PFC-approved projects. The new method of accounting for PFCs was adopted as a result of the issuance by the GASB of definitive guidance related to the accounting for non-exchange transactions.

Note 21. 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, 1999, the portion of the state's sales tax appropriated for DEPCO amounted to \$53,117,924. 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 2000 as enacted by the General Assembly kept the dedication at six-tenths of one percent within the state's existing sales and use tax rate. The fiscal year 2000 appropriation is estimated to yield approximately \$55,600,000 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, 1998. The principle and interest on these notes are secured by rentals as set forth in the lease and agreement. The notes matured on July 30, 1999. On August 1, 1999, \$5,000,000 of these notes was refinanced with a maturity date of July 28, 2000. The remaining \$10,000,000 was paid out of available cash and investments.

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, 1999 amounted to \$58,169,400. Distributions of \$7,642,896 during the fiscal year ended June 30, 1999 are included in private gift revenue of the university.

Funds 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, 1999 amounted to approximately \$7,940,000. There were no distributions to RIC during the fiscal year ended June 30, 1999.

As of June 30, 1999, 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 \$4,050,373. These Corporations are included as component units in the accompanying general-purpose financial statements.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to 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 22. Subsequent Events

Primary Government

In September 1999, the state issued \$63,120,000 of general obligation serial bonds and \$32,390,000 of general obligation multi-modal bonds. The interest rates of the serial bonds ranged from 5.00% to 5.75% with maturities from 2001 to 2019. The interest rates on the multi-modal bonds varies.

Component Units

Subsequent to June 30, 1999, the Alpha-Beta technology facility was sold for \$20,000,000 through a receivership. The estimated short fall was \$5,712,000 which was paid by the state through a loan to the R.I. Economic Development Corporation.

In August 1999 and November 1999, the R.I. Housing and Mortgage Finance Corporation (RIHMFC) issued bonds in the amount of \$85,000,000 and \$37,185,000 respectively. Additionally in October 1999, RIHMFC called \$72,235,000 of bonds outstanding at June 30, 1999.

In August 1999, DEPCO defeased \$32,005,000 of its special obligation bonds.

In August 1999, the R.I. Clean Water Finance Agency issued \$24,010,000 of Water Pollution Control Revolving Fund Revenue Bonds. The interest rates ranged from 4.15% to 5.63 % and the bonds mature in October 2019.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF FUNDING PROGRESS

(Expressed in thousands)

Employees' Retirement System

Actuarial Valuation	Actuarial Value of Assets	Unfunded Frozen Actuarial Liability (UFAL)	Frozen Initial Liability	Funded Ratio	Covered Payroll	Excess as a Percentage of Covered Payroll
<u>Date</u>	<u>(a)</u>	<u>(b)</u>	<u>(c) = (a + b)</u>	<u>(a/c)</u>	<u>(d)</u>	<u>(b/d)</u>
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%
6/30/98	5,121,478	1,454,527	6,576,005	77.9%	1,113,567	130.6%

State Police Retirement Benefits Trust

Actuarial Valuation	Actuarial Value of Assets	Unfunded Frozen Actuarial Liability (UFAL)	Frozen Initial Liability	Funded Ratio	Covered Payroll	Excess as a Percentage of Covered Payroll
<u>Date</u>	<u>(a)</u>	<u>(b)</u>	<u>(c) = (a + b)</u>	<u>(a/c)</u>	<u>(d)</u>	<u>(b/d)</u>
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%
6/30/98	6,757	581	7,338	92.1%	7,212	8.1%

Judicial Retirement Benefits Trust

Actuarial Valuation	Actuarial Value of Assets	Unfunded Frozen Actuarial Liability (UFAL)	Frozen Initial Liability	Funded Ratio	Covered Payroll	Excess as a Percentage of Covered Payroll
<u>Date</u>	<u>(a)</u>	<u>(b)</u>	<u>(c) = (a + b)</u>	<u>(a/c)</u>	<u>(d)</u>	<u>(b/d)</u>
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%
6/30/98	4,120	929	5,049	81.6%	3,040	30.6%

Schedule of Expenditures of
Federal Awards

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Note: See page A-1 for *Independent Auditor's Report on General-Purpose Financial Statements and Supplementary Schedule of Expenditures of Federal Awards*

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 1999

Federal Grantor	CFDA	
Total		
Program Title	Number	Expenditures
U.S. Department of Agriculture:		
Federal-State Marketing Improvement Program	10.156	\$ 23,111
Inspection Grading and Standardization	10.162	38,423
Very Low to Moderate Income Housing Loans (See Note 2)	10.410	5,990,012
Rural Housing Preservation Grants	10.433	39,975
Food Distribution (See Note 2)	10.550	2,653,336
Food Stamp Cluster:		
Food Stamps (See Note 2)	10.551	57,435,814
State Administrative Matching Grants for Food Stamp Program	10.561	6,908,370
Child Nutrition Cluster:		
School Breakfast Program	10.553	2,429,897
National School Lunch Program	10.555	15,469,886
Special Milk Program for Children	10.556	124,378
Summer Food Service Program for Children	10.559	1,363,671
Special Supplemental Nutrition Program for Women, Infants and Children (See Note 4)	10.557	17,027,142
Child and Adult Care Food Program	10.558	4,254,584
State Administrative Expenses for Child Nutrition	10.560	429,197
Nutrition Education and Training Program	10.564	30,982
Emergency Food Assistance Cluster:		
Emergency Food Assistance Program (Administrative Costs)	10.568	144,048
Nutrition Program for the Elderly (Commodities)	10.570	673,234
Cooperative Forestry Assistance	10.664	<u>993,272</u>
Total U.S. Department of Agriculture (See Note 1)		<u>\$ 116,029,332</u>
U.S. Department of Commerce:		
Economic Development – State and Local Economic Development Planning	11.305	\$ 88,793
Economic Adjustment Assistance	11.307	1,176,045
Interjurisdictional Fisheries Act of 1986	11.407	83,641
Coastal Zone Management Administration Awards	11.419	869,828
Coastal Zone Management Estuarine Research Reserves	11.420	507,988
Unallied Management Projects	11.454	72,563
Atlantic Coastal Fisheries Cooperative Management Act	11.474	134,618
Telecommunications and Information Infrastructure Assistance Program	11.552	<u>7,615</u>
Total U.S. Department of Commerce (See Note 1)		<u>\$ 2,941,091</u>
U.S. Department of Defense:		
Procurement Technical Assistance for Business Firms	12.002	\$ 108,221
State Memorandum of Agreement Program for the Reimbursement Of Technical Services	12.113	167,877
Department of the Navy – Donated Land (See Note 1)	None	29,617,000
Federal Grants – Rhode Island National Guard	N/A	<u>4,040,486</u>
Total U.S. Department of Defense (See Note 1)		<u>\$ 33,933,584</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, 1999

Federal Grantor	CFDA	
Total		
Program Title	Number	Expenditures
U.S. Department of Housing and Urban Development:		
Interest Reduction Payments – Rental and Cooperative Housing for		
Lower Income Families	14.103	\$ 802,330
Mortgage Insurance – Homes (See Note 2)	14.117	56,413,356
Property Improvement Loan Insurance for Improving All Existing Structures And Building of New Nonresidential Structures (See Note 2)	14.142	544,450
Section 8 Project-Based Cluster:		
Section 8 New Construction and Substantial Rehabilitation	14.182	66,282,296
Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation	14.856	389,210
Home Equity Conversion Mortgages (See Note 2)	14.183	22,127,972
Preservation of Affordable Housing	14.187	3,439
Community Development Block Grants/Special Purpose Grants/ Technical Assistance program	14.227	6,975
Community Development Block Grants/State’s Program	14.228	5,143,825
Emergency Shelter Grants Program	14.231	497,698
Supportive Housing Program	14.235	2,979,482
Shelter Plus Care	14.238	511,966
HOME Investment Partnerships Program	14.239	3,664,128
Housing Opportunities for Persons with AIDS	14.241	503,504
Fair Housing Assistance Program – State and Local	14.401	2,063,496
Fair Housing Initiatives and Administrative Enforcement Initiative Program	14.408	776
Section 8 Tenant-Based Cluster:		
Section 8 Rental Voucher Program	14.855	805,132
Section 8 Rental Certificate Program	14.857	3,529,960
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	<u>3,812,604</u>
Total U.S. Department of Housing and Urban Development (See Note 1)		\$ 170,082,599
U.S. Department of Interior:		
Fish and Wildlife Cluster:		
Sport Fish Restoration	15.605	2,612,245
Wildlife Restoration	15.611	844,814
Coastal Wetlands Planning, Protection and Restoration Act	15.614	706,193
Clean Vessel Act	15.616	100,931
Historic Preservation Fund Grants-In-Aid	15.904	497,897
Outdoor Recreation – Acquisition, Development and Planning	15.916	4,006
National Maritime Heritage Grants	15.925	<u>15,000</u>
Total U.S. Department of Interior (See Note 1)		\$ 4,781,086
U.S. Department of Justice:		
Law Enforcement Assistance – Narcotics and Dangerous Drugs – Laboratory Analysis	16.001	\$ 28,487
Juvenile Accountability Incentive Block Grants	16.523	265,369
Juvenile Justice and Delinquency Prevention – Allocation to States	16.540	780,538
Gang-Free Schools and Communities – Community-Based Gang Intervention (See Note 3)	16.544	588,221
State Justice Statistics Program for Statistical Analysis Centers	16.550	37,381
National Criminal History Improvement Program (NCHIP)	16.554	15,427
Justice Research, Development, and Evaluation Project Grants	16.560	63,868
Crime Victim Assistance	16.575	688,017

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, 1999

Federal Grantor	CFDA	
Total		
Program Title	Number	Expenditures
Crime Victim Compensation	16.576	448,000
Byne Formula Grant Program	16.579	4,312,617
Drug Court Discretionary	16.585	5,623
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	184,325
Violence Against Women Formula Grants	16.588	978,319
Grants to Encourage Arrest Policies	16.590	110,969
Local Law Enforcement Block Grants Program	16.592	2,535
Residential Substance Abuse Treatment for State Prisoners	16.593	214,786
State Criminal Alien Assistance Program	16.606	2,190,330
Public Safety Partnership and Community Policing Grants	16.710	92,982
Combating Underage Drinking	16.727	<u>20,392</u>
Total U.S. Department of Justice (See Note 1)		\$ 11,028,186
U.S. Department of Labor:		
Labor Force Statistics	17.002	\$ 674,983
Compensation and Working Conditions Data	17.005	12,349
Employment Services Cluster:		
Employment Service	17.207	4,352,509
Disabled Veterans Outreach Program	17.801	763,472
Unemployment Insurance (See Note 5)	17.225	160,319,686
Senior Community Service Employment Program	17.235	418,084
Trade Adjustment Assistance – Workers	17.245	5,613,908
JTPA Cluster:		
Employment and Training Assistance – Dislocated Workers	17.246	4,401,104
Job Training Partnership Act	17.250	5,887,758
Welfare to Work Grants to States and Localities	17.253	<u>696,585</u>
Total U.S. Department of Labor (See Note 1)		\$ 183,140,438
U.S. Department of Transportation:		
Boating Safety Financial Assistance	20.005	\$ 451,758
Airport Improvement Program	20.106	7,258,421
Highway Planning and Construction	20.205	145,524,693
Motor Carrier Safety	20.217	672,388
Local Rail Freight Assistance	20.308	2,165,114
Federal Transit Cluster:		
Federal Transit – Capital Investment Grants	20.500	111,382
Federal Transit – Formula Grants	20.507	21,715,689
Federal Transit – Metropolitan Planning Grants	20.505	226,754
Formula Grants for Other Than Urbanized Areas	20.509	613,656
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	539,761
Highway Safety Cluster:		
State and Community Highway Safety	20.600	1,037,882
Pipeline Safety	20.700	<u>41,855</u>
Total U.S. Department of Transportation (See Note 1)		\$ 180,359,353

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, 1999

Federal Grantor	CFDA	
Total		
Program Title	Number	Expenditures
Equal Employment Opportunity Commission:		
Employment Discrimination – State and Local Fair Employment Practices Agency Contracts	30.002	\$ 39,680
Total Equal Employment Opportunity Commission		<u>\$ 39,680</u>
Federal Mediation and Conciliation Service:		
Labor Management Cooperation	34.002	\$ 26,429
Total Federal Mediation and Conciliation Service		<u>\$ 26,429</u>
General Services Administration:		
Donation of Federal Surplus Personal Property (See Note 2)	39.003	\$ 1,398,914
Total General Services Administration		<u>\$ 1,398,914</u>
National Aeronautics and Space Administration:		
Technology Transfer (See Note 3)	43.002	\$ 18,395
Total National Aeronautics and Space Administration (See Note 1)		<u>\$ 18,395</u>
National Foundation on the Arts and the Humanities:		
Promotion of the Arts – Partnership Agreements	45.025	\$ 441,802
Promotion of the Arts – Leadership Initiatives	45.026	25,000
State Library Program	45.310	<u>833,449</u>
Total National Foundation on the Arts and the Humanities		<u>\$ 1,300,251</u>
National Science Foundation:		
Mathematical and Physical Sciences (See Note 3)	47.049	\$ 19,142
Education and Human Resources	47.076	<u>446,331</u>
Total National Science Foundation (See Note 1)		<u>\$ 465,473</u>
U.S. Department of Veterans Affairs:		
Veterans State Nursing Home Care	64.015	\$ 3,702,707
Veterans Housing – Guaranteed and Insured Loans (See Note 2)	64.114	9,157,074
All-Volunteer Force Educational Assistance	64.124	74,071
State Cemetery Grants	64.203	<u>349,184</u>
Total U.S. Department of Veterans Affairs (See Note 1)		<u>\$ 13,283,036</u>
Environmental Protection Agency:		
Air Pollution Control Program Support	66.001	\$ 1,371,997
State Indoor Radon Grants	66.032	138,869
Water Pollution Control – State and Interstate Program Support	66.419	1,253,024
State Public Water System Supervision	66.432	420,358
State Underground Water Source Protection	66.433	12
National Estuary Program	66.456	234,574
Capitalization Grants for State Revolving Funds	66.458	11,469,697

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, 1999

Federal Grantor	CFDA	
Total		
Program Title	Number	Expenditures
Nonpoint Source Implementation Grants	66.460	523,537
Wetlands Protection – Development Grants	66.461	40,515
National Pollutant Discharge Elimination System Related State Program Grants	66.463	235,805
Wastewater Operator Training Grant Program (Technical Assistance)	66.467	8,264
Capitalization Grants for Drinking Water State Revolving Fund	66.468	247,972
Environmental Protection Consolidated Grants – Program Support	66.600	102,354
Surveys, Studies, Investigations and Special Purpose Grants	66.606	15,858
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	272,897
TSCA Title IV State Lead Grants – Certification of Lead-Based Paint Professionals	66.707	506,902
Pollution Prevention Grant Program	66.708	159,394
Hazardous Waste Management State Program Support	66.801	494,597
Superfund State Site-Specific Cooperative Agreements	66.802	582,814
State Underground Storage Tanks Program	66.804	199,730
Leaking Underground Storage Tank Trust Fund Program	66.805	504,654
Solid Waste Management Assistance	66.808	22,083
CEPP Technical Assistance Grants Program (B)	66,810	36,070
Pollution Prevention Grant	66.900	<u>42,412</u>
Total Environmental Protection Agency (See Note 1)		\$ 18,884,389
U.S. Department of Energy:		
State Energy Program	81.041	\$ 785,988
Weatherization Assistance for Low-Income Persons	81.042	768,118
Office of Science Financial Assistance Program	81.049	12,249
Energy Conservation for Institutional Buildings	81.052	5,462
Regional Biomass Energy Programs	81.079	94,550
Conservation Research and Development	81.086	<u>12,724</u>
Total U.S. Department of Energy (See Note 1)		\$ 1,679,091
Federal Emergency Management Agency:		
Hazardous Materials Training Program for Implementation of the Superfund Amendment and Reauthorization Act	83.011	\$ 21,291
Community Assistance Program – State Support Services Element	83.105	20,518
State Disaster Preparedness Grants	83.505	150,363
Emergency Management – State and Local Assistance	83.534	1,170,699
Mitigation Assistance	83.535	209,210
First Responder Counter – Terrorism Training Assistance	83.547	4,813
Project Impact – Building Disaster Resistant Communities	83.551	<u>8,824</u>
Total Federal Emergency Management Agency		\$ 1,585,718
U.S. Department of Education:		
Adult Education – State Grant Program	84.002	\$ 1,680,470
Civil Rights Training and Advisory Services	84.004	42,160
Student Financial Assistance Cluster:		
Federal Supplemental Educational Opportunity Grants	84.007	2,313,814
Federal Family Education Loans (See Note 2)	84.032	59,019,735
Federal Work Study Program	84.033	1,729,446
Federal Perkins Loan Program – Federal Capital Contributions (See Note 2)	84.038	12,816,071

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, 1999

Federal Grantor	CFDA	
Total		
Program Title	Number	Expenditures
Federal Pell Grant Program	84.063	12,261,078
Title I Grants to Local Educational Agencies	84.010	27,210,396
Migrant Education – Basic State Grant Program	84.011	51,332
Title I Program for Neglected and Delinquent Children	84.013	148,225
Undergraduate International Studies and Foreign Language Programs	84.016	32,081
Children with Deaf/Blindness	84.025	85,157
Special Education Cluster:		
Special Education – Grants to States	84.027	14,371,014
Special Education – Preschool Grants	84.173	1,882,620
Preparation of Personnel	84.029	133,021
Federal Family Education Loans (Guaranty Agency)	84.032	10,476,039
TRIO Cluster:		
TRIO – Student Support Services	84.042	481,890
TRIO – Talent Search	84.044	337,474
TRIO – Upward Bound	84.047	428,456
Vocational Education – Basic Grants to States	84.048	4,483,669
TRIO – Educational Opportunity Centers	84.066	528,522
Leveraging Educational Assistance Partnership	84.069	134,790
Harris Fellowships	84.094	11,667
Fund for the Improvement of Postsecondary Education	84.116	91,395
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	7,999,200
Rehabilitation Services – Service Projects	84.128	853
Rehabilitation Long-Term Training	84.129	25,945
National Institute on Disability and Rehabilitation Research	84.133	11,770
Secondary Education and Transitional Services for Youth with Disabilities	84.158	568,811
Immigrant Education	84.162	1,065,686
Magnet Schools Assistance	84.165	16,705
Independent Living – State Grants	84.169	280,732
Rehabilitation Services – Independent Living Services for Older Individuals Who Are Blind	84.177	196,792
Special Education – Grants for Infants and Families with Disabilities	84.181	1,790,094
Safe and Drug-Free Schools and Communities – National Programs	84.184	477
Byrd Honors Scholarships	84.185	156,661
Safe and Drug-Free Schools and Communities-State Grants	84.186	2,611,901
Supported Employment Services for Individuals with Severe Disabilities	84.187	172,836
Bilingual Education Support Services	84.194	108,804
Education for Homeless Children and Youth	84.196	101,456
School, College and University Partnerships	84.204	27,602
Even Start – State Educational Agencies	84.213	569,417
Fund for the Improvement of Education	84.215	37,235
Capital Expenses	84.216	126,469
Assistive Technology	84.224	494,555
Tech-Prep Education	84.243	448,928
National Early Intervention Scholarship and Partnership	84.272	503,967
Goals 2000 – State and Local Education Systemic Improvement Grants	84.276	3,018,927
Eisenhower Professional Development State Grants	84.281	1,505,628
Charter Schools	84.282	597
Innovative Education Program Strategies	84.298	1,629,304
Technology Innovation Challenge Grants	84.303	158,230
National Institute on Early Childhood Development and Education	84.307	81,597

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, 1999

Federal Grantor	CFDA	
Total		
Program Title	Number	Expenditures
Goals 2000 – Parental Assistance Program	84.310	26,384
Technology Literacy Challenge Fund Grants	84.318	2,266,892
Advanced Placement Incentive Program	84.330	2,511
Comprehensive School Reform Demonstration (A)	84.332	20,832
School-to-Work Opportunities Act of 1994	None	<u>2,442,774</u>
Total U.S. Department of Education		\$ 179,221,094
U.S. Department of Health and Human Services:		
Aging Cluster:		
Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	93.044	\$ 2,181,060
Special Programs for the Aging – Title III, Part C – Nutrition Services	93.045	1,567,045
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104	3,531,343
Maternal and Child Health Federal Consolidated Programs	93.110	606,083
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	360,384
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118	366,828
Mental Health Planning and Demonstration Projects	93.125	84,262
Emergency Medical Services for Children	93.127	340,518
Primary Care Services – Resource Coordination and Development Primary Care Offices	93.130	171,591
Injury Prevention and Control Research and State and Community Based Programs	93.136	511,383
Demonstration Grants for the Prevention of Alcohol and Drug Abuse Among High-Risk Populations	93.144	8,546
Projects for Assistance in Transition from Homelessness (PATH)	93.150	298,175
Health Program for Toxic Substances and Disease Registry	93.161	94,207
Grants for State Loan Repayment	93.165	30,028
Disabilities Prevention	93.184	494,160
Childhood Lead Poisoning Prevention Projects – State and Community-Based Childhood Lead Poisoning Prevention and Surveillance of Blood Levels in Children	93.197	977,159
Family Planning – Services	93.217	526,865
Consolidated Knowledge Development and Application Programs	92.230	77,474
Policy Research and Evaluation Grants	93.239	25,000
Mental Health Research Grants	93.242	96,749
Immunization Grants	93.268	1,269,392
Drug Abuse National Research Service Awards for Research Training	93.278	30,443
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	518,614
Cancer Control	93.399	918,320
Family Preservation and Support Services	93.556	755,100
Temporary Assistance for Needy Families	93.558	91,443,355
Child Support Enforcement	93.563	7,494,389
Refugee and Entrant Assistance – State Administered Programs	93.566	87,530
Low-Income Home Energy Assistance	93.568	7,457,152
Community Services Block Grant	93.569	2,430,705
Child Care Cluster:		
Child Care and Development Block Grant	93.575	3,792,672
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	9,747,101
Empowerment Zones Program	93.585	789,696
State Court Improvement Program	93.586	111,117

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, 1999

Federal Grantor	CFDA	
Total		
Program Title	Number	Expenditures
Grants to States for Access and Visitation Programs	93.597	57,015
Head Start	93.600	151,887
Child Support Enforcement Demonstrations and Special Projects	93.601	111,362
Developmental Disabilities Basic Support and Advocacy Grants	93.630	337,163
Developmental Disabilities University Affiliated Programs	93.632	255,419
Children's Justice Grants to States	93.643	92,319
Child Welfare Services – State Grants	93.645	830,209
Social Services Research and Demonstration	93.647	301
Adoption Opportunities	93.652	234,052
Foster Care – Title IV-E	93.658	13,434,881
Adoption Assistance	93.659	4,142,580
Social Services Block Grant	93.667	8,602,309
Child Abuse and Neglect State Grants	93.669	113,993
Family Violence Prevention and Services – Grants for Battered Women's Shelters-Grants to States and Indian Tribes	93.671	633,022
Independent Living	93.674	391,339
State Children's Insurance Program	93.767	2,321,094
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	643,243
State Survey and Certification of Health Care Providers and Suppliers	93.777	1,897,774
Medical Assistance Program (Nee Notes 1 and 4)	93.778	576,439,039
Health Care Financing Research, Demonstrations and Evaluations	93.779	148,703
Grants to States for Operation of Offices of Rural Health	93.913	41,821
HIV Care Formula Grants	93.917	1,666,322
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	1,126,959
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	626,835
HIV Prevention Activities – Health Department Based	93.940	1,308,071
Block Grants for Community Mental Health Services	93.958	1,055,348
Block Grants for Prevention and Treatment of Substance Abuse	93.959	4,731,281
Preventive Health Services – Sexually Transmitted Disease Control Grants	93.977	420,751
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	543,257
Preventive Health and Health Services Block Grant	93.991	891,377
Maternal and Child Health Services Block Grant to the States	93.994	<u>2,266,087</u>
Total U.S. Department of Health and Human Services (See Note 1)		\$ 764,710,259
Corporation for National and Community Service:		
Learn and Serve America – School and Community Based Programs	94.004	\$ 52,371
Learn and Serve America – Higher Education (See Note 3)	94.005	110,363
AmeriCorps (See Note 3)	94.006	339,908
Volunteers in Service to America	94.013	247,430
Foster Grandparent/Senior Companion Cluster:		
Senior Companion Program	94.016	<u>247,552</u>
Total Corporation for National and Community Service		\$ 997,624

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, 1999

Federal Grantor	CFDA	
Total		
Program Title	Number	Expenditures
Social Security Administration		
Disability Insurance/SSI Cluster:		
Social Security – Disability Insurance	96.001	\$ 5,798,781
Total Social Security Administration		\$ 5,798,781
 Research and Development Cluster:		
U.S. Department of Agriculture:		
Agricultural Research – Basic and Applied Research	10.001	\$ 67,622
Plan and Animal Disease, Pest Control, and Animal Care	10.025	9,396
Grants for Agricultural Research, Special Research Grants	10.200	113,252
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203	2,137,689
Grants for Agricultural Research – Competitive Research Grants	10.206	438,931
Sustainable Agricultural Research and Education	10.215	10,374
Higher Education Challenge Grant	10.217	4,651
Buildings and Facilities Program	10.218	255,563
Fund for Rural American – Research, Education, and Extension Activities	10.224	114,974
Cooperative Extension Service	10.500	682,308
Forestry Research	10.652	41,661
Soil and Water Conservation	10.902	3,221
Watershed Surveys and Planning	10.906	4,558
Scientific and Technical Cooperation	10.963	50
Other Research and Development	N/A	13,020
U.S. Department of Commerce:		
Economic Development – Public Works Impact Program	11.304	489,292
Sea Grant Support	11.417	2,710,933
Coastal Zone Management Administration Awards	11.419	61,449
Coastal Zone Management Estuarine Research Reserves	11.420	16,935
Fisheries Development and Utilization Research and Development Grants		
Cooperative Agreements Program	11.427	104,593
Undersea Research	11.430	15,584
Climate and Atmospheric Research	11.431	122,846
Environmental Research Laboratories Cooperative Institutes	11.432	1,803,428
Marine Fisheries Initiative	11.433	28,577
Cooperative Fishery Statistics	11.434	2,474
Cooperative Science and Education Program	11.455	932,250
Unallied Science Center	11.472	417,043
Coastal Services Center	11.473	117,172
Atlantic Coastal Fisheries Cooperative Mangement Act	11.474	9,321
Coastal Ocean Program	11.478	4,133
Other Research and Development	N/A	81,422
U.S. Department of Defense:		
State Memorandum of Agreement Program for the Reimbursement of		
Technical Services	12.113	107,683
Collaborative Research and Development	12.114	19,674
Basic and Applied Scientific Research	12.300	3,378,119
Basic Scientific Research	12.431	39,340
Air Force Defense Research Sciences Program	12.800	118,226
Other Research and Development	N/A	83,343

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FISCAL YEAR ENDED JUNE 30, 1999

Federal Grantor	CFDA	
Total		
Program Title	Number	Expenditures
U.S. Department of Housing and Urban Development:		
Community Outreach Partnership Center Program	14.511	107,776
U.S. Department of Interior:		
Fish and Wildlife Management Assistance	15.608	37,584
Assistance to State Water Resources Research Institutes	15.805	31,723
Earthquake Hazards Reduction Program	15.807	24,240
U.S. Geological Survey – Research and Data Acquisition	15.808	86,766
Outdoor Recreation – Acquisition, Development and Planning	15.916	29,814
Other Research and Development	N/A	604,528
U.S. Department of Justice:		
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	50,954
U.S. Department of Labor:		
Employment and Training Research and Development Projects	17.248	11,445
Employment Services and Job Training – Pilot and Demonstration Programs	17.249	15,393
Job Training Partnership Act	17.250	18,011
Other Research and Development	N/A	9,100
U.S. Department of State:		
Program for Study of Eastern Europe and the Independent States of the Former Soviet Union	19.300	31,073
Other Research and Development	N/A	4,191,209
U.S. Department of Transportation:		
State Access to the Oil Spill Liability Trust Fund	20.006	52,765
Aviation Research Grants	20.108	20,508
Highway Training and Education	20.215	14,713
University Transportation Centers Program	20.701	188,811
National Aeronautics and Space Administration:		
Aerospace Education Services Program	43.001	788,542
Technology Transfer	43.002	885,186
National Credit Union Administration:		
Credit Union Charter, Examination, Supervision and Insurance	44.001	977
National Science Foundation:		
Engineering Grants	47.041	589,305
Mathematical and Physical Sciences and Engineering	47.049	701,925
Geosciences	47.050	5,569,737
Computer and Information Science and Engineering	47.070	254,967
Biological Science	47.074	138,223
Social, Behavioral, and Economic Sciences	47.075	4,162
Education and Human Resources	47.076	508,565
Other Research and Development	N/A	106,712
U.S. Department of Veterans Affairs:		
Other Research and Development	N/A	27,874
Environmental Protection Agency:		
Wetlands Protection – Development Grants	66.461	29,960
Environmental Protection – Consolidated Research	66.500	27,521
Environmental Protection Consolidated Grants – Program Support	66.600	1
Surveys, Studies, Investigations and Special Purpose Grants	66.606	42,011
Training and Fellowships for the Environmental Protection Agency	66.607	151,262
Pollution Prevention Grants Program	66.708	64,651
Superfund Innovative Technology Evaluation Program	66.807	207
Other Research and Development	N/A	73,662

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FISCAL YEAR ENDED JUNE 30, 1999

Federal Grantor	CFDA	
Total		
Program Title	Number	Expenditures
U.S. Department of Energy:		
Office of Science Financial Assistance Program	81.049	24,591
Nonproliferation and National Security Research	81.113	3,885
Other Research and Development	N/A	4,438
U.S. Information Agency:		
Education Exchange – Graduate Students	82.001	91,286
U.S. Department of Health and Human Services:		
Biological Response to Environmental	93.113	157,898
Grants to Increase Organ Donations	93.134	10,366
Drug Abuse Research Program	93.279	3,813
Centers for Disease Control and Prevention – Investigation and Technical Assistance	93.283	319,193
Nurse Practitioner and Nurse-Midwifery Education Programs	93.298	512,688
Professional Nurse Traineeships	93.358	75,259
Nursing Research	93.361	240,330
Cancer Cause and Prevention Research	93.393	962,882
Cancer Treatment Research	93.395	171,714
Cancer Control	93.399	2,509,864
Head Start	93.600	27,449
Child Abuse and Neglect Discretionary Activities	93.670	2,072
Cell Biology and Biophysics Research	93.821	40,321
Lung Disease Research	93.838	32,259
Allergy, Immunology and Transplantation Research	93.855	23,962
Microbiology and Infectious Disease Research	93.856	331,149
Pharmacology, Physiology, and Biological Chemistry Research	93.859	183,694
Genetics and Developmental Biology Research	93.862	15,000
Aging Research	93.866	25,044
Rural Health Medical Education Demonstration Projects	93.906	146,652
HIV Prevention Activities – Health Department Based	93.940	21,758
Grants for Geriatric Education Centers	93.969	296,102
Other Research and Development	N/A	96,561
Other Research and Development	N/A	<u>36,201</u>
Total Research and Development Cluster (See Note 1)		\$ 36,419,401
Other Expenditures of Federal Awards	N/A	<u>1,916,098</u>
Total Expenditures of Federal Awards (See Notes 1 and 2)		\$ 1,730,040,302

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, 1999

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. When no CFDA number has been assigned by the federal government, “None” is indicated in the schedule. When the CFDA number is not available from the State or component unit’s accounting records then N/A for not available is indicated in the schedule. The Research and Development (R&D) Cluster is presented at the end of the schedule because there are multiple federal funding agencies. As a result, total expenditures of federal awards presented for some federal funding agencies do not include expenditures for R&D programs.

Cash assistance is presented using the same basis of accounting as that used in reporting the expenditures (or expenses) of the related funds 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). Medical Assistance Program expenditures are reported net of the applicable federal share of rebates collected during fiscal year 1999 (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: Very Low to Moderate Income Housing Loans – 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 Housing – Guaranteed and Insured Loans – CFDA 64.114.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 1999

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation (continued)

- Home Equity Conversion Mortgages (CFDA 14.183) – reported at the balance of loans outstanding at June 30, 1999.
- 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, 1999.
- Land donated by the U.S. Department of the Navy – reported at the fair market value of the donated land at the time of receipt.

NOTE 2. NON-CASH ASSISTANCE

CFDA Number	Loan, Loan Guarantee and Insurance Programs	Expenditures of Federal Awards - Year Ended June 30, 1999	Insurance, Loans and Loan Guarantees Outstanding - June 30, 1999
10.410	Very Low to Moderate Income – Housing Loans	\$ 5,990,012	\$ 25,691,329
14.117	Mortgage Insurance – Homes (Section 203 B)	56,413,356	270,323,240
14.142	Property Improvement Loan Insurance for Improving All Existing Structures and Building Of New Non-Residential Structures	544,450	2,937,725
14.183	Home Equity Conversion Mortgages	22,127,972	22,127,972
64.114	Veterans Housing – Guaranteed and Insured Loans	9,157,074	35,313,569
84.032	Federal Family Education Loans	59,019,735	(a)
84.038	Federal Perkins Loan Program	12,816,071	12,816,071
	<u>Other Non-Cash Assistance</u>		
10.550	Food Distribution	2,653,336	
10.551	Food Stamps	5,071,541	
39.003	Donation of Federal Surplus Personal Property	1,398,914	
None	U.S. Department of the Navy – Donated Land	<u>29,617,000</u>	
	Total Non-Cash Assistance	<u>\$ 204,809,461</u>	

(a) Loan guarantees outstanding for the FFEL program (CFDA 84.032) at the guaranty agency total \$845,153,393 at June 30, 1999.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 1999

NOTE 3. 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	\$ 9,500	National Crime Prevention Council
Technology Transfer	43.002	18,395	University of Toledo
Mathematical and Physical Sciences	47.049	19,142	Institute for Advanced Math
Learn and Serve America - Higher Education	94.005	110,363	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	339,908	Commission for National And Community Service
Private National Youth Sports Program	N/A	76,103	National Collegiate Athletic Association
Research and Development Cluster (University of Rhode Island)	Various	<u>3,718,102</u>	Not identified
Total Expenditures of Federal Awards Received from Pass- Through Entities		<u>\$ 4,291,513</u>	

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 1999

NOTE 4. REBATES OF PROGRAM EXPENDITURES

The State received the following program expenditure rebates during fiscal 1999:

<u>Program</u>	<u>CFDA Number</u>	<u>Rebate Amount</u>
Medical Assistance Program	93.778	\$ 14,501,964
Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	10.557	\$4,938,637

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

NOTE 5. UNEMPLOYMENT INSURANCE EXPENDITURES

Expenditures of federal awards for Unemployment Insurance (CFDA Number 17.225) represent \$141,586,820 funded from the State's account in the federal Unemployment Trust Fund and \$18,732,866 funded by federal grants.

Auditor's Reports
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Office of the Auditor General
General Assembly

**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 STANDARDS**

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

We have audited the general-purpose financial statements of the State of Rhode Island and Providence Plantations (the State) as of and for the year ended June 30, 1999, and have issued our report thereon dated February 23, 2000. Our report was qualified 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.

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 reports 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 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 judgement, 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 99-1, 99-2, 99-3, 99-4, 99-5, 99-6, 99-7, and 99-8.

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 99-1, 99-2, 99-6, and 99-1 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.

This report is intended solely for the information and use of the Finance Committee of the House of Representatives, the Joint Committee on Legislative Services, the Governor and management of the State and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

February 23, 2000

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, 1999. 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 1999. 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 paragraph, 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 Food Stamp Cluster, Rehabilitation Services – Vocational Rehabilitation Grants to States, the Child Support Enforcement program, and the Disability Insurance/SSI Cluster 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.

As described in Findings 99-14 and 99-18 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 Special Education Cluster, and (2) the requirement regarding eligibility that is applicable to its Unemployment Insurance program. Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to those programs.

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, and the Child Support Enforcement 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, 1999. 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 99-23, 99-24, 99-25, 99-26, 99-27, 99-28, 99-39, 99-47, and 99-52.

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 1999. 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 99-9, 99-10, 99-11, 99-12, 99-13, 99-14, 99-15, 99-16, 99-17, 99-18, 99-19, 99-20, 99-21, 99-22, 99-29, 99-30, 99-31, 99-32, 99-33, 99-34, 99-35, 99-36, 99-37, 99-38, 99-39, 99-40, 99-41, 99-42, 99-43, 99-44, 99-45, 99-46, 99-48, 99-49, 99-50, and 99-51.

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 the 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 99-9, 99-14, 99-18, 99-20, 99-21, and 99-43 to be material weaknesses.

This report is intended solely for the information and use of the Finance Committee of the House of Representatives, the Joint Committee on Legislative Services, the Governor and management of the State, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

March 17, 2000

Ernest A. Almonte, CPA, CFE
Auditor General

Schedule of Findings and
Questioned Costs

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Office of the Auditor General

General Assembly

Schedule of Findings and
Questioned Costs

Section I

Summary of
Auditor's Results

Office of the Auditor General
General Assembly

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor’s Results

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 expressed an unqualified opinion for all major programs except for the following programs in which it expressed a qualified opinion:

	<u>Program</u>	<u>CFDA #</u>
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
Unemployment Insurance		17.225
Title I Grants to Local Educational Agencies		84.010
Rehabilitation Services – Vocational Rehabilitation Grants to States		84.126
Special Education Cluster:		
Special Education – Grants to States		84.027
Special Education – Preschool Grants		84.173
Child Support Enforcement		93.563
Disability Insurance/SSI Cluster:		
Social Security – Disability Insurance		96.001

- 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 \$5,190,121.
- 9) The State did not qualify as a low-risk auditee as defined by OMB Circular A-133.

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

Major Programs

<u>Program Title</u>	CFDA Number
Very Low to Moderate Income Housing Loans	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
U.S. Department of the Navy – Donated Land	12.xxx
Mortgage Insurance – Homes (Section 203B)	14.117
Section 8 Project Based Cluster:	
Section 8 New Construction and Substantial Rehabilitation	14.182
Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	14.856
Home Equity Conversion Mortgages	14.183
Community Development Block Grants/States Program	14.228
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 Housing – Guaranteed and Insured Loans	64.114

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section I - Summary of Auditor's Results

Maior Programs (cont'd)

<u>Program Title</u>	CFDA Number
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
Special Education Cluster:	
Special Education – Grants to States	84.027
Special Education – Preschool Grants	84.173
Federal Family Education Loans (Guaranty Agency)	84.032
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126
Temporary Assistance for Needy Families	93.558
Child Support Enforcement	93.563
Low-Income Home Energy Assistance	93.568
Child Care Cluster:	
Child Care and Development Block Grant	93.575
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596
Foster Care – Title IV-E	93.658
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
Disability Insurance/SSI Cluster:	
Social Security – Disability Insurance	96.001
Research and Development Cluster	Various

**Schedule of Findings
and Questioned Costs**

Section II

Financial Statement
Findings

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section 11 - Financial Statement Findings

Finding 99-1

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

- 99-1 Implement systems and procedures to accumulate and record the information needed to include the General Fixed Assets Account Group in the State's generalpurpose financial statements.

Finding 99-2

CONTROL OVER LONG TERM OBLIGATIONS

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

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section 11 - Financial Statement Findings

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

- 99-2 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.

Finding 99-3

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section 11 - Financial Statement Findings

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

- 99-3a Restrict access to the GOLDEN system so that no individual has the capability to both initiate and approve transactions.
- 99-3b Remove programmer access to the GOLDEN system.

Finding 99-4

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

- 99-4a Require that each individual have a unique password to appropriately restrict access to the system.
- 99-4b Capture and maintain the employee's unique password within the transaction file to specifically identify transactions by individual user.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section 11 - Financial Statement Findings

Finding 99-5

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 Capitol 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

- 99-5 Develop a formal written disaster recovery/business resumption plan for the State Data Center and operations at One Capitol Hill.

Finding 99-6

FINANCIAL REPORTING - INTERMODAL SURFACE TRANSPORTATION EFFICIENCY ACT (ISTEA) FUND

Controls are not adequate to ensure that Intermodal Surface Transportation Efficiency Act (ISTEA) Fund revenues and other financing sources are accurately and consistently identified and recorded to allow preparation of financial statements in accordance with generally accepted accounting principles. Further, the amount of expenditures by funding source is not identified which is needed to prepare comparison of budget to actual results and the Schedule of Expenditures of Federal Awards. As a result, amounts reported in the financial statements could be materially misstated and the misstatement may not be detected.

The ISTEA Fund has been established as a special revenue fund to account for federal/state highway projects. Federal revenues, bond proceeds for highway projects, and amounts collected from the state gas tax are recorded in the fund.

RIDOT's internal project accounting and billing system reports the federal and state share of project expenditures for each federal aid project number. However, the system is primarily used for billing purposes to obtain federal reimbursement for the federal share of project costs and was not designed to report the total share by source for all projects. This billing system is

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section 11 - Financial Statement Findings

independent of the State's accounting system which is used to prepare financial statements for the ISTE A Fund.

Highway project expenditures are recorded in the State accounting system but the amount to be funded by source is not identified. Consequently, the State Controller and RIDOT have estimated an 80% federal share and 20% state share of expenditures in past years to prepare financial statements. Beginning in fiscal 1999, this procedure is no longer appropriate because federal regulations allow matching expenditures from outside the ISTE A Fund; contributions of the state match at a subsequent date; and differing matching shares for the same type of federal funds. Further during fiscal 1999, more projects were approved with 90%/10% federal/state financing, and fewer projects were approved with a 80%/20% split. RIDOT has not identified the number of projects and the total dollars affected by this change.

To improve controls over financial reporting, the state controller should establish three accounts to recognize the federal, state and local shares of project expenditures, respectively. RIDOT would then identify on each disbursement voucher the appropriate federal and state share based on the applicable project match rate. Implementing this process would identify the federal and state matching shares for financial reporting purposes, eliminate most of the outdated accounts currently used, reduce the need for adjustments now required to transfer amounts between the multiplicity of appropriation accounts in use, and simplify the reconciliation of expenditures between the State Controller's accounting system and the RIDOT subsidiary system.

Controls over amounts due from the federal government should also be improved. Amounts due from the federal government represent the federal share of program expenditures incurred pending federal reimbursement. These amounts include not only current projects but substantial amounts relating to prior projects. Amounts due for prior projects are principally categorized by RIDOT as "earned but unbilled" which means that a valid receivable exists but funds have not been drawn either because project modifications are pending federal approval or because RIDOT has chosen to use its allocation of federal funds for new projects instead. The balance of "earned but unbilled" that remains uncollected rolls forward from one fiscal year to another. Based on previous history, not all of these amounts will be collected within the next fiscal year and therefore an allowance must be established for financial reporting purposes to estimate the amount that is unavailable (the amount that will not be collected within one fiscal year after the balance sheet date.)

"Earned but unbilled" amounts which totaled \$15.7 million at June 30, 1999 are not controlled within the state accounting system but instead are reported at fiscal year end by RIDOT to the Office of Accounts and Control. Analysis is required each year to estimate the amount likely to be collected within the next year and the amount to be reflected as current year revenue.

The existence of substantial "earned but unbilled" amounts and the current process to account for these amounts weakens overall control over financial reporting for the ISTE A Fund.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section 11 - Financial Statement Findings

Federal funds should be drawn for all amounts due from the federal government as soon as all federal requirements have been met (e.g. federal project approval). Failure to collect these amounts due from the federal government for extended periods of time puts the State at a substantial disadvantage.

RECOMMENDATIONS

- 99-6a Modify the State accounting system to account for the federal and state shares of project expenditures in three accounts, respectively. Identify on each disbursement voucher the appropriate shares to be charged to the federal and state accounts. Close out unnecessary accounts within the ISTE A Fund.
- 99-6b Collect all amounts due from the federal government in reimbursement of highway project expenditures as soon as all federal requirements have been met. Eliminate the substantial balance of "earned but unbilled" amounts pending reimbursement.

Finding 99-7

FISCAL AGENT OVERSIGHT - MEDICAL ASSISTANCE PROGRAM

As described in Finding 99-43 (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.

Finding 99-8

CONTROLS OVER MEDICAL ASSISTANCE PROGRAM EXPENDITURES

As described in Finding 99-49 (Section III - Federal Award Findings and Questioned Costs), approximately \$75 million of Medicaid program expenditures were processed independently of the Medicaid Management Information System (MMIS). Other independent accounting systems have not been designed to contain all the control procedures of the MMIS. Further, the potential for duplicate payment exists - a claim could be submitted and paid from both the MMIS and the independent accounting systems. Processing all program expenditures through a unified system would enhance controls over Medicaid program expenditures.

**Schedule of Findings
and Questioned Costs**

Section III

Federal Award Findings
And
Questioned Costs

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

TABLE OF FINDINGS BY FEDERAL PROGRAM

	CFDA	
Program Title	Number	Applicable Findings
Very Low to Moderate Income Housing Loans	10.410	None reported
Food Stamp Cluster:		
Food Stamps	10.551	99-11, 99-12
State Administrative Matching Grants		
For Food Stamp Program	10.561	99-9, 99-10, 99-15
Child Nutrition Cluster:		
School Breakfast Program	10.553	99-10, 99-13, 99-14
National School Lunch Program	10.555	99-10, 99-13, 99-14
Special Milk Program for Children	10.556	99-10, 99-13, 99-14
Summer Food Service Program for Children	10.559	99-10, 99-13, 99-14
Special Supplemental Nutrition Program for		
Women, Infants and Children	10.557	99-10
Department of the Navy – Donated Land	12.xxx	None reported
Mortgage Insurance – Homes (Section 203B)	14.117	None reported
Section 8 Project Based Cluster:		
Section 8 New Construction and Substantial		
Rehabilitation	14.182	None reported
Lower Income Housing Assistance Program -		
Section 8 Moderate Rehabilitation	14.856	None reported
Home Equity Conversion Mortgages	14.183	None reported
Community Development Block Grants/States		
Program	14.228	99-10, 99-16, 99-17
Employment Service Cluster:		
Employment Service	17.207	99-10
Disabled Veterans’ Outreach Program (DVOP)	17.801	99-10
Unemployment Insurance	17.115	99-10, 99-18
Trade Adjustment Assistance – Workers	17.245	99-10
JTPA Cluster:		
Employment and Training Assistance – Dislocated	17.246	99-10, 99-19, 99-20,
Workers		99-21
Job Training Partnership Act	17.250	99-10, 99-19, 99-20
		99-21
Airport Improvement Program	20.106	99-22
Highway Planning and Construction	20.205	99-10, 99-23
Federal Transit Cluster:		
Federal Transit – Capital Investment Grants	20.500	99-10
Federal Transit – Formula Grants	20.507	99-10
Veterans Housing – Guaranteed and Insured Loans	64.114	None reported
Capitalization Grants for State Revolving Funds	66.458	99-24

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

TABLE OF FINDINGS BY FEDERAL PROGRAM

<u>Program Title</u>	<u>CFDA Number</u>	<u>Applicable Findings</u>
Student Financial Assistance Cluster:		
Federal Supplemental Educational Opportunity Grant Program		
Grant Program	84.007	None reported
Federal Family Education Loans	84-032	99-25, 99-26, 99-27
Federal Work-Study Program	84.033	None reported
Federal Perkins Loan Program	84.038	None reported
Federal Pell Grant Program	84.063	99-28
Title I Grants to Local Educational Agencies	84.010	99-10, 99-13, 99-14, 99-29, 99-30
Special Education Cluster:		
Special Education - Grants to States	84.027	99-10, 99-13, 99-14, 99-29
Special Education - Preschool Grants	84.173	99-10, 99-13, 99-14, 99-29
Federal Family Education Loans (Guaranty Agency)	84.032	None reported
Rehabilitation Services - Vocational Rehabilitation		
Grants to States	84.126	99-9,99-10
Temporary Assistance for Needy Families	93.558	99-10, 99-31, 99-32, 99-33
Child Support Enforcement	93.563	99-9, 99-10, 99-34, 99-35
Low-Income Home Energy Assistance	93.568	99-10
Child Care Cluster:		
Child Care and Development Block Grant	93.575	99-10, 99-15, 99-36
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	99-10, 99-15, 99-36
Foster Care - Title IV-E	93.658	99-10, 99-37, 99-38, 99-39
Social Services Block Grant	93.667	99-10, 99-40
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	99-10
State Survey and Certification of Health Care Suppliers and Providers	93.777	99-10
Medical Assistance Program	93.778	99-10, 99-41, 99-42, 99-43, 99-44, 99-45, 99-46, 99-47, 99-48, 99-49, 99-50, 99-51
Disability Insurance/SSI Cluster:		
Social Security - Disability Insurance	96.001	99-9,99-10
Research and Development Cluster:		
Buildings and Facilities Program	10.218	99-52

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

Finding 99-9

VARIOUS PROGRAMS - refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

MANAGEMENT OF EQUIPMENT ACQUIRED WITH FEDERAL FUNDS

As described in Finding 99-1 (Section 11 - 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 99-10

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.

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

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

compliance with the Treasury/State agreement. Of the programs we tested as major programs that are subject to the Treasury/State agreement, only 5 consistently utilized the information provided by the CMS to draw federal cash while 14 programs did not. In some instances funds were drawn later than permitted; in other instances funds were drawn more quickly than permitted. One program was not included in the Treasury/State agreement but should have because the criteria had been met since fiscal year 1998.

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

- 99-10a Comply with cash management requirements when drawing funds for federal programs.
- 99-10b 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.
- 99-10c Ensure the Treasury/State agreement includes all required programs and reflects current payment patterns.

Finding 99-11

FOOD STAMPS - CFDA 10.551

Administered by: Department of Human Services (DHS)

CONTROLS OVER ELECTRONIC BENEFIT DELIVERY SYSTEM

Controls over the delivery of food stamps and Temporary Assistance to Needy Families (TANF) benefits are weakened because some individuals have access both to the Department's INRHODES eligibility system and Deluxe Data's EBT card personal identification number authorization system. Certain local office supervisory personnel can create cases and/or modify case information within the INRHODES system. These same individuals can generate an EBT card and establish a personal identification number. Neither the Department of Human Services nor its contractor Deluxe Data has a complete list of individuals with access to the EBT card personal identification number system.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III - Federal Award Findings and Questioned Costs

DHS personnel both generate the EBT card and assist the recipient to establish a personal identification number using an on-line (Deluxe Data) system terminal and encoding machine. In order for recipients to establish their personal identification number, clerical or certain supervisory personnel from each local office log on to the Deluxe system by entering a two-digit user identification number and a four-digit confidential password. We were informed that to ensure security control over card issuances, only clerical personnel with limited access to the Department's INRHODES eligibility system have access to this function of the Deluxe system.

We requested a listing of the individuals with access to the Deluxe system from the Department's Operations Management section, the Field Services section and the EBT subcontractor. We were informed that neither DHS nor Deluxe maintains a complete listing of personnel authorized to access the Deluxe system and the personal identification number encoding equipment.

Department personnel have indicated that the responsibility for managing access to the Deluxe terminals and encoding equipment was assigned to local office supervisors, and that the Department has begun compiling a list of those individuals with access to the Deluxe system.

System access controls should include maintaining a current listing of authorized users and periodically analyzing the responsibilities of authorized users to ensure proper segregation of duties. System access controls are critically important in the EBT function since other controls to detect unauthorized and inappropriate access to the system are limited.

We also noted the following other areas where controls should be strengthened:

- documented procedures for assigning, modifying, and deleting Deluxe system access do not currently exist, and
- clerical personnel are not required to periodically change their passwords or sign off during periods of inactivity.

Questioned Costs: None

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

RECOMMENDATIONS

- 99-11a Segregate responsibilities such that no individual has access to both initiate or modify case data within the Department's INRHODES system and the ability to generate EBT cards and establish personal identification numbers.
- 99-11b Determine and document all individuals with access to the Deluxe Data EBT card authorization system.
- 99-11c Establish procedures for assigning, modifying, and deleting access to the Deluxe Data EBT card authorization system.
- 99-11d Require individuals with access to the Deluxe Data EBT card authorization system to change their passwords at regular intervals and to log off during periods of inactivity. Program the system to prompt password changes and log-off after a defined period of inactivity.

Finding 99-12

FOOD STAMPS - CFDA 10.551

Administered by: Department of Human Services (DHS)

ELECTRONIC BENEFIT TRANSFER RECONCILIATION

Federal regulation 7 CFR 274.120(1) requires that states using Electronic Benefit Transfer (EBT) must have systems in place to reconcile all funds entering into, exiting from and remaining in the EBT system each day with the State's benefit account with the Treasury and the EBT contractor's records.

DHS management informed us that the EBT system operating during state fiscal year 1999 did not provide sufficient information to allow this reconciliation to be performed and consequently the Department did not perform this reconciliation for the year ended June 30, 1999.

Questioned Costs: None

RECOMMENDATION

- 99-12 Implement procedures to reconcile total funds entering into, exiting from and remaining in the EBT system each day.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Finding 99-13

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

SPECIAL EDUCATION CLUSTER

Special Education - Grants to States - CFDA 84.027

Special Education - Preschool Grants - CFDA 84.173

Administered by: Rhode Island Department of Education (RIDE)

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, Title I and Special Education Cluster programs 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

99-13 Implement procedures to ensure that subrecipients are not suspended or debarred from receiving federal assistance.

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

Finding 99-14

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

SPECIAL EDUCATION CLUSTER

Special Education - Grants to States - CFDA 84.027

Special Education - Preschool Grants - CFDA 84.173

Administered by: Rhode Island Department of Education (RIDE)

SUBRECIPIENT AUDIT REPORTS

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) ensure appropriate corrective action is taken on findings, and (4) evaluate the impact of subrecipient activities on the pass-through entity f 34 CFR Part 80.26 and 7 CFR Parts 210.18, 215.11 and 225.7 1.

RIDE 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

99-14a Monitor the receipt of all required subrecipient audit reports and review such audit reports to determine if subrecipients complied with applicable program requirements.

99-14b 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

Finding 99-15

STATE ADMINISTRATIVE MATCHING GRANTS FOR FOOD STAMP PROGRAM -
CFDA 10.561

CHILD CARE CLUSTER:

Child Care and Development Block Grant - CFDA 93.575

Child Care Mandatory And Matching Funds of the Child Care and Development Fund -
CFDA 93.596

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.

The department executed various procurement contracts exceeding \$ 100,000 while administering several Federal assistance programs. The department did not require contractors to certify that the organization and its principals are not suspended or debarred. However, the Department executed new contracts with child care providers, effective July 1, 1999, that contained the required Suspension and Debarment certification.

Questioned Costs: None

RECOMMENDATION

99-15 Require all applicable contractors to certify annually that neither the entity nor its principals are suspended or debarred from participating in federally assisted activities.

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

Finding 99-16

COMMUNITY DEVELOPMENT BLOCK GRANTS / STATES PROGRAM - CFDA 14.228
Administered by: Department of Administration - Office of Municipal Affairs

SUSPENSION AND DEBARMENT

Federal regulations {24 CFR 85.351 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 nonprocurement 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.

The Department does not have procedures in place to ensure that subrecipients of the Community Development Block Grant programs 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

99-16 Implement procedures to ensure that subrecipients are not suspended or debarred from receiving federal assistance.

Finding 99-17

COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM - CFDA 14.228
Administered by: Department of Administration - Office of Municipal Affairs

SUBRECIPIENT MONITORING

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) ensure appropriate corrective action is taken on findings, and (4) evaluate the impact of subrecipient activities on the pass-through entity.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III - Federal Award Findings and Questioned Costs

Current subrecipient monitoring procedures include visiting each subrecipient on an annual basis and reviewing their single audit reports. We found that the results from the site reviews and audit report reviews are not consistently coordinated. For example, the department's handwritten notes and reports from its on-site monitoring visits do not indicate whether findings from the audit reports affecting CDBG funding were considered on the visits. Similarly, another subrecipient's audit report contained findings related to its management information system and records in general, but the department's monitoring report indicated no findings.

Additionally, the department developed a checklist for use on monitoring visits; however, this checklist is not always completed and instead handwritten notes are included in the file. Completing the checklist ensures that all required areas have been reviewed.

Subrecipient monitoring procedures can be strengthened for the Community Development Block Grants program by improving follow-up to ensure corrective action is taken for findings noted in subrecipient audit reports. This should include follow-up on audit findings during site visits. Documentation of site visits could also be improved by consistently using the monitoring checklist to prompt consideration of all relevant issues.

Questioned Costs: None

RECOMMENDATIONS

99-17a Coordinate the review of subrecipient audit reports with the on-site monitoring visits. Standardize the on-site monitoring visits by completing the applicable portions of an office-approved checklist.

Finding 99-18

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.

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 BAM selects 480 benefit payments per calendar year. We found the work performed and test results of the BAM to be reliable.

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

The test results of the BAM indicated that 18.54% of the payments in its sample were made to claimants who had not registered with the Job Services Division during calendar 1998. Test results for calendar 1999 indicate that the rate of those that had not registered with the Job Services Division had dropped to 8.56%. 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.

Questioned Costs: None

RECOMMENDATION

99-18 Continue to improve controls to ensure all claimants receiving Unemployment Insurance benefits demonstrate their availability for work by registering with the Job Services Division.

Finding 99-19

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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III - Federal Award Findings and Questioned Costs

Reconciliations should be performed between data recorded in the State accounting system and the Department's FARS. These reconciliations were performed for July 1998 through September 1998 but were not performed for the remainder of the fiscal year. Such reconciliations ensure that data is recorded consistently in both systems and also ensures that federal reports are supported by the State's accounting records.

Questioned Costs: None

RECOMMENDATION

- 99-19 Prepare monthly reconciliations of JTPA program expenditures recorded in the Department's accounting system (FARS) with program expenditures recorded in the State accounting system.

Finding 99-20

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)

SUBRECIPIENT MONITORING

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) ensure appropriate corrective action is taken on findings, and (4) evaluate the impact of subrecipient activities on the pass-through entity.

DLT provides JTPA funding to two subrecipients (service delivery areas). One of these subrecipients experienced significant financial problems during fiscal 1999 and was subsequently placed into receivership. Audits for fiscal years 1999 and 1998 (fiscal 1998 was reaudited) disclosed material noncompliance with cash management, eannarking and reporting requirements for both fiscal years.

DLT does 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. Additionally, other monitoring procedures were performed by DLT, however, these procedures did not adequately ensure that the subrecipient administered the federal JTPA funds in compliance with applicable federal laws and regulations. Subrecipient monitoring procedures could be strengthened by enhancing financial monitoring procedures and by taking immediate action when monitoring procedures indicate potential noncompliance with program regulations.

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

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

Questioned Costs: None

RECOMMENDATION

99-20 Improve subrecipient monitoring procedures for service delivery areas funded with JTPA funds.

Finding 99-21

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)

SUBRECIPIENT CASH MANAGEMENT

DLT does not have adequate procedures in place to ensure subrecipients do not have federal cash on hand in excess of their immediate needs.

Pass through entities (DLT) are required to monitor cash drawdowns by their subrecipients to ensure that they conform substantially to the same standards 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.

An audit performed of one private industry council indicated that the council had overdrawn federal funds for programs within the JTPA cluster by \$423,963 during the fiscal year ended June 30, 1999.

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

Questioned Costs: None

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

RECOMMENDATION

- 99-21 Improve monitoring procedures to ensure that subrecipients limit their requests for federal funds to their immediate needs.

Finding 99-22

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

EQUIPMENT MANAGEMENT

OMB Circular A-133, auditor of States 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 the required information. However, RIAC was able to provide the information utilizing reports from various department within the organization. A physical inventory of assets purchased under federal awards has not been performed.

Questioned Costs: None

RECOMMENDATION

- 99-22 We recommend that RIAC continue to 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.

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Finding 99-23

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

TYPES OF SERVICES ALLOWED

Nine checks totaling \$545,490 were processed through the State accounting system to purchase rights-of-way for a highway construction project. The checks were processed in advance so that they would be available at the time the real estate transactions were expected to close. The transactions were not completed and the rights-of-way were not acquired. However, the checks were not voided and federal funds totaling \$545,490 were drawn. The check transactions also remained in the State accounting system and were reflected as program expenditures. An audit adjustment was posted to correct program expenditures within the State accounting system.

Questioned Costs: \$545,490

RECOMMENDATION

99-23 Adjust federal reports by applying a credit for the federal funds drawn in error.

Finding 99-24

CAPITALIZATION GRANTS FOR STATE REVOLVING FUNDS - CFDA 66.458 Administered by: Rhode Island Clean Water Finance Agency

SPECIAL REPORTING

The compliance requirements for special reporting require that the repayments on loans must begin within one year after project completion. There was one instance in which the first principal repayment is scheduled for more than one year from the project completion date.

Questioned Costs: None

RECOMMENDATION

99-24 We recommend that the Agency implement a policy, which addresses procedures for complying with the special reporting requirements. This policy should discuss procedures for determining the completion date of each project and monitoring these dates to ensure that loan repayments begin within the one-year period.

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Finding 99-25

FEDERAL FAMILY EDUCATION LOANS - CFDA 84.032

Administered by: Rhode Island College

STUDENT STATUS

The College is required to report changes in student status to the lender or guarantee agency within 30 days, or if included in a student status confirmation report within 60 days, for Federal Family Education Loan borrowers that graduate, withdraw or drop out during the period.

On a monthly basis, the College's Office of Student Life generates a list of withdrawn students including their last date of attendance. This list is sent to the Financial Aid Office for submission to the National Student Loan Data Service (NSLDS). Upon review of data submitted for students in our sample, we noted that withdrawals do not agree to the withdrawal dates used by the Financial Aid Office to calculate refunds. In addition, the dates the information was received by NSLDS exceed the 60 day requirement.

Questioned Costs: None

RECOMMENDATION

99-25 The College should review its procedures over submission of withdrawal information to ensure that the information is reported accurately and within the timelines required by the federal government.

Finding 99-26

FEDERAL FAMILY EDUCATION LOANS - CFDA 84.032

Administered by: Rhode Island College

ENTRANCE AND EXIT INTERVIEWS

The College is required to provide entrance interviews to student borrowers. During our testwork of student files, we noted that the files for three students who received Federal Family Education Loans did not contain entrance interviews.

Questioned Costs: None

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RECOMMENDATION

99-26 We recommend that the college require that entrance interviews be conducted in a timely manner and in accordance with federal regulations.

Finding 99-27

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 three students for the Federal Family Education Loan program (FFEL). There was also no documentation to support that an exit interview had been performed for one student for FFEL.

Questioned Costs: None

RECOMMENDATION

99-27 Procedures should be reviewed to ensure that FFEL entrance and exit interviews are performed for all students. Documentation of entrance and exit interviews should be maintained.

Finding 99-28

FEDERAL PELL GRANT PROGRAM - CFDA 84.063
Administered by: Community College of Rhode Island

REFUNDS

Refunds due to the SFA programs are required to be deposited to the SFA accounts within thirty days. During our testwork of student refunds, we noted refunds for three students to the Pell Grant Program totaling \$1,132 were made after the required thirty days.

Questioned Costs: None

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RECOMMENDATION

99-28 Procedures should be reviewed to ensure that refunds are made to the SFA programs in accordance with federal regulations.

Finding 99-29

TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES - CFDA 84.010
SPECIAL EDUCATION CLUSTER

Special Education - Grants to States - CFDA 84.027

Special Education - Preschool Grants - CFDA 84.173

Administered by: Rhode Island Department of Education (RIDE)

SUBRECIPIENT 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 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 80.3 7(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 8 subrecipients of the Title I program and 10 subrecipients of the Special Education programs. Based on our test results, 7 of the 8 subrecipients for the Title I program and 1 of the 10 subrecipients for the Special Education 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

99-29 Monitor advances to subrecipients to ensure that they conform to standards required by 34 CFR 80.21 (c), 80.3 7 (a) (4), and 31 CFR 205.10 (a).

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Finding 99-30

TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES - CFDA 84.010
Administered by: Rhode Island Department of Education (RIDE)

MAINTENANCE OF EFFORT

A local educational agency (LEA) may receive funds under the Title I program only if RIDE determines that either "per student" or "aggregate" expenditures for that LEA from state and local funds during the preceding year were not less than 90 percent of either per student or aggregate expenditures during the second preceding year. If an LEA fails to maintain 90 percent fiscal effort during any fiscal year, then RIDE must reduce the LEA's Title I allocation in the exact proportion by which the LEA failed to maintain effort per Section 14501 of the Elementary and Secondary Education Act.

In previous fiscal years, RIDE prepared a Maintenance of Effort schedule based upon audited state and local expenditure information, and reviewed it to ensure that LEA's complied with the 90 percent expenditure requirement. However, a Maintenance of Effort schedule was not prepared during fiscal 1999 and no alternative procedures were performed. As a result, RIDE did not have controls in place to ensure the LEA's complied with the maintenance of effort requirement.

Questioned Costs: None

RECOMMENDATION

99-30 Prepare an annual maintenance of effort schedule to ensure that LEA's comply with the 90 percent expenditure requirement.

Finding 99-31

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 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)j}.

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DHS policy, effective through May 30, 1999, required that if child support noncooperation is without good cause, the individual will be denied assistance without regard to other eligibility factors. As implemented, this policy resulted in less than a 25 percent reduction of assistance if the number of eligible persons in the assistance plan exceeded two. However, the Department has amended this policy, effective June 1, 1999, to impose the 25% reduction of assistance as required by law.

Questioned Costs: None

Finding 99-32

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 f 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 Rhode Island General Laws (Family Independence Act) and the department's policy and procedures manual and 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 f42 USC 608 (a)(10)(C)).

The State policy at June 30, 1999 did not address the Federal prohibition against providing assistance to the individual failing to notify the TANF agency of an absent minor child. The State has drafted a modification to its current policy in order to comply with this requirement. The proposed effective date of this modification is May 2000.

- A State may not use any part of the grant to provide cash assistance to an individual during the 10 year peni od 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)).

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The State policy at June 30, 1999 did not address the prohibition against providing TANF assistance to an individual making fraudulent statements or representations with respect to residency. The State has initiated several steps to amend their current policy to incorporate 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)}.

The State policy at June 30, 1999 did not address the prohibition against providing TANF assistance to an individual fleeing to avoid prosecution, custody or confinement. The State has initiated several steps to amend their current policy to incorporate 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, 1999 does not address the five-year prohibition against providing TANF assistance to qualified aliens entering the United States on or after August 22, 1996. The State has initiated several steps to amend their current policy to incorporate this Federal requirement.

- 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, 1999. The State has drafted a modification to its current policy in order to comply with this requirement.

Questioned Costs: None

RECOMMENDATION

99-32 Modify State policy to incorporate Federal TANF eligibility requirements.

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Finding 99-33

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.

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 Federallyassisted 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 24 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 ten instances where discrepancies resulting from data matches were not investigated or resolved. We also noted four instances where discrepancies were "cleared" by the case worker by electronically entering an action code (e.g. no discrepancy exists or income previously known), however, no hardcopy documentation or comments to the electronic case file were present supporting this determination.

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

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RECOMMENDATIONS

99-33a 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.

99-33b Maintain documentation supporting the resolution of data match discrepancies.

Finding 99-34

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 which approximate \$53 million annually. Accountability for child support collections is also important because these collections affect awards from the federal government, which reduce the State share of program costs.

At June 30, 1999, the State accounting system reported approximately \$1.8 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 1998, 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 are properly controlled and reported.

In order to adequately perform these reconciliations, modifications are necessary to the reports provided by the Department's computer system. 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. All receipts and disbursements processed by the computer system should be summarized on reports produced by the system.

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Additionally, once the programming modifications are made to reports generated by INRHODES, a new account should be established within the State accounting system for all new child support collections and distributions. This would facilitate reconciliations going forward and segregate past unreconciled differences for separate analysis.

Questioned Costs: None

RECOMMENDATIONS

99-34a Accumulate all child support collections and distributions in the department computer system and reconcile to the amounts recorded in the State accounting system.

99-34b Investigate and resolve the difference regarding child support collections pending distribution reported by the RICSS and State accounting systems.

Finding 99-35

CHILD SUPPORT ENFORCEMENT - CFDA 93.563

Administered by: Department of Administration -- Rhode Island Child Support Services (IRJCSS)

INDIRECT COSTS

RICSS did not have an approved Indirect Cost Rate Proposal in effect during fiscal year 1999. OMB Circular A-87, Attachment E requires organizations to obtain federal approval before recovering indirect costs. RICSS charged \$139,395 for indirect costs in fiscal 1999 using the methodology that had been approved for the two previous fiscal years.

Questioned costs: \$139,395

RECOMMENDATION

99-35 Submit the Indirect Cost Rate Proposal for approval before charging indirect costs; seek federal approval for indirect costs charged during fiscal 1999.

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Finding 99-36

CHILD CARE CLUSTER:

Child Care and Development Block Grant - CFDA 93.575

Child Care Mandatory And Matching Funds Of The Child Care And Development Fund –
CFDA 93.596

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 1999 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 during state fiscal year 1999. However, effective July 1, 1999 the Department executed new contracts with child care providers containing the required Pro Children Act certifications.

Questioned Costs: None

Finding 99-37

FOSTER CARE - TITLE IV-E - CFDA 93.658 Administered by: Department of Children, Youth, and Families (DCYF)

COST ALLOCATION PLAN

DCYF uses a cost allocation plan, designed and operated by a consultant, to allocate its administrative costs to multiple federal programs including the Foster Care Program. During fiscal year 1999, DCYF charged \$8,485,399 of costs to the Foster Care program based on data derived from the cost allocation plan.

DCYF provides the consultant with expenditure data, detailed personnel costs, and child placement statistics for each quarter. The consultant inputs this data into its cost allocation system, which then allocates these costs, based on a pre-approved methodology. The consultant provides DCYF with the amount of costs to be charged to each federal program. DCYF uses

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these amounts to prepare federal reports for the Foster Care program and to obtain reimbursement from other Federal programs (i.e., TANF, Medical Assistance).

Our testing of the department's cost allocation system for fiscal year 1999 noted the following:

- Personnel costs input to the cost allocation plan for the quarter ending September 30, 1998 were overstated by \$188,064. The effect on costs charged to the Foster Care program had not been determined by DCY_F at the conclusion of our audit.
- Additional errors relating to the input and calculation of statistical data in the cost allocation plan for the quarter ending June 30, 1999 resulted in an understatement of costs charged to the Foster Care program totaling \$548.
- Personnel costs related to 89 employees totaling approximately \$1.9 million were charged solely to one federal program for the quarter ending June 30, 1999. DCY_F did not obtain semi-annual payroll certifications for individuals charged entirely to a single cost objective or federal program (as required by OMB Circular A-87, Attachment B section 11).
- DCYF does not have any procedures in place to ensure the accuracy of costs determined by the cost allocation system. For example, it does not obtain and review documentation supporting amounts the consultant determines should be charged to federal programs. The department should improve its oversight of the cost allocation system to ensure that all data given to the consultant is being utilized correctly and that department costs are being charged in accordance with the approved allocation methods.
- DCYF has not filed a revised cost allocation plan document with the federal government outlining changes in methodology implemented during the fiscal year. Although DCYF has informally communicated these changes to the federal government, the department should develop a formal cost allocation plan amendment process to ensure that changes in cost allocation methodology are formally communicated to the federal government prior to implementation.

Departmental allocated costs accounted for approximately 65% of the total costs charged to the Foster Care program for fiscal year 1999. DCY_F needs to improve its oversight of the cost allocation plan operated by a third party to ensure that administrative costs charged to the program are accurate and allocated based on federally approved allocation methodology.

Questioned Costs: None

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RECOMMENDATIONS

- 99-37a Determine the effect on the amount of administrative costs charged to the Foster Care program as a result of overstating personnel costs during the quarter ending September 30, 1998.
- 99-37b Obtain semi-annual payroll certifications for individuals charged entirely to a single cost objective or federal program.
- 99-37c Implement procedures to obtain reasonable assurance that the cost allocation plan is operating as designed.
- 99-37d Develop a formal cost allocation plan amendment process to ensure that changes in cost allocation methodology are formally communicated to the federal government prior to the implementation of the plan change.

Finding 99-38

FOSTER CARE - TITLE IV-E - CFDA 93.658

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

FEDERAL REPORTING -- PMS-272 REPORTS

Federal regulations require DCYF to file a PMS-272 report for the Foster Care program at the end of each quarter. The PMS-272 report is an important mechanism for managing funds disbursed for federal programs. We were unable to agree disbursement amounts reported on the PMS-272 report with federal expenditures reported on the IV-E12 report submitted to the federal government. For fiscal year 1999, disbursements recorded on the PMS-272 report exceeded federal expenditures recorded on the IV-E-12 report by approximately \$3 million.

Questioned Costs: none

RECOMMENDATION

- 99-38 Prepare the PMS-272 report using actual federal expenditures reported on the IV-E-12 report for the Foster Care program.

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Finding 99-39

FOSTER CARE - TITLE IV-E - CFDA 93.658

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

ELIGIBILITY

DCYF can obtain federal funding for certain costs of keeping children in foster care such as room and board, day care and clothing allowances (known as maintenance costs). Federal participation is limited to those cases that meet all of the following eligibility criteria:

- the child meets the requirements of the former Aid to Families with Dependent Children (AFDC) program in effect as of July 16, 1996 42 USC 672(a);
- the foster home or institution in which the child resides is either licensed or certified in accordance with state law 142 USC 671 (a) (10) and 672 (c); and
- if the removal was by judicial determination, the court action must have been initiated within six months of the child's removal from the home and contain specific language about the court's consideration of the child's welfare as part of the decision 142 USC 672 (a) (4)1.

The federal share of maintenance costs (exclusive of prior quarter adjustments) totaled \$3,844,020 in fiscal year 1999. We selected a sample of payments made on behalf of 25 children from this universe totaling \$77,434 in order to determine if these cases met the foregoing eligibility requirements. We found three cases that were not eligible for federal participation (one case did not meet the AFDC requirements, another case did not meet the licensing requirement and the final case did not meet the judicial determination requirement). The federal share of these unallowable costs totaled \$2,579.

Questioned Costs: \$2,579

RECOMMENDATION

99-39 Adjust federal reports to reimburse the federal government for the unallowable maintenance costs charged during fiscal year 1999.

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Finding 99-40

SOCIAL SERVICES BLOCK GRANT - CFDA 93.667
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.

The Department of Human Services (DHS) uses several non-profit agencies to carry out Social Services Block Grant activities. These subrecipients provide a wide range of social services including case management and counseling services, family planning services and emergency shelter services.

Addendum III, Payments and Reports Schedule of the standard Social 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

99-40 Strengthen subrecipient cash management procedures to ensure that subrecipient cash balances are limited to their immediate needs.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Finding 99-41

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

INTERIM PAYMENTS

DHS began interim or target payments in January 1994 to temporarily pay providers until claims could be processed within a reasonable time period by its new Medicaid Management Information System (MMIS) and to ensure that medical services remained available to recipients. Target payments allow the provider to receive a minimum payment regardless of the amount of claims submitted and cleared for payment. In these instances, the actual payment to the provider is the greater of the amount of claims processed or the target amount. Accounts receivable balances, which represent amounts paid to providers in excess of claims submitted and processed, accumulated for providers as a direct result of the target payments.

The balance of outstanding interim payments has been reduced significantly from the previous year (\$30.5 million at June 30, 1998 compared to \$12.7 million at June 30, 1999). The balance has been reduced mostly due to reconciliation efforts conducted with nursing facility providers. These reconciliations resulted in identification of overpayments to 21 nursing facilities totaling approximately \$4.5 million (federal share approximately \$2,393,000). The majority of nursing home providers with overpayment balances have signed promissory notes with DHS and the overpayment amounts are being recouped in installments to minimize the financial burden on the providers.

DHS continued interim payments or "target" payments to a limited number of providers -- approximately 29 providers continued to receive target payments at June 30, 1999. Additionally, interim payments made in this and previous years totaling approximately \$12.7 million remain outstanding at June 30, 1999. At June 30, 1999, there were 29 providers with outstanding interim payment balances exceeding \$ 100,000; seven of these providers had balances exceeding \$500,000.

Private group homes, which continue to receive target payments, constitute the majority of providers with interim payment balances outstanding (\$7.4 million at June 30, 1999). DHS must initiate the reconciliation of private group home providers to fully close out the interim payment balances. This process should result in the suspension of target payments, the submission and adjudication of outstanding claims, and the determination of any amounts due to or due from the providers being settled. DHS must complete this process expeditiously in order to fully identify and refund amounts overpaid to providers.

Questioned Costs: none

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RECOMMENDATIONS

99-41 a Eliminate remaining target payments to providers.

99-41b 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.

Finding 99-42

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 900 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 280 cases identified during calendar year 1999 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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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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.

We also found an instance where an individual was reported as eligible in both the MMIS and INMODES, but was categorized differently regarding allowable services in the two systems. The MMIS reflected the individual with a more restrictive coverage type which could have resulted in denial of payment for certain services that should have been allowable. DHS currently has no control in place to identify this type of eligibility discrepancy between the two systems. Such control is necessary to ensure that MMIS accurately identifies services that are allowable and unallowable based upon specific eligibility characteristics.

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

Questioned Costs: None

RECOMMENDATIONS

- 99-42a 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 11--MODES computer systems.

- 99-42b Determine the amount of claims paid on behalf of ineligible individuals and reimburse the federal government for its share.

- 99-42c Develop procedures to ensure the consistency of recipient coverage type between the MMIS and INRHODES.

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Finding 99-43

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. Monitoring is necessary to ensure that effective controls are in place over program disbursements, and that financial data is being accurately reported for presentation in the State's financial statements and federal reports. Financial monitoring procedures have not been fully developed, and responsibility for financial monitoring has not been centralized or well coordinated. DHS may need additional resources to fully accomplish these objectives.

We noted the following matters:

- *DHS should ensure that the fiscal agent has adequate internal control policies and procedures in place to pay claims in accordance with program regulations and to control cash disbursements made on behalf of the State.* The internal control structure through which the fiscal agent processes Medicaid claims is totally separate and distinct from the State's accounting system and related control procedures used to disburse other state expenditures. We recommended 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. This type of examination is referred to as a "SAS 70" review. A "SAS 70" review of the MMIS is particularly important because (1) DHS has limited resources to perform effective monitoring of the fiscal agent, (2) a claims processing quality control function is not in place, and (3) claims processing errors were found in our testing of claims processed during fiscal 1999.

DHS unsuccessfully solicited bids twice during fiscal year 1999 for the performance of such a review, and plans to modify and resubmit the request for proposal during fiscal year 2000.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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- *DHS has not developed procedures to effectively monitor the financial activities of the fiscal agent.* For example, DHS has not implemented sufficient procedures to verify MMIS financial data used to record program activity and prepare federal reports. Additionally, procedures are not in place to ensure all prescription drug rebates are billed and collected, provider accounts receivable balances are accurately reported, and third party liabilities have been identified and collected.

- *DHS needs to improve monitoring procedures to ensure all participating Medicaid providers are licensed in accordance with State laws and regulations.* DHS has contracted the responsibility for the administration of provider enrollment and eligibility to the fiscal agent. We reviewed 108 provider files maintained by the fiscal agent and found that documentation of provider licensing was missing for 18 providers. Although we were able to confirm that these providers had valid current licenses through alternate means, our results indicate a lack of monitoring on the part of the fiscal agent and ultimately DHS. Verification of provider licensing is important to ensure that payments are made only to licensed providers in accordance with federal regulations.

Questioned Costs: None

RECOMMENDATIONS

- 99-43a Obtain an annual examination ("SAS 70" review) performed by independent certified public accountants of the fiscal agent's internal control policies and procedures.
- 99-43b Improve financial oversight of the fiscal agent, including verification of information from the MMIS used to record program activity and prepare federal reports.
- 99-43c Require the fiscal agent to verify that all providers are licensed in accordance with State laws and regulations.

Finding 99-44

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

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

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 is continuing to develop a system security plan for the MMIS. The existing plan, which was principally developed by the fiscal agent, addresses the areas required by federal regulation by describing existing practices and procedures performed by the MMIS. DHS, however, has not evaluated these controls, practices and procedures compared to appropriate industry or government standards. Further, in some areas the plan should be more detailed and comprehensive. For example, the plan calls for annual testing of the business continuation portion of the plan, however, it is not specific as to what testing is required, and the documentation that should be maintained.

DHS must complete implementation of the security plan in conjunction with the fiscal agent to ensure that appropriate security requirements are operational within the MMIS.

Questioned Costs: None

RECOMMENDATIONS

99-44a Complete development of a comprehensive security plan for the MMIS which reflects system security requirements established by DHS.

99-44b Maintain sufficient documentation of required plan review and testing.

Finding 99-45

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

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. Audit findings in previous years disclosed that the MMIS does not require users to change their passwords on a scheduled basis.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III - Federal Award Findings and Questioned Costs

The fiscal agent has established procedures for some users to change passwords and the designated frequency. This should be expanded to encompass all users. We have previously 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.

Questioned Costs: None

RECOMMENDATIONS

99-45a Develop procedures that require all MMIS users to change their passwords periodically. Terminate access if passwords are not modified.

99-45b Develop procedures to control access to MMIS functions by assigning "roles" to MMIS users according to individual responsibilities and job descriptions.

Finding 99-46

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 must exhaust third party resources prio to payment. When a third party liability is established after payment, reimbursement should be sought.

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 INREODES computer system and is then electronically communicated to the MMIS. The fiscal agent must verify this TPL data

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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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. If the insurance is verified at the time the claim is submitted, the MMIS has a cost avoidance mechanism in place to deny payment of the claim.

During fiscal 1999, potential third party liability was subsequently identified for paid claims totaling \$2,270,553. Recovery from third party insurers was not attempted for claims totaling \$710,025 (federal share - \$383,769) 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 lags 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 (including Medicare) 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 or in the case of Medicare, a patient's benefits had been exhausted by the time recovery was attempted.

During fiscal year 1999, between 400 and 800 unverified TPL data segments were reported at the end of each month. Timely verification of TPL information is critical to successful recovery. 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.

The fiscal agent indicated that TPL verification limits instituted by one of the major healthcare providers has made it difficult to reduce the number of unverified panels reported in the system. Additionally, 245 out of the 630 unverified panels reported as of January 2000 pertained to a healthcare provider that was recently taken over by the State and placed into receivership, negating any potential recovery by the program.

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. The fiscal agent also indicated that Medicare TPL billings for the months of July and August 1999 had not been generated as of January 2000 due to system problems.

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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Questioned Costs: \$383,769

RECOMMENDATIONS

99-46a Improve monitoring of the fiscal agent's TPL identification and collection procedures.

99-46b Reimburse the federal government for its share of uncollected third party liability recoveries.

Finding 99-47

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

ACTIVITIES ALLOWED OR UNALLOWED

Disbursements totaling \$897 million were made to Medicaid providers during fiscal 1999 based upon claims (and in some instances - target payments) processed by the fiscal agent through the Medicaid Management Information System (MMIS). This amount includes \$133 million for managed care premiums.

We selected a random sample of 150 fee-for-service claims processed through the MMIS with a total dollar value of \$286,166, and 60 managed care premium payments with a total dollar value of \$5,956. 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.

We found the following exceptions resulting in incorrect payments to providers:

Pharmaceutical Claims

- The MMIS calculated and paid an incorrect pharmaceutical dispensing fee for a longterm care patient. DHS allows two dispensing fees; \$2.85 for individuals receiving longterm care services and \$3.40 for all other Medicaid recipients. The MMIS paid the dispensing fee of \$3.40 billed by the provider instead of the correct amount of \$2.85 based upon the recipient's status. This claim resulted in an overpayment of \$.55.
- The MMIS calculated an incorrect amount for an over-the-counter pharmaceutical claim. Over-the-counter pharmacy claims pay at the lower of (a) the allowable cost plus a 50%

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III - Federal Award Findings and Questioned Costs

mark-up, but no less than a \$2.00 charge per item, (b) the allowable cost plus the appropriate dispensing fee, or (c) the Usual and Customary Rate (UCR). Based on this formula, the sampled claim should have paid the \$2.00 indicated in (a) above. However, the MMIS paid the \$3.00 amount billed by the provider (which was less than either (b) and (c) calculations above). This claim resulted in an overpayment of \$ 1.

Long-term Care Claims

- The MMIS paid an incorrect amount for a claim submitted by the State operated hospital. There are two authorized per them rates for the hospital; \$547.25 for patients who have Medicare Part B (physician services) coverage and \$575.70 for patients without Medicare Part B coverage. The MMIS paid the per them rate of \$575.70 for a patient with verified Medicare B coverage. This exception resulted in an overpayment of \$853.50 (based on the 30-day claim period). This overpayment was caused by an incorrect payment rate being specified on the billing instrument submitted to the fiscal agent and the lack of a control edit that would compare the billing rate requested with other insurance coverage verified within the MMIS.
- The MMIS calculated an incorrect payment amount for a fiscal year 1994 date of service nursing home claim due to an uncorrected problem in the system. Upon the inception of the MMIS, the system incorrectly applied 20 Medicare reimbursement days each month (instead of 20 days in total) to nursing facility claims. In these instances the MMIS underpaid nursing facilities because it only paid for amounts in excess of 20 days. The fiscal agent subsequently corrected the system in March 1995; however, the correction was not made retroactively. Providers would have had to resubmit adjusted claims to receive full payment. This claim resulted in an underpayment.

These instances of claims processed with incorrect payment amounts indicate weaknesses in the claims processing component of the MMIS. As described in another finding (Finding 99-43), improved monitoring of the activities of the fiscal agent, including performance of an independent examination of its internal control policies and procedures are needed to improve control over the claims payment process. DHS is currently working with the fiscal agent to make appropriate programming changes to the MMIS.

We also found an unallowable cost that was allocated to the Medical Assistance Program through the Department's cost allocation system. Legal fees related to the defense of questioned cost resulting from a prior year audit were charged in the amount of \$5,518.

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

Questioned Costs: Total - \$6,373; federal share \$3,221.

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

RECOMMENDATIONS

- 99-47a Reimburse the federal government for questioned costs deemed unallowable.
- 99-47b Implement control procedures to ensure the accuracy of claims payments calculated by the MMIS.
- 99-47c Instruct the fiscal agent to resolve MMIS programming problems resulting in incorrect payments to providers.
- 99-47d Determine extent of overpayments caused by MMIS programming problems; adjust claims paid incorrectly to recoup overpayments from providers.

Finding 99-48

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 1999, 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.

We found incomplete documentation for 2 out of the 12 drug rebate receipts we reviewed. Although the fiscal agent was able to subsequently obtain sufficient supporting documentation from the manufacturer, the incomplete documentation indicates inadequate control regarding the verification of rebate completeness and accuracy. For most of the rebates reviewed, it appears common for the manufacturer to adjust the initial amount billed by the fiscal agent. These adjustments complicate the rebate process and warrant a thorough review of the supporting data to ensure that all amounts due the program have been received.

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

As noted in prior audits, our review of drug rebate procedures indicated several control weaknesses relating to the monitoring of drug rebates by DHS. Control weaknesses include insufficient monitoring of rebate adjustments, disputes, and collections made by the fiscal agent. 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 may report units dispensed 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.

DHS and its fiscal agent plan to modify 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 implemented, DHS plans to review claims with potential billing errors and make any necessary adjustments.

Questioned Costs: None

RECOMMENDATIONS

99-48a Monitor drug rebates collected by the fiscal agent as well as amounts due from drug manufacturers.

99-48b Improve controls within the MMIS to reject drug claims with obvious unit errors and reduce the need for manual adjustments to drug rebate billings.

Finding 99-49

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III - Federal Award Findings and Questioned Costs

eligibility, types of services allowed and payment rate information as well as enhanced controls to prevent duplicate payments, identify unusual patterns of utilization of services, and identify and collect third party liabilities.

During fiscal 1999, program expenditures in excess of \$75 million were processed by systems independent of the MMIS. The Department of Children, Youth and Families was responsible for nearly \$46 million of expenditures processed independently of the MMIS. Other expenditures were mostly attributable to programs administered by the Department of Mental Health, Retardation, and Hospitals and the Department of Elderly Affairs. 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. Processing all program expenditures through a unified system would substantially enhance controls over programs administered by agencies outside the Department of Human Services.

Six separate departments of the State administer elements of the Medicaid cluster of programs. We noted inadequate controls to ensure compliance with program requirements for administrative expenditures incurred by departments other than the Department of Human Services. This occurs because there are no centralized controls in place, across departmental lines, to ensure that program administrative expenditures are in compliance with program requirements. While all administrative expenditures are disbursed through the State's centralized accounting system, controls to ensure compliance with federal program requirements are employed at the department level. Each department designs its own procedures and controls to meet federal program requirements. Expenditures charged to the Medicaid program by other departments are not reviewed or approved by DHS -- the single state Medicaid agency.

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

Questioned Costs: None

RECOMMENDATIONS

- 99-49a Improve controls by requiring all benefit-type program expenditures to be processed through the MMIS.

- 99-49b 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

Finding 99-50

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

HOSPITAL SETTLEMENTS

DHS requires inpatient hospital providers to file cost settlement 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 -- \$8,717,882 and \$7,977,162 received to date for fiscal years 1994 and 1995, respectively.

We found that, as of June 30, 1999, DHS still had not received four settlement reports from fiscal 1994 and six reports from fiscal 1995. In addition, most fiscal 1996 and 1997 settlement reports 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

99-50a Seek enforcement authority within the General laws to improve the timeliness of hospital settlements.

Finding 99-51

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 nonprocurement transactions (e.g., subawards to subrecipients). Contractors receiving individual awards for \$ 100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred.

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The department included provision for suspension and debarment certifications in its standard contracts effective in November 1999. The department has not required 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

RECOMMENDATION

99-51 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.

Finding 99-52

RESEARCH AND DEVELOPMENT CLUSTER

Buildings and Facilities Program - CFDA 10.218

Administered by: University of Rhode Island

DAVIS BACON ACT

The Davis Bacon Act states that all laborers and mechanics employed by contractors or subcontractors who work on construction contracts in excess of \$2,000 financed by federal funds must be paid prevailing wages.

The University had one construction project in process during the year for which the Davis-Bacon Act applied. There was no process in place at the University to monitor wage rates of the individuals on the project.

Questioned Costs: None

RECOMMENDATION

99-52 Procedures should be established whereby wage rates are periodically reviewed to ensure compliance with the Davis-Bacon Act.

Corrective Action Plan -
Findings Included in 1999 Single Audit Report

Finding 99-1

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. Two staff people are presently assigned to fixed asset reporting, one staff member is completing physical inventories of existing fixed assets on a departmental basis as time allows and the other staff member is completing an inventory of state owned land and buildings. Additionally, the state automobile fleet is being brought into the fixed asset reporting system. 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 99-2

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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Corrective Action Plan -
Findings Included in 1999 Single Audit Report

Finding 99-3

Corrective Action:

99-3a

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 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. A report will be developed as a print-on-demand report that details the accounting system transactions that were processed by the Office of Accounts and Control staff that have dual access to the system.

99-3b

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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Finding 99-4

Corrective Action:

99-4a

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. Completion of Year 2000 readiness efforts will allow OLIS staff to implement this recommendation. Action has begun with but completion is not expected until June 2000 or later.

**Corrective Action Plan -
Findings Included in 1999 Single Audit Report**

99-4b

This recommendation cannot be completed until #99-4a is completed. See action plan for #99-4a.

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Finding 99-5

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 September 2000. 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 recovery/business resumption facilities.

Contact person: Barbara Weaver, Chief Information Officer
Office of Library and Information Services
Department of Administration
Telephone: (401) 222-2726

Finding 99-6

Corrective Action:

Account Structure

The current accounting system used by the Controller for the Highway fund has been in existence for decades. It has always been an ineffective tool to accurately segregate federal and state

Corrective Action Plan -
Findings Included in 1999 Single Audit Report

expenditures and to clearly identify federal receivables. Recent federal changes, and the use of "toll credits" by RIDOT, have exacerbated the situation, but did not cause it.

The Department is able to identify matching share on the project level and can adequately demonstrate that the required match was made for all federal projects. All testing done during the audit confirmed that the proper match was made. This is not a compliance issue, but rather a failure of the State's accounting system to accurately display federal and state expenditures.

The Department of Transportation initiated an effort last year with the State Controller and the Budget Office to revamp all of the highway system accounts. Meetings have been held with various interested parties and a blueprint has been established for the restructuring. The new chart of accounts will:

- Consolidate all federal expenditures into a single account for each CFDA number.
- For each federal account there will be a separate state match account.
- A separate state account will be created for "non-participating expenditures".
- A separate account will be created to record reimbursable work done on behalf of cities and towns, fire districts, and other entities.
- Vouchers will be split against the federal share, state share, "non-participating" and reimbursable accounts as appropriate.
- Federal funds will be drawn directly in to the federal accounts, which will clearly show the federal expenditures and federal receivables for that program.
- State bond money will be drawn into the state match and non-participating accounts as required which will clearly identify highway bond funds expended and bond funds available.
- Project and category expenditures will be tracked on a subsidiary system within DOT.

Federal Receivables

The \$15.7 million in "earned but unbilled" at the end of the Fiscal Year 1999 was within 12% of the Department's target level of \$14 million.

The Department will concentrate its effort on old "earned but unbilled" during Fiscal Year 2000 and make procedural changes to insure that future collection efforts are undertaken based on aging.

Corrective Action Plan -
Findings Included in 1999 Single Audit Report

Additionally, the Department is presently undertaking a joint Quality Financial Management Initiative (QFMI) with FHWA. The purpose of the QFMI is to streamline the project modification process and allow RIDOT greater flexibility in submitting modifications for exempt projects. The streamlining of this process will significantly reduce the paperwork and time necessary to obtain reimbursement for projects that require modified agreements.

Contact person: Brian Peterson
 Associate Director for Financial Management
 Telephone: (401) 222-6590

Finding 99-7

Corrective Action:

See corrective action for Finding 99-43.

Finding 99-8

Corrective Action:

See corrective action for Finding 99-49.

Finding 99-9

Corrective Action:

See corrective action for Finding 99-1.

Finding 99-10

Corrective Action:

99-10a

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

**Corrective Action Plan -
Findings Included in 1999 Single Audit Report**

Accounts and Control will begin monitoring the cash position of federal program accounts on a daily basis to prevent federal funds from being drawn later than permitted. The Division of Accounts and Control will also work with the agencies to modify draw techniques where necessary to ensure that the State's Treasury/State agreement is reflective of current payment patterns.

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99-10b

The Department of Administration will continue to explore with the General Treasurer the possibility of vesting responsibility for federal cash management within the Office of the General Treasurer.

99-10c

The program that was omitted from the Treasury/State agreement was an oversight. The current federal regulations relative to which federal programs should be included in the agreement will be researched and procedures will be revised as necessary.

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Finding 99-11

Corrective Action:

99-11a

DHS will prepare a list of personnel who are authorized EBT/PIN machine users indicating each employee two digit ID number. Employees who have access to INRHODES to initiate or modify case data and also EBT/PIN access will be identified. Employees currently authorized with both functions will be discontinued to have access to EBT/PIN machines. Two or three of the small DHS offices operate with a limited amount of office staff and it is not feasible to segregate these duties. In order to address this concern, DHS will develop a process of producing monthly activity reports identifying those workers who have INRHODES authorization and EBT/PIN authorization. Regional Managers will review the dual actions identified on these reports.

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99-11b

The DHS Office of Financial Management will be the Central control Office to document all individuals with access to the Deluxe Data EBT card authorization system.

99-11c

The DHS Office of Financial Management will establish procedures for assigning, modifying and deleting access to the Deluxe Data EBT card authorization system.

99-11d

All DHS employees authorized to access the EBT/PIN System will be instructed to log-off the system when not active. Financial Management will establish a system to change all passwords on a quarterly basis.

Contact person: Ronald H. Gaskin
 401-462-6856

Finding 99-12

Corrective Action:

The U.S. Department of Agriculture recently issued EBT Reconciliation Guidance to more explicitly define the E.B.T. reconciliation requirement of C.F.R. 274.120) (1). Rhode Island Department of Human Services along with the New England E.B.T. coalition is awaiting final guidance from U.S.D.A before instructing the contractor of the reconciliation requirements.

Upon final guidance from U.S.D.A, Rhode Island Department of Human Services will work with the N.E. Coalition to implement required E.B.T. reconciliation process with the contractor.

Contact person: Ronald H. Gaskin
 401-462-6856

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Finding 99-13

Corrective Action:

Partially Accepted and Will Implement

As RIDE indicated in its FY 98 response to this finding, the department committed to including the Procurement, Suspension and Debarment certification in FY 2000 applications because of the timing of the audit report. RIDE included the required Debarment certifications in December of FY 99 for the nutrition program and in the Spring of 99 for the Title I and Special Education programs. The certification is part of the annual application package going out to all eligible applicants.

Contact person(s) Nutrition:	Adrienne DiMeo (401) 222-4600 Ext. 2454
Special Education:	Robert Pryhoda (401) 222-4600 Ext. 2301
Title I:	Paula Milano (401) 222-4600 Ext. 2206

Finding 99-14

Corrective Action:

Accepted and Implemented

Child Nutrition Cluster

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 request that will state that failure to reply will result in the withholding of Federal CNP reimbursement.

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

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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.

Contact person(s): Linda Nightingale Greenwood
 (401) 222-4600 Ext. 2364
 Adrienne DiMeo
 (401) 222-4600 Ext. 2454

Title I and Special Education

Partially Accepted and Will Implement

RIDE has reassigned this staff function several times to ensure compliance with the requirements. Several staff departures have contributed to an inconsistent review of audits. However, RIDE does have procedures to comply with audit review and follow-up. It is currently the lack of staff capacity that prevents implementation of the procedures. Because of an acceleration of other state priorities, the plan to assign this responsibility to a new staff member has not been implemented. RIDE will hire temporary assistance to insure that audits are reviewed for FY 2001.

Contact person(s): Adelita Orefice
 (401) 222-4600 Ext. 2402
 Loreto Gandara
 (401) 222-4600 Ext. 2410

Finding 99-15

Corrective Action:

The Department does have standard contract language that is used for the majority of contracted activities and had not included the certification requirement in the boiler plate. The Department revised its contract language to include the required debarment and suspension certification. This became effective June 4, 1998. The child care contracts were in the process of being revised so the incorporation of the language was part of the whole revision process and time schedule.

Anticipated completion date: Contracts - July 1, 1999. Child Care contracts - July 1, 1999.

Contact person: Ronald H. Gaskin at (401) 462-6856

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Finding 99-16

Corrective Action:

It is our understanding this recommendation suggests the State verify that its recipients, cities and towns, are not excluded from participation in federal procurement/nonprocurement programs.

On this date, MA/CD has verified all 33 Rhode Island small cities and towns are not included on the List of Parties Excluded From Participation in Federal Procurement and Nonprocurement Programs. This was accomplished through the EPLS web site which is updated monthly. Each year, beginning with the FY'2000 cycle, subsequent to receipt of applications but prior to announcement of awards, the State will reverify each community's eligibility and place a certification to that effect in the file.

In addition, the State will henceforth add language to its CDBG contracts, requiring grantees to certify that the organization and its principals are not suspended or debarred.

It should be noted that Rhode Island municipalities rarely have the direct relationship with the federal government that other State's communities/county governments often have. It is therefore unlikely that any community in our State would be debarred. It is additionally unlikely that such debarment would occur without knowledge to this office.

Below is the process used to verify municipal recipients, our subrecipients, are eligible to participate in the program.

Section 5.2(D)(1) of the Rhode Island CDBG Management Handbook, states:

"Prior to awarding any contract, grantees must submit to MA/CD a List of Proposed Contractors and Subcontractors (Form CDBG-W2) for approval. MA/CD will verify eligibility by checking GSA's -List of Parties Excluded from Federal Procurement and Nonprocurement Programs."

All contractors which are submitted to Municipal Affairs are checked against the electronic List of Parties Excluded from Federal Procurement and Nonprocurement Programs (<http://www.eppls.arnet.gov> and the signed certification is placed in the file.

The public, including communities, have access to the electronic site noted above to verify a contractor's eligibility through the Municipal Affairs website (<http://www.muni-info.state.ri.us>). In an effort to assure compliance with this requirement, the State does intend to revise its regulations in the

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adjusted. It should be noted that a substantial number of the State's subrecipients fell below this threshold and were not required to have a single audit performed in accordance with OMB Circular A-133 for the period ended June 30, 1998. In addition, a risk based approach to auditing is conducted.

A letter was sent to all communities by this office on July 29, 1997 advising them of the changes in audit requirements and detailing such. Be advised, subsequently the CDBG process at 6.15 of the CDBG Management Handbook governing local audit responsibilities was revised to assure grantees conduct audits in accordance with revised OMB Circular A-133, if applicable.

In addition, the CDBG Management Handbook states at 6.15(D) that the level of review, monitorings, of any grantee which is exempted from conducting an audit in accordance with A133; or any grantee which has its CDBG activities audited as a non-major program, will be adjusted appropriately.

State MA/CD staff have addressed this issue by meeting with the Central Business Office first on January 8, 1998 and again recently in the Winter of 2000 to discuss adjusted monitoring procedures necessitated by the change in audit regulations. It was determined the State would annually generate a list of those communities that will have an A-133 audit conducted and those communities in which CDBG has been determined to be a low-risk program. CBO will establish financial monitoring processes and conduct a coordinated and extensive fiscal review of communities not required to have an A-133 audit or for those applicable programs classified as low-risk. MA/CD staff will review the findings of their review and adjust its own financial monitorings appropriately. CBO is expected to begin implementing this process shortly. A current list of subject communities is attached and has been forwarded to the CBO for action. This list has additionally been provided to the CDBG monitors. Effective immediately, this office will adopt procedures in-house to assure that CDBG monitors are provided copies of letters relative to all applicable audits.

Subsequent to receipt of audits, it is this office's practice to review such and respond to any findings which are applicable to the CDBG program. Such letters require corrective action plans when applicable. It should be noted that the audit schedule does not coincide with CDBG monitoring schedules. Issues identified as part of the Audited Financial Statements are generally resolved in that review process and it is unnecessary to reintroduce those issues as part of the subsequent monitoring.

Standardized checklists which have been generated by this office are not required under federal regulations, but have been adopted to assist monitors in their review process. Often, these checklists are not utilized by monitors who employ their own review method. Reports, which generally follow a standard format, and notes on file adequately document the review process. The MA will, however, remind monitors to utilize approved checklists, to the maximum extent feasible.

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Contact person: Jeffrey A. Gofton
(401) 222-4411

Finding 99-18

Corrective Action:

The corrective action will include the following actions:

- Initial meeting has been conducted to determine cause and cure for missed job registrations on UI claims.
- Refiles were determined to be significant potential area of failure to register when no registration previously done on Initial Claim because of specific exemptions, i.e. return to work, trade union member, etc.
- Have outlined corrective plan to request and design new programming and screens to allow edit reminder, screen, and connectivity to enable automated registration on refile when not previously registered.
- In addition, 5 E&T Manager positions have been created in the Call Center to improve training. The managers will concentrate on job registration retraining to address this problem in both initial claims and refiles.
- Updated list of trade unions has been requested to insure proper registration of claimants belonging to non-exempt unions.

Contact person: Raymond Filippone, Assistant Director for Unemployment Insurance
Programs
(401) 462-8165

Finding 99-19

Corrective Action:

Personnel changes and turnovers plus the retiring of FARS ledgers caused a temporary suspension of monthly expenditure reconciliations. The department will complete the reconciliations for FY 1999 and make every effort, in the future, to provide the auditors with the recommended reconciliations including the Federal Grants Information Schedule at the time of their field work. These reconciliations are in addition to the monthly cash reconciliations which are performed on a more timely basis.

Contact person: Edward Hill, Supervising DLT Business Officer within the Business
Affairs Unit
(401) 462-8165

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Finding 99-20

Corrective Action:

We would like to respectfully take some exception to the comment suggesting that DLT monitoring might have sooner unearthed financial problems at the former Northern Rhode Island Private Industry Council, Inc. It was DLT procedures that determined that a duplicate drawdown had been requested in March 1999, which immediately led to a meeting, on April 5, 1999 between DLT staff and the NRIPIC Director and the NRIPIC Chair. While the NRIPIC representatives felt this was misunderstanding, DLT Director Dr. Arnold insisted that the NRIPIC representatives return to his office by Friday, April 9 with the KPMG auditors for further review. It was at that point that the NRIPIC agreed to a voluntary suspension of operations. The NRIPIC Director continued to present the situation as a bookkeeping discrepancy and told his board and staff that he fully expected the NRIPIC to resume operations. DLT detected the problem and dealt with it. In the period prior to April 9, 1999 we may have been dealing with misrepresentation on the part of NRIPIC, Inc. or a failure on the part of their accounting firm, KPMG Peat Marwick, to detect discrepancies during their audits; once we had an irrefutable document, i.e. a duplicate drawdown request that neither the NRIPIC nor their accounting firm could explain, DLT took immediate, definitive action. While the guidelines from the United States Department of Labor served us well for virtually the entire life of the Federal Job Training Partnership Act, neither the oversight and review functions of the Northern Rhode Island Private Industry Council Board members, nor the auditing services of KPMG Peat Marwick, were sufficient to overcome the apparent misrepresentation involved in this case. For that reason, the Department of Labor and Training will augment the Federal guidelines by requiring periodic verifications and reconciliations of financial documents both as part of and independent of separate auditing activities. We appreciate the assistance rendered by the Auditor General and his staff in investigating this matter.

Contact person: Michael Hayes
 401-222-3676

Finding 99-21

Corrective Action:

See response for Finding 99-20.

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Finding 99-22

Corrective Action:

The Director of Administration and Finance 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 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.

As of the fall of 1999, the new fixed asset module is operational for all assets except for assets with multiple funding sources. A plan is being developed to incorporate the required information for all assets including assets with multiple funding sources. A plan is also being developed to perform the required physical inventory of assets purchased under federal awards.

Contact person: Elaine Roberts, Executive Director
Telephone: 401-737-4000

Finding 99-23

Corrective Action:

The Department concurs with the finding and recommendation with the following explanation.

The nine checks totaling \$545,490 were processed in anticipation of a closing on various railroad parcels in northern Rhode Island. The Department of Transportation was unable to reach agreement with the railroad and the checks were not redeposited.

Normally checks are requested in advance of a closing. Because of the uncertainty of processing checks through the State system, they are often requested several weeks prior to the anticipated closing. The Real Estate Unit attempts to negotiate the sale of the property with the owner. If the owner refuses, condemnation proceedings are begun and the owner is presented with the check, regardless of his or her acceptance of the offer of compensation. (In some instances, the checks are escrowed with the Superior Court.) The preference is to avoid condemnation and negotiate successfully with the owner.

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In this case, the Department was unable to reach an agreement. This situation was unique, because the property in question was a railroad. For railroads, the Department requires approval from the Public Utilities Commission prior to commencing condemnation procedures. This is a timely process. As such, the Department continued to attempt to reach agreement with the owner and kept checks in anticipation of a successful outcome. (Several times the checks were presented to the Treasurer for endorsement as they approached stale dating.)

The acquisition was not consummated within the fiscal year. At the same time that the checks were manually extended by the Treasurer, Accounts and Control was notified by the Treasurer to transfer the checks to the Unclaimed Check Account within the Highway Fund.

Based on these events, a number of procedures have been put in place.

- The Real Estate Unit has been advised not to allow checks to be extended beyond their expiration date without checking with the Finance Office.
- The Real Estate Unit has been requested, prior to the establishment of the new procedure discussed below, to try to have the checks cut as close to the potential closing date as possible.
- The Federal programs section will not draw funds on Right of Way purchases until notified by the Real Estate Unit that the transaction was completed. (Currently, any Right of Way expenditures are included in the normal three-day draw consistent with the Department's Cash Management Improvement Act agreement.)
- The Department will pursue with the State Controller a procedure whereby right of way vouchers can be put on an established schedule similar to contractor's payment. Under this system, the Real Estate Unit would have a guaranteed time period between the presentation of the properly authorized vouchers to the Controller and the availability of the checks. (For instance, all vouchers would be batched and presented on a Tuesday with a guaranteed check by Friday.) This would allow the Real Estate Unit to request the checks closer to the anticipated closing, and be able to predict with certainty the availability of the funds.

Contact person: Brian Peterson
 Associate Director for Financial Management
 Telephone: (401) 222-6590

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Finding 99-24

Corrective Action:

The situation was known to the Agency last year. The Agency contacted the borrower and the borrower's bond counsel in an effort to restructure the repayment schedule so as to remedy the situation, however, due to program constraints and the fact that moving the first principal repayment back in time would create a 21 year loan, the Agency was unable to remediate the issue. As a result, the Agency developed and put into effect last year, a procedure that is designed to prevent future occurrences of this sort.

Contact person: Clean Water Protection Finance Agency
Telephone: 401-453-4430

Finding 99-25

Corrective Action:

The College submits SSCR rosters to NSLDS on a regular reporting cycle for the months of January, March, May, September and November. Based on this schedule, we are not required to do any ad hoc reporting to lenders or guarantee agencies. In some cases, the withdrawal dates on file with NSLDS (as determined from a query of their database) did not match the dates that the College used to calculate student aid refunds. Because NSLDS data is dynamic and subject to adjustment by different entities, we are unable to determine the cause of the discrepancy. We did find one problem in our SSCR computer program where the semester start date was being reported as the withdrawal date when a student withdrew after a semester had begun. This problem has been corrected.

Contact person: John J. Fitta, Assistant Vice President for Finance and Controller
Telephone: 401-456-8224

Finding 99-26

Corrective Action:

The files that lacked the entrance interview sheets were for students who first borrowed FFELP loans several years ago. While we acknowledge that there were some problems with entrance counseling in the past (as noted in prior audits), no entrance counseling problems were found in test work on files

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for new first-time borrowers in FY99. Our procedures for entrance counseling were tightened after the last audit finding.

Contact person: John J. Fitta, Assistant Vice President for Finance and Controller
Telephone: 401-456-8224

Finding 99-27

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

Finding 99-28

Corrective Action:

It is the College's procedure to refund the SFA programs within the required time lines. The instances noted were a result of unintentional oversights. Steps will be taken to ensure that all future SFA refunds are processed in a timely manner.

Contact person: John Horodysky
Telephone: 401-825-2150

Finding 99-29

Corrective Action:

Partially Accepted and Implemented

RIDE has instituted several corrective actions with regard to this recommendation. These include ceasing automatic advance start-up payments; in FY 97, allowing only monthly cash advance requests, and in FY 98 sending letters to sub-grantees who return significant amounts of cash or maintain excess cash

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on hand. RIDE has been evaluating the effectiveness of above listed procedures and is considering additional changes in the reporting requirements, cash requests, and methods of payment.

Contact person(s): Adelita Orefice
 (401) 222-4600 Ext. 2402
 Loreto Gandara
 (401) 222-4600 Ext. 2410

Finding 99-30

Corrective Action:

Accepted and Will Implement

The Title I staff will prepare the required annual maintenance of effort schedule to insure compliance with the 90 percent expenditure requirement.

Contact person: Paula Milano
 (401) 222-4600 Ext. 2206

Finding 99-31

Corrective Action:

Policy modified effective June 1, 1999 to impose the 25 % reduction required by law.

Finding 99-32

Corrective Action:

The Department of Human Services continues to amend current TANF policy to incorporate Federal requirements. DHS has initiated several steps to implement policy changes including a new application form, which reflects new language advising clients of their responsibilities.

Due to the broad range of issues and complexities of systems programming which must occur in order to implement these changes, the Department has set a goal of implementation for September 30, 2000.

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Contact person: Donalda Carlson at (401) 462-6833

Finding 99-33

Corrective Action:

99-33a

The Department concurs with the Auditor General's findings that some of the discrepancies which resulted from the IEVS matches were not resolved in a timely fashion. The InRhodes function that allows these matches to be processed has not worked properly. In the 1998 Audit Report it was noted that this function needed to be corrected. That enhancement to InRhodes was made during 1999 as noted below in the Corrective Action Section.

The enhancement to InRhodes which corrects the problems in reviewing and clearing the various IEVS matches was developed, programmed and tested during 1999. On 11/13/99, this enhancement was moved into production.

A memo to workers and supervisors was sent 12/1/99 to remind staff of the importance of the IEVS Interface matches and the timely resolution of these matches.

A review of the control procedures and program policies is now in process. This will result in revisions to current policy. An anticipated completion date is 6/30/00. It is being done in conjunction with a Food Stamp Program review in the Collection and Claims procedures.

A memo to the supervisory staff is being developed as a part of the policy and procedures review to remind them of the necessity to monitor the IEVS Interface process to ensure that matches are resolved in a timely fashion.

99-33b

The Department concurs with the findings of the Auditor General that in some case files the documentation used to resolve the discrepancy was not properly retained in the case file.

The case files identified by the Auditor General's staff as lacking documentation to support resolution of the IEVS match are being reviewed by Supervisory staff. Appropriate action to document the match resolution will be taken. This review should be complete by 5/31/00. A memo is being developed to remind all staff of the correct procedures to follow when resolving IEVS discrepancies. This includes maintaining the documentation in the case file and annotating the Case Chronology. This memo should be complete by 4/15/00.

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Contact person: Edward P. Sneesby at 462-2424

Finding 99-34

Corrective Action:

Programming began on 3/1/2000 on an amended 34A report for State use only which will include the following financial data not required on the Federal report:

1. Collections and disbursements for bookkeeping cases that are not wage garnished.
2. Undistributed collections on bookkeeping cases that are not wage garnished.

Also, a correction is being made to the current 34A to include held receipts for responding (out of state) cases.

It is anticipated that this will be programmed, tested and moved to production on or before 6/30/00.

Contact person: John Murphy
401-222-2847

Finding 99-35

Corrective Action:

Discussion is already underway between Child Support and the Department of Administration to develop a new Indirect Cost Rate Proposal. We anticipate that a new proposal will be submitted to the Administration for Children and Families for approval by May 1, 2000.

Contact person: John Murphy
401-222-2847

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Finding 99-36

Corrective Action:

Effective July 1, 1999, the Department executed new contracts with child care providers containing the required Pro Children Act certifications.

Finding 99-37

Corrective Action:

99-37a

The Department will correct the error found in the September 30, 1998 Statement A payroll adjustments and will then rerun the cost allocation plan for that quarter. The difference will be calculated and reported on the Title IV-E claim for the quarter ended June 30, 2000. This error occurred shortly after a new Public Consulting Group employee was assigned to do the administrative cost allocation process, and was not repeated in subsequent quarters.

99-37b

This issue relating to certifications for individuals charged entirely to a single cost objective, is a new issue of which the Department was not previously aware. The Department will, in the future, obtain the necessary certification from or on behalf of the cognizant personnel.

99-37c

In the future, the Department will review the consultants cost grouper, the payroll function code summary, and the statistics before these inputs are run through the cost allocation software.

99-37d

The Department will finalize cost allocation plan changes that have been pending with the ACF Division of Cost Allocation. These agreements have been approved in concept, but the final wording has been the subject of an ongoing dialogue. None of these changes are expected to change the allocation process, only the text of the cost allocation plan.

Contact person: Leo DuCharme
 401-222-5271

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Finding 99-38

Corrective Action:

During FY-1998 there were ongoing problems with the, then new, RICHIST computer systems ability to deliver accurate statistical data. As a result the Department was forced to utilize the previous statistics to report administrative costs. Revised reports utilizing the correct statistical data were still not available when June 1998 PMS-272 report was prepared. The correct statistical reports were finally available in September of 1998. The four quarterly cost allocation plans for FY-1998 were then rerun using the actual statistical data. The final totals for the FFY-1998 reported in the September 1998 PMS-272 included the corrected report totals for FFY-98. The final figures were significantly higher than the previously reported figures. As a result it appears that the total expenditures reported for the SFY-1999 fiscal year are overstated, when compared to the actual quarterly claims for the fiscal year. In actuality, the amounts reported on the quarterly SFY-1998 PMS-272's were unintentionally understated. This was the cause of the major discrepancy reported.

Additionally, the Department has had difficulties in processing its direct claims in a timely manner which has caused the claims to be late on an ongoing basis. As a result, the final Title IV-E claim figures for the quarter have not been available when it was time to prepare the quarterly PMS-272 report. The Department was forced to report using estimates which has resulted in some minor discrepancies. The Department has, over time, made progress in increasing the timeliness and accuracy of its placement data. That in turn, is allowing the Department to process the direct claims sooner. In the future, the Department will utilize final quarterly claim data in its PMS-272 report submission.

Contact person: Leo DuCharme
 401-222-5271

Finding 99-39

Corrective Action:

The maintenance costs associated with these children have been identified and will be adjusted on the March 2000 Title IV-E claim.

Contact person: Leo DuCharme
 401-222-5271

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Finding 99-40

Corrective Action:

The Department monitors the program and fiscal activities of its subrecipients through a quarterly reporting system. This payment system was developed when processing time of payments was between six to eight weeks from the time the Department submitted a voucher to the Controller. This resulted in quarterly payments being provided at the end of the quarter as reimbursements. The efficiency of the payment process has meant that in some cases payments are received mid way through the quarter.

The Department did revise the payment schedules for social service block grantees. Payments are made on a monthly basis to grantees receiving more than \$5,000 annually upon receipt of a request for payment, subject to quarterly report adjustments.

Anticipated completion date: Implemented July 1, 1999.

Contact person: Ronald H. Gaskin at (401) 462-6856

Finding 99-41

Corrective Action:

99-41a

The department initiated an aggressive program in FY 1998 to reconcile interim payment balances and to terminate target payments. This effort has reduced interim payment balances from \$95.3 million at June 30, 1997 to \$9.2 million as of March 17, 2000, with only 26 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 DD group homes, representing 2/3 of the account receivable balance (as of 3-17-00) are in the process of being reconciled.

Contact Person: John Young at (401) 462-3575

Anticipated Completion Date: December 31, 2000.

99-41b

See response to Recommendation 99-41a.

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Contact Person: John Young at (401) 462-3575

Anticipated Completion Date: December 31, 2000

Finding 99-42

Corrective Action:

99-42a

To the extent that the audit findings imply that the MMIS and InRhodes Systems are inaccurate, the Department disagrees. The Department has put in place control procedures to assure that InRhodes eligibility data is accurate on the MMIS System. A monthly reconciliation is performed to research and resolve variances between the two systems. The Department has improved the documentation of its reconciliation efforts including tabulation of any amounts paid determined to be unallowable based on eligibility span.

Contact Person: Alan Tannenbaum at (401) 462-1893

99-42b

As a result of the reconciliation process, the Department will pay the federal share of any overpayments. See response to recommendation 99-42a.

Contact Person: James FitzGerald at (401) 462-1879

99-42c

The Department will review InRhodes transaction to ensure that recipients are identified correctly at the time of eligibility determination. If corrective action is necessary, we will work to implement the changes as soon as possible.

Contact Person: Alan Tannenbaum at (401) 462-1893

Anticipated Completion Date: December 31, 2000

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Finding 99-43

Corrective Action:

99-43a

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.

Contact Person: James FitzGerald at (401) 462-1879

Anticipated Completion Date: March 31, 2001-07-05

99-43b

The Department believes that it has employed prudent and effective measures with respect to oversight of the fiscal agent, particularly in light of staffing constraints, however, the Department will explore opportunities to refine these efforts with the fiscal agent, and will draft a revised oversight plan.

Contact Person: James FitzGerald at (401) 462-1879

Anticipated Completion Date: December 31, 2000

99-43c

The Department will review verification procedures between these agencies and our fiscal agent to ensure that the records are maintained accordingly.

Contact Person: Lynne Harrington at (401) 462-1877

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Finding 99-44

Corrective Action:

99-44a

The Department has compiled all of the elements of its security plan into a single document. We received the current requirements in March 2000 and have established a review team to identify areas that have to be updated.

Contact Person: Lynne Harrington at (401) 462-1877

Anticipated CoMpletion Date: June 30, 2000

99-44b

See response to Recommendation 99-44a.

Contact person: Lynne Harrington at (401) 462-1877

Anticipated Completion Date: June 30, 2000

Finding 99-45

Corrective Action:

99-45a

The Department agrees with this recommendation, and will update to Solaris 2.6.

Contact Person: Lynne Harrington at (401) 462-1877

Anticipated Completion Date: June 30, 2000

99-45b

A review of user ID's is in progress, in which job required accesses will be identified, as well as a security profile for each position.

Contact Person: Lynne Harrington at (401) 462-1877

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Anticipated Completion Date: June 30, 2000

Finding 99-46

Corrective Action:

99-46a

The TPL activity is being reviewed and the Department will implement appropriate changes.

Contact Person: James FitzGerald at (401) 462-1879

Anticipated Completion Date: Continuous

99-46b

The Department will reimburse the federal government for its share of uncollected third party liability recoveries, at such time as the TPL claim has been fully adjudicated.

Contact Person: James FitzGerald at (401) 462-1879

Anticipated Completion Date: Continuous

Finding 99-47

Corrective Action:

99-47a

The Department will reimburse the federal government the \$3,221 identified.

Contact Person: James FitzGerald at (401) 462-1879

Anticipated Completion Date: June 30, 2000

99-47b

The Department disagrees with this recommendation, as we have control procedures in place with the respective staffs of DHS and EDS to ensure that claims are processed and paid correctly.

Corrective Action Plan -
Findings Included in 1999 Single Audit Report

Contact Person: Lynne Harrington at (401) 462-1877

Anticipated Completion Date: December 31, 2000

99-47c

The Department and fiscal agent work cooperatively to resolve all problems when we identify them. This recommendation has resulted in the initiation of corrective action, which will be prioritized.

Contact Person: Lynne Harrington at (401) 462-1877

Anticipated Completion Date: December 31, 2000

99-47d

The Department has adjusted claims whenever a system change is implemented for the providers and claims impacted; resulting in recoupments or payments.

Contact Person: Lynne Harrington at (401) 462-1877

Anticipated Completion Date: Continuous

Finding 99-48

Corrective Action:

99-48a

The Department continually monitors the drug rebate program initiating changes and improvements as necessary.

Contact Person: Paula Avarista at (401) 462-2183

Anticipated Completion Date: Continuous

99-48b

Corrective Action: Controls to ensure correct units on drug claims were established in August 1998. Upon implementation, provider billing issues were identified that have resulted additional corrective measures, which are being resolved. Manual adjustments will always be required.

Contact Person: Paula Avarista at (401) 462-2183

Anticipated Completion Date: Continuous

Corrective Action Plan –
Findings Included in 1999 Single Audit Report

Finding 99-49

Corrective Action:

99-49a

Work plans have been established with each state department not already reimbursed on claims to convert to this basis. The implementation of this project has been delayed by Y2K issues and new contract awards at the other departments.

Contact Person: James FitzGerald at (401) 462-1879

Anticipated Completion Date: December 31, 2000

99-49b

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: Ronald Gaskin at (401) 462-6856.

Finding 99-50

Corrective Action:

The Department agrees with this recommendation in principle, but disagrees that it has the responsibility to initiate such changes as DHS serves as the designee of DOA for the prospective reimbursement system for hospitals within the state. The Department continues to work with the hospitals to process settlements as quickly as possible. This audit recommendation should be directly presented to DOA by the Auditor General.

Contact Person James FitzGerald at (401) 462-2179.

Corrective Action Plan –
Findings Included in 1999 Single Audit Report

Finding 99-51

Corrective Action:

The provider agreements will be modified to reflect this requirement.

Contact Person: Lynne Harrington at (401) 462-2177

Anticipated Completion Date: June 30, 2000

Finding 99-52

Corrective Action:

The University concurs with the auditors' recommendation. The Board of Governors for Higher Education internal auditors will be responsible for periodically reviewing wage rates to ensure compliance with the Davis-Bacon Act.

Contact Person: Fred M. Dolor, Office of the Controller
Telephone: 401-874-2378

Summary Schedule of Prior Audit Findings			
Table of Prior Findings by Federal Program			
		<u>Findings included in the</u>	<u>Findings</u>
		<u>Fiscal 1997 and 1998</u>	<u>From years</u>
	<u>CFDA</u>	<u>Single Audit</u>	<u>Prior to</u>
<u>Program Title</u>	<u>Number</u>	<u>Report</u>	<u>1997</u>
Food Stamp Cluster:			
State Administrative Matching Grants For Food Stamp Program	10.561	97-10, 97-11, 97-12, 97-30, 97-31, 98-7, 98-8, 98-9, 98-10 98-32, 98-33	
Nutrition Cluster:			
School Breakfast Program	10.553	97-11, 97-26, 98-8, 98-11, 98-12, 98-13	
National School Lunch Program	10.555	97-11, 97-12, 97-26, 98-8, 98-9, 98-11, 98-12, 98-13	
Special Milk Program for Children	10.556	97-11, 97-26, 98-8, 98-11 98-12, 98-13	
Summer Food Service Food Program For Children	10.559	97-11, 97-26, 98-8, 98-11, 98-12, 98-13	
Special Supplemental Nutrition Program For Women, Infants, and Children	10.557	97-11, 97-12, 98-8, 98-9, 98-14	
Child and Adult Care Food Program	10.558	97-11, 97-26	
Sport Fish Restoration	15.605	97-10, 97-11	
Employment Services Cluster:			
Employment Service	17.207	97-11, 98-8	
Disabled Veterans' Outreach Program	17.801	98-8	
Unemployment Insurance	17.225	97-11, 97-12, 97-18, 98-8, 98-9, 98-10, 98-15	
Trade Adjustment Assistance – Workers	17.245	97-11, 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	
Airport Improvement Program	20-106	98-18, 98-19	
Highway Planning and Construction	20.205	97-11, 97-12, 97-20, 98-8, 98-9, 98-20	

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Table of Prior Findings by Federal Program			
		<u>Findings included in the</u>	<u>Findings</u>
		<u>Fiscal 1997 and 1998</u>	<u>From years</u>
<u>Program Title</u>	<u>CFDA</u>	<u>Single Audit</u>	<u>Prior to</u>
	<u>Number</u>	<u>Report</u>	<u>1997</u>
Transit Capital Grants Cluster:			
Federal Transit Capital Improvement Grants	20.500	97-11, 97-12, 98-8, 98-21, 98-22	
Federal Transit Capital Operating Assistance Formula Grants	20.507	97-11, 97-12, 98-8, 98-9, 98-21, 98-22	
Student Financial Assistance Cluster:			
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	
Title I Grants to Local Educational Agencies	84.010	97-11, 97-12, 97-25, 97-26, 98-8, 98-9, 98-12, 98-13, 98-23, 98-24	
Special Education Cluster:			
Special Education – Grants to States	84.027	97-27, 98-23	
Federal Family Education Loans (Guaranty Agency)	84.032	97-22, 98-27	
Vocational Education – Basic Grants to States	84.048	97-11, 97-12, 97-25, 97-26, 97-27, 97-28, 98-8, 98-9, 98-13, 98-23, 98-24	Page F-1
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	97-10, 97-11, 97-12, 97-30, 98-7, 98-8, 98-9, 98-10, 98-29	
Safe and Drug-Free Schools and Communities	84-186	97-27	
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	97-27, 98-23	
Temporary Assistance for Needy Families	93.558	97-11, 97-12, 97-30, 97-31, 98-8, 98-9, 98-10, 98-31, 98-32, 98-33, 98-34, 98-35, 98-36	

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Summary Schedule of Prior Audit Findings			
Table of Prior Findings by Federal Program			
		<u>Findings included in the</u>	<u>Findings</u>
		<u>Fiscal 1997 and 1998</u>	<u>From years</u>
	<u>CFDA</u>	<u>Single Audit</u>	<u>Prior to</u>
<u>Program Title</u>	<u>Number</u>	<u>Report</u>	<u>1997</u>
Family Support Payments to States – Assistance Payments:	93.560	97-10, 97-11, 97-12, 97-30, 97-31	
Child Support Enforcement	93.563	97-10, 97-11, 97-12, 97-35, 98-7, 98-8, 98-9, 98-10, 98-37	
Low-Income Home Energy Assistance	93.568	97-11, 97-12, 98-8, 98-9	
Community Services Block Grant	93.569	98-8, 98-32, 98-38, 98-39, 98-40	
Child Care Cluster:			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	97-11, 98-8, 98-32, 98-41	
Foster Care – Title IV-E	93.658	97-11, 97-12, 98-8, 98-9, 98-42	
Adoption Assistance	93.659	97-11	
Social Services Block Grant	93.667	97-11, 97-12, 97-30, 98-8, 98-9, 98-10, 98-32	
Medicaid Cluster:			
State Medicaid Fraud Control Units	93.775	97-11, 98-8	
State Survey and Certification of Health Care Suppliers and Providers	93.777	97-11, 98-8	
Medical Assistance Program	93.778	97-11, 97-12, 97-30, 97-41, to 97-48, 97-50 to 97-52, 98-8, 98-9, 98-10, 98-43 to 98-54	Page F-1
Block Grants for Prevention and Treatment of Substance Abuse	93.959	97-11, 97-12, 98-8, 98-9	
Social Security – Disability Insurance	96.001		Page F-1
Research and Development Cluster:			
Various	Various	97-55, 98-55	
Economic Development – Public Works Impact Program	11.304	98-56	

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
FY96 p.E82	84.048	Errors were made in determining the amount of indirect costs allocated to the Federal program. Adjust indirect costs as soon as the indirect rate is known.	1994		X			RIDE does adjust the 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.
FY96 p.E133	93.778	Tuition and salary costs were charged to the Medicaid program for an Employee on paid leave. 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 leave.	1996				X	The federal government has indicated that no further action is required on this audit finding.
FY96 p.E149	96.001	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 fiscal year 1996. We did not quantify the amount of unallowable overtime costs claimed during fiscal year 1996.	1994		X			The practice of charging unallowable overtime costs has been discontinued. Any quantification of questioned costs for prior years is pending with the federal government.
97-10	various	The State did not comply with regulations governing the use, management and disposition of equipment purchased with federal funds.	1997					see status for finding 98-7.
97-11	various	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					see status for finding 98-8.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
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					see status for finding 98-8.
97-12	various	The State did not correctly calculate the net interest liability due the federal government because of noncompliance with the Cash Management Improvement Act.						
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					see status for finding 98-9.
97-12b		Comply with the methods specified in the Treasury/State agreement to calculate the State interest liability.	1995					see status for finding 98-9.
97-12d		Improve controls to ensure that interest, when incurred, is calculated in accordance with the provisions of the Treasury/State agreement.	1997					see status for finding 98-9.
97-18	17.225	Many individuals receiving unemployment insurance benefits have not registered with the Department of Labor's Job Services Division as required by state law.						
97-18		Improve controls to ensure all claimants receiving Unemployment Insurance benefits demonstrate their availability for work by registering with the Job Services Division.	1997					see status for finding 98-15
97-20	20.205	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.						
97-20		Create and maintain an inventory listing of real property.	1997					see status for finding 98-20
97-22	84.032	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

<u>Finding and Recommendation Number</u>	<u>CFDA</u>	<u>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</u>	<u>Initial Year of Rec.</u>	<u>Imple-mented</u>	<u>Partially Imple-mented</u>	<u>Not Imple-mented</u>	<u>No Longer Valid</u>	<u>Comments</u>
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 fillings with the Department are necessary.	1997					see status for finding 98-27
97-25	84.010 84-048	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					see status for finding 98-24
97-26	10.553 10.555 10.556 10.558 10.559 84.010 84.048	Monitoring of subrecipient audit reports needs to be improved.						
97-26a		Monitor the receipt of all required subrecipient audit reports and review such audit reports to determine if subrecipients complied with applicable program requirements.	1997					see status of finding 98-13

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
97-26b		Ensure that appropriate corrective action is taken for all reported findings contained in subrecipient audit reports.	1997					see status of finding 98-13
97-27	84.048 84.027 84.186 84.276	No documentation exists to support the allocation of certain costs.						
97-27		Document the methodology for allocating costs to multiple federal programs	1997					see status of finding 98-23
97-28	84.048	The Vocational Education Program was charged for the full cost of computers provided to employees who are assigned part-time to the program.				X		
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.

Two other recipients included in the questioned costs finding are also heavily involved with the Workforce Development Office. One recipient has been instrumental in developing the department's School to Career grant program. He is a driving force behind RIDE's secondary school restructuring program its integration with career education, and a task force member for RIDE's new Metropolitan High School, an innovative "high school of applied learning." During FY97, he also assumed responsibility for the administration of the Workforce Development Office when the regular director was on leave. The second recipient acts as his support staff.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	<u>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</u>	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	<u>Comments</u>
97-30	10.561 84.126 93.558 93.560 93.667 93.778	The Department's cost allocation plan needs to be improved.						
97-30b		Allocate expenditures for unused employee leave as departmental indirect costs.	1997			X		Beginning in fiscal 2001 the State has revised its accounting policy for various employee benefit type expenses including unused leave at termination. These costs will be allocated statewide to all programs and activities equally as a percentage of payroll costs.
97-30c		Recover capital expenditures affecting multiple federal awards through use or depreciation allowances as required by federal regulations.	1997			X		Pending HHS resolution, however, the Department believes that the depreciation period has lapsed.
97-30d		Adjust federal reports accordingly for amounts over-and-under charged to federal programs.	1997			X		Pending HHS resolution

Also included in the questioned costs is a Workforce Development staff member who has significant responsibilities for adult education and vocational education linkages. Among other duties, he is the coordinator for Project Opportunity, a RIDE federally supported program that provides comprehensive vocational education and accompanying support services to AFDC recipients.

The final recipient reported in the finding is a member of the School to Career Task force that launched the School to Career federal grant program. He continues to act as liaison to the Regional School to Career Partnerships.

RIDE has procedures in place to document costs allocated to more than one account/program. RIDE's time and effort system requires individuals funded by multiple federal funding sources where one or more of those sources requires a match, multiple funding sources with each source having a different objective and grants which separate administrative and program functions. Employees who are funded 100% from one funding source will sign certifications confirming their work is related to that cost objective.

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

<u>Finding and Recommendation Number</u>	<u>CFDA</u>	<u>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</u>	<u>Initial Year of Rec.</u>	<u>Imple-mented</u>	<u>Partially Imple-mented</u>	<u>Not Imple-mented</u>	<u>No Longer Valid</u>	<u>Comments</u>
97-31	10.561	Semi-annual certifications were not maintained for employees who worked exclusively on one federal program.						
	93.558							
	93.560							
97-31		Maintain periodic certifications for employees expected to work solely on one Federal assistance program.	1997	X				
97-35	93.563	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					see status of finding 98-37
97-41	93.778	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					see status of finding 98-43
97-41b		Maintain adequate documentation demonstrating that a program liability has been incurred for interim payments made.	1994					see status of finding 98-43
97-41c		Complete the resolution of all provider interim payment balances expeditiously. Aggressively recoup all excess interim payment balances.	1997					see status of finding 98-43
97-41d		Implement additional controls to improve the reliability of provider balance data.	1997					see status of finding 98-43
97-42	93.778	Adequate controls were not in place to ensure that claims were paid only for individuals eligible under the Medical Assistance Program.						

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<u>Finding and Recommendation Number</u>	<u>CFDA</u>	<u>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</u>	<u>Initial Year of Rec.</u>	<u>Imple-mented</u>	<u>Partially Imple-mented</u>	<u>Not Imple-mented</u>	<u>No Longer Valid</u>	<u>Comments</u>
97-42a		Document the investigation of eligibility variances between teh 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					see status of finding 98-44
97-42b		Improve control procedures to ensure that INRHODES eligibility data is accurately replicated in the MMIS.	1994					see status finding of 98-44
97-43	93.778	The department's oversight of its fiscal agent designated to pay Medical Assistance Program claims was not adequate to ensure the reliability of data reported by the Medical Management Information System and to ensure claims were processed in accordance with teh 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					see status finding 98-45
97-43b		Obtain an annual examination performed by independent certified public accountants of the fiscal agent's internal control policies and procedures.	1994					see status finding 98-45
97-44	93.778	The department has not established required system security measures for the Medicaid Management Information System (MMIS).						
97-44a		Establish a security plan for the MMIS which reflects appropriate system security requirements.	1997					see status finding 98-46
97-44c		Conduct required biennial reviews of ADP system security for the MMIS.	1997					see status finding 98-46
97-45	93.778	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 collections.						
97-45		Improve monitoring of the fiscal agent's TPL identification and collection procedures.						

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<u>Finding and Recommendation Number</u>	<u>CFDA</u>	<u>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</u>	<u>Initial Year of Rec.</u>	<u>Imple-mented</u>	<u>Partially Imple-mented</u>	<u>Not Imple-mented</u>	<u>No Longer Valid</u>	<u>Comments</u>
97-46	93.778	Questioned costs totaling \$275,324 were identified during the fiscal 1997 audit.						
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				
97-46b		Recoup overpayments from providers.	1994	X				
97-46c		Implement control procedures to ensure the allowability of expenditures charged to the Medicaid program by other departments.	1997					see status of finding 98-48
97-47	93.778	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					see status of finding 98-46
97-48	93.778	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					see status of finding 98-46
97-48b		Develop procedures to control access to MMIS functions by assigning "roles" to MMIS users according to individual responsibilities and job descriptions.	1994					see status of finding 98-46
97-50	93.778	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					see status of finding 98-49

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<u>Finding and Recommendation Number</u>	<u>CFDA</u>	<u>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</u>	<u>Initial Year of Rec.</u>	<u>Imple-mented</u>	<u>Partially Imple-mented</u>	<u>Not Imple-mented</u>	<u>No Longer Valid</u>	<u>Comments</u>
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					see status of finding 98-49
97-51	93.778	The department 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 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					see status of finding 98-50
97-52	93.778	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					see status of finding 98-51
97-55	R&D cluster	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				

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<u>Finding and Recommendation Number</u>	<u>CFDA</u>	<u>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</u>	<u>Initial Year of Rec.</u>	<u>Imple-mented</u>	<u>Partially Imple-mented</u>	<u>Not Imple-mented</u>	<u>No Longer Valid</u>	<u>Comments</u>
98-7	various	The State did not comply with regulations governing the use, management and disposition of equipment purchased with federal funds.	1997		X			The Division of Accounts and Control has issued statewide policies and procedures to record all new fixed asset acquisitions since July 1, 1998. Two staff people are presently assigned to fixed asset reporting, one staff member is completing physical inventories of existing fixed assets on a departmental basis as time allows and the other staff member is completing an inventory of state owned land and buildings. Additionally, the state automobile fleet is being brought into the fixed asset reporting system. 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.
98-8	various	The State did not have adequate controls to ensure compliance with federal cash management requirements in drawing cash for federal programs.						
98-8a		Comply with cash management requirements when drawing funds for federal programs.	1995		X			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 basis to prevent federal funds from being drawn later than permitted. The Division of Accounts and Control will also work with the agencies to modify draw techniques where necessary to ensure that the State's Treasury/State agreement is reflective of current payment patterns.
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.	1995				X	The Department of Administration will continue to explore with the General Treasurer the possibility of vesting responsibility for federal cash management within the Office of the General Treasurer.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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98-9	various	The State did not calculate the interest liability in conformance with the procedures specified in the Treasury/State CMA agreement.						
98-9a		Review the fiscal 1998 interest calculation for all major programs subject to the Treasury-State agreement and submit a revised federal report.	1998				X	The methodology in question has been incorporated into the Treasury/State agreement and has been approved by the federal government.
98-9b		Comply with the methods specified in the Treasury/State agreement to calculate the State interest liability.	1998	X				
98-10	10.561 17.225 84.126 93.558 93.563 93.667 93.778	The State's procedures for allocating certain personnel costs to programs and activities were not in compliance with OMB Circular A-87. Questioned costs were identified for various programs.						
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)	1998		X			The State's procedures were revised in fiscal 2000 to allocate workers compensation costs on a statewide basis as a percentage of payroll. This recommendation will be fully implemented in fiscal 2001 when other personnel costs (e.g. unemployment compensation and accumulated leave at termination) are also allocated statewide as a percentage of payroll.
98-11	10.553 10.555 10.556 10.559	The Department of Education did not perform all required reviews of sponsors, sites and school fund authorities participating in Child Nutrition Programs.						
98-11		Perform administrative reviews of all Child Nutrition Programs on a timely basis as required by federal regulations.	1998					

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98-12	10.553 10.555 10.556 10.559 84.010	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.						
98-12		Implement procedures to ensure that subgrantees are not suspended or debarred from receiving federal assistance.	1998		X			The required certification for the Child Nutrition Program was included in December 99 applications. The Title I certification was included in spring 99 applications.
98-13	10.553 10.555 10.556 10.559 84.010 84.048	RIDE 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 noncompliance with federal laws and regulations.						
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.	1997		X Nutrition Cluster	X Title I Voke Ed		
98-13b		Ensure that appropriate corrective action is taken for all reported findings contained in the subrecipient audit reports.	1997					

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								<p><u>Child Nutrition Cluster</u></p> <p>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 date. 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.</p> <p>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. In non-compliance is indicated, the checklist will document the deficiency. Follow-up to teh audits will be coordinated by the Office of Finance to ensure fiscal findings are recovered and program non-compliance issues are referred to the Office of Integrated Social Services for program resolution. Audits are not considered complete until all findings are resolved. When audit report findings have been resolved the audit review process for that particular sponsor is considered complete. That date of completion is then logged on the Program Audit Log.</p> <p><u>Title I and Vocational Education</u></p> <p>RIDE reassigned this staff function to ensure compliance with the requirements. Several staff departures contributed to an inconsistent review of audits. However, RIDE does have procedures to comply with audit review and follow-up and has filled the vacant staff position. The review and monitoring of audits planned for Spring 99 did not occur because of continued staffing needs.</p>
98-14	10.557	Data transmission problems between subrecipient clinics and the central host computer occurred during FY1998 and consequently internal control over compliance with requirements for program rebates, federal reporting and the reconciliation of food instruments was significantly weakened.						
98-14a		Complete modifcaitons to the WIC computer system so that is 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.	1998	X				Implemented as of 12/7/99.
98-14b		Made necessary corrections to federal reports once the data is complete.	1998	X				Implemented as of 3/2/00.
98-14c		Bill manufacturers for any previously unbilled rebates caused by	1998	X				Implemented as of 2/15/00.

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98-15	17.225	Material noncompliance with the eligibility requirement for Unemployment Insurance benefits existed because not all claimants were registered with DLT's Job Services Division.						
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.	1997		X			
								<p>The corrective action will include the following actions:</p> <ul style="list-style-type: none"> • Initial meeting has been conducted to determine cause and cure for missed job registrations on UI claims. • Refiles were determined to be significant potential area of failure to register when no registration previously done on Initial Claim because of specific exemptions, i.e. return to work, trade union member, etc. • Have outlined corrective plan to request and design new programming and screens to allow edit reminder, screen, and connectivity to enable automated registration on refile when not previously registered. • In addition, 5 E&T Manager positions have been created in the Call Center to improve training. The managers will concentrate on job registration retraining to address this problem in both initial claims and refiles. • Updates list of trade unions has been requested to insure proper registration of claimants belonging to non-exempt unions.
98-16	17.246 17.250	Weaknesses in the controls over federal reporting for the JTPA program were found.						
98-16a		Maintain reconciliations between amounts reported to the federal grantor and amounts derived from the FARS. (GRI and DWU)	1998			X		The previously offered corrective action was not initiated within the current audit period. Future quarterly and financial reports submitted by the DWU or GRI to the JTPO will contain the recommended documentation.
98-16b		Submit reconciliations along with the federal report to the JPPO. (GRI and DWU).	1998			X		See response to recommendation 98-16a.
98-16c		Review reconciliations between amounts reported and amounts derived from the FARS.	1998			X		See response to recommendation 98-16a.
98-17	17.246 17.250	Documentation of eligibility for JTPA programs was not maintained for certain participant files selected for review.						

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98-17		Maintain appropriate supporting documentation for general eligibility requirements, specifically, citizenship/eligibility to work and selective service registration.	1998	X				
98-18	20.106	Rhode Island Airport Corporation equipment records were incomplete and a physical inventory was not performed.						
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.	1998		X			The recommendation is still being implemented. Once complete, the physical inventory of all equipment purchased under federal awards will be performed.
98-19	20.106	Adequate documentation was not maintained by the Rhode Island Airport Corporation to demonstrate compliance with federal procurement requirements.						
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 are 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.	1998	X				The recommendation was adopted. A full-time procurement specialist was hired in May 1999 and a "Contract Checklist" database has been developed. No similar findings were noted in teh 1999 audit.

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98-20	20.205	RIDOT does not have a system to identify and control parcels of real property acquired by the State using federal and state matching funds						
98-20		Create and maintain an inventory listing of real property.	1997		X			The Department of Transportation continues to make progress toward the completion of an inventory listing of real property owned by the Department. As was indicated in the past, this is a massive undertaking that involve researching and cataloging thousands of parcels of property from minor strip takings to multi-acre sites. It is expected that it will take two to three years to complete. Since the original finding, a computerized database was established and a full time FTE was assigned specifically to this project to complement the existing staff. Approximately 950 holdings have been identified, researched, cataloged and added to the database. This information will eventually be mapped to the Department's GIS system for easy identification.
98-21	20.500 20.507	The Rhode Island Public Transit Authority did not submit quarterly reports of Disadvantage Business Enterprise Awards and Commitments.						
98-21		We recommend that the Authority submit all the outstanding DBE reports and continue to submit the required reports as required.	1998	X				The Authority has filed the reports for the fiscal year ended June 30, 1998 and has taken the proper corrective action to ensure the reports are filed in the future.
98-22	20.500 20.507	One procurement by the Rhode Island Public Transit Authority did not have a certification of suspension and debament.						
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.	1998	X				The Authority has taken the proper corrective action to insure that contractors receiving individual awards of \$100,000 provide a certification of suspension and debament.

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98-23	84.010 84.048 84.027 84.243 84.276	No documentation exists to support the allocation of certain costs.						
98-23		Document the methodology for allocating costs to multiple federal programs.	1997			X		Not 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. 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) performance assessments and 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. 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 these tests were scored by two readers with score reports returned to school 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 closely 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.
98-24	84.010 84.048	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.						

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98-24		Monitor advances to subrecipients to ensure that they conform to standards required by 34 CFR 80.219(c), 80.37(a)(4), and 31 CFR 205.10(a).	1995		X			RIDE has instituted several corrective actions with regard to the recommendations. 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 subgrantees 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.
98-25	84.032 84.038	Documentation of entrance and exit interviews was not contained in certain loan files reviewed during the audit. (Rhode Island College)						
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.	1998					See corrective action plan for finding 99-26
98-26	84.032	Documentation of entrance and exit interviews was not contained in certain loan files reviewed during the audit. (University of Rhode Island)						
98-26		FFEL entrance and exit interviews should be performed for all students. Documentation of entrance and exit interview should be maintained.	1998					See corrective action plan for finding 99-27
98-27	84.032	The Rhode Island Higher Education Assistance Authority has not established cerertain funds to account for its loan programs.						

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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.	1997	X				Effective October 1, 1998, the Authority separated its accounts and transactions between the Federal Student Loan Reserve Fund and the Agency Operating Fund, as required under the 1998 reauthorization. The authority has provided the DOE with a proposal which includes this separation of the funds, and incorporates the resolution of the pending finding in the July 15, 1997 GLOLS report. The DOE has acknowledged receipt of the Authority's proposal; however, the DOE has not communicated any response or comments. These matters do not warrant further action by the Authority until such time, if any, that the DOE responds to the proposal.
98-28	84-033	Two students did not sign their timesheets for Federal Work Study.						
98-28		The college should require all employees to sign their timesheets.	1998	X				
98-29	84.126	Questioned costs totaling \$20,146 were identified due to adequate documentation.						
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.	1998	X				
98-30	84.272	Documentation of certain eligibility requirements was inadequate.						
98-30		The Rhode Island Children's Crusade for Higher Education should verify the eligibility of student's who receive assistance.	1998		Z			Management intends to redesign the application form and develop a plan to ensure that all children currently enrolled in the program are eligible.
98-31	93.558	The State did not comply with the two parent work participation rate for TANF recipients.						
98-31		Comply with the required work participation rate for two parent families receiving Temporary Assistance for Needy Families benefits.	1998	X				

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98-32	10.561 93.558 93.569 93.596 93.667	The department did not require either contractors or subrecipients to certify that the organization and its principals are not suspended or debarred.	1998					
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 programs.			X			Implemented for some programs, CFDA #s 10.561, and 93.596 remain.
98-33	10.561 93.558	Semi-annual certifications were not maintained for employees who worked exclusively on one federal program.						
98-33		Maintain periodic certifications for employees expected to work solely on one Federal assistance program	1997	X				
98-34	93.558	Department policy did not require at least a 25 percent reduction in assistance in instances where an individual failed to cooperate in obtaining child support without good cause.						
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.	1998	X				The Department amended its policy effective June 1, 1999, to impose the 25% reduction of assistance as required by law.
98-35	93.558	State policy and procedures did not fully comply with the provisions of PWRORA.						

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98-35		Modify State policy to incorporate Federal TANF eligibility requirements	1998			X		The Department of Human Services continues to amend current TANF policy to incorporate Federal requirements. DHS has initiated several steps to implement policy changes including a new application form, which reflects new language advising clients of their responsibilities. Due to the broad range of issues and complexities of systems programming which must occur in order to implement these changes, the Department has set a goal of implementation for September 30, 2000.
98-36	93.558	TANF eligibility discrepancies resulting from IEVS data matches were not investigated and resolved in a timely manner.						
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.	1998		X			The enhancement to INRHODES which corrects the problems in reviewing and clearing the various IEVS matches was developed, programmed and tested during 1999. On 11/13/99, this enhancement was moved into production. A memo to workers and supervisors was sent 12/1/99 to remind staff of the importance of the IEVS interface matches and the timely resolution of these matches. A review of the control procedures and program policies is now in process. This will result in revision to current policy with an anticipated completion date of 6/30/00. It is being done in conjunction with a Food Stamp Program review in the Collection and Claims procedures. A memo to supervisory staff is being developed as a part of the policy and procedures review to remind them of the necessity to monitor the IEVS interface process to ensure that matches are resolved in a timely fashion.
98-37	93.563	The department did not reconcile child support collections and distributions recorded in its computer system with amounts recorded in the State's accounting system.						

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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.	1992			X		Programming began on 3/1/00 on a amended 34A report for State use only which will include the following financial data not required on the Federal report. 1. Collections and disbursements for bookkeeping cases that are not wage garnished. 2. Undistributed collection on bookkeeping cases that are not wage garnished. Also, a correction is being made to the current 34A to include held receipts for responding (out of state) cases. It is anticipated that this will be programmed, tested and moved to production on or before 6/30/00.
98-37b		Investigate and resolve the difference regarding child support collections pending distribution reported by the RICSS and State accounting systems.	1998			X		See response for finding 98-37a
98-38	93.569	Personnel costs charged to the grant were unsupported.						
98-38		Require personnel activity reports or equivalent documentation supporting the distribution of salaries when employees work on multiple activities.	1998			X		Implemented in FY 2000 – costs are now allocated through a periodic time study.
98-39	93.569	Controls are not adequate to ensure that subrecipient cash balances are limited to their immediate needs.						
98-39		Strengthen subrecipient cash management procedures to ensure that subrecipient cash balances are limited to their immediate needs.	1998		X			Effective July 1, 1999 payments are made on a monthly basis to grantees receiving more than \$5,000 annually upon receipt of a request for payment, subject to quarterly report adjustments.
98-40	93.569	Subrecipient monitoring procedures need strengthening.						

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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 subrecipient's compliance with program requirements.	1998		X			DHS has taken steps to ensure the timely receipt and review of audit reports and continues to monitor the specific subrecipient cited in the finding.
98-41	93.596	The Department did not include required Pro Children Act language in its provider contracts and require certification of compliance.						
98-41		Modify child care provider contracts to include the required Pro Children Act language and require that providers certify compliance with the provision.	1998			X		Effective July 1, 1999 the Department executed new contracts with child care providers containing the required Pro Children Act certifications.
98-42	93.658	Eligibility was not determined using the appropriate AFDC guidelines in effect as of July 16, 1996. Duplicate claims were generated by the Department's computer system used to accumulate maintenance costs for the program. Other costs allocated to the program based on the number of IV-E children may have been impacted by the use of inappropriate eligibility criteria.						
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.	1998		X			The Department in January of 1999 stopped using TANF guidelines, and all subsequent eligibility determinations were done using the July 16, 1996 AFDC income guidelines. During the last year, the Department reviewed the eligibility of all children that had been made eligible using the TANF income guidelines. The result was that 25 children were determined to be ineligible for various lengths of time. The Department's reimbursement system is unable to go back and unclaim the direct claims for the twenty-five children in an automated manner. A manual list of claims is being developed and will be processed as a manual negative adjustment on the next IV-E claim.

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98-43	98.778	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 iterim payments made.						
98-43a		Eliminate routine target payments to providers.	1994		X			All target payments will be eliminated and the reconciliation process with remaining providers on target payments will be completed by 12/31/2000.
98-43b		Maintain adequate documentation demonstrating that a program liability has been incurred for interim payments made.	1994		X			All target payments will be eliminated and the reconciliation process with remaining providers on target payments will be completed by 12/31/2000.
98-43c		Complete the resolution of all provider interim payment balances expeditiously. Agressively recoup all excess interim payment balances. Refund the federal share of provider overpayments to the federal government with 60 days of identification.	1997		X			Target date for completion is 12/31/2000. Federal funds are always processed within a 60 day time period.
98-43d		Implement additional controls to improve the reliability of provider balance data.	1997		X			All target payements will be eliminated and the reconciliation process with remaining providers on target payments will be completed by 12/31/2000.
98-44	93.778	Adequate controls were not in place to ensure that claims were paid only for individuals eligible under the Medical Assistance Program.						
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.	1997		X			The Department has initiated changes and has successfully reduced the number of eligibility variances to be reviewed. This is a continual process.
98-44b		Determine the amount of claims paid on behalf of ineligible individuals and reimburse the federal government for its share.	1998			X		When identified, refunds are processed to the federal government in a timely manner.

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98-45	93.778	The department's oversight of its fiscal agent designated to pay Medical Assistance Program claims was not adequate to ensure the reliability of data reported by the Medical Management Information System and to ensure claims were processed in accordance with the Department's instructions and federal requirements.						
98-45a		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 will draft a revised oversight plan.
98-45b		Obtain an annual examination performed by independent certified public accountants of the fiscal agent's internal control policies and procedures.	1994		X			Requests for proposals were circulated twice with unsuccessful results.
98-46	93.778	A system security plan for the MMIS was under development but was not complete during fiscal 1998. System access controls should be improved.						
98-46a		Complete development of a comprehensive security plan for the MMIS which reflects appropriate system security requirements.	1997		X			The Department continues to refine its security plan for the MMIS.
98-46b		Conduct required biennial reviews of ADP system security for the MMIS.	1997	X				
98-46c		Develop procedures that require all MMIS users to change their passwords periodically. Terminate access if passwords are not modified.	1994		X			Target completion date of June 30, 2000.
98-46d		Develop procedures to control access to MMIS functions by assigning "roles" to MMIS users according to individual responsibilities and job descriptions.	1994		X			Target completion date of June 30, 2000.
98-47	93.778	Delays in verifying TPL information contributed to lost TPL recovery. The department also did not adequately monitor the activities of its fiscal agent with respect to third party identification and collection.						
98-47a		Improve monitoring of the fiscal agent's TPL identification and collection procedures.	1997		X			TPL activity is being reviewed and the Department will implement appropriate changes.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<u>Finding and Recommendation Number</u>	<u>CFDA</u>	<u>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</u>	<u>Initial Year of Rec.</u>	<u>Imple-mented</u>	<u>Partially Imple-mented</u>	<u>Not Imple-mented</u>	<u>No Longer Valid</u>	<u>Comments</u>
98-47b		Reimburse the federal government for its share of uncollected third party liability recoveries.	1998			X		The Department will reimburse the federal government for its share of uncollected third party liability recoveries, at such time as the TPL claim has been fully adjudicated.
98-48	93.778	Questioned costs totaling \$42,733 were identified during the fiscal 1998 audit.						
98-48a		Reimburse the federal grantor for its share of claims paid on behalf of ineligible individuals and for questioned costs deemed unallowable.	1998		X			Federal share was reimbursed on 6/30/99 for some but not all of the questioned costs identified.
98-48b		Implement control procedures to ensure the allowability of administrative expenditures charged to the Medicaid program by other departments.	1997			X		Department disagrees with this recommendation. Current procedures include a quarterly certification of expenditures made by other departments.
98-49	93.778	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. Substantial manual adjustments were made to drug rebate billings generated by the MMIS.						
98-49a		Monitor drug rebates collected by the fiscal agent as well as amounts due from drug manufacturers.	1995		X			The Department continually monitors the drug rebate program and will initiate changes and improvements as necessary.
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.	1997		X			System changes are being planned to address this situation.
98-50	93.778	The department 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 program expenditures recorded in the State accounting system.						
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.	1997	X				

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
98-51	93.778	Approximately \$53 million of program expenditures were processed independent of the MMIS. These other accounting systems have not been designed to contain all the control procedures of the MMIS.						
	98-51	Improve controls by requiring all benefit-type program expenditures to be processed through the MMIS.	1997		X			This is in process with other Departments which process Medicaid expenditures.
98-52	93.778	Questioned costs totaling \$18,945 were identified because DHS had not credited the federal government for its share of checks outstanding more than 180 days.						
	98-52	Develop procedures to identify checks outstanding for more than 180 days and reimburse the federal government for its share.	1998	X				
98-53	93.778	Hospital cost reports are not submitted timely and therefore cost settlements are delayed.						
	98-53	Develop procedures to improve the timeliness of hospital settlements.	1998		X			Reports from the MMIS necessary for the settlement process have been improved. However, the process is dependent upon providers submitting cost settlement data.
98-54	93.778	DHS did not require either contractor or providers of medical services to certify that the organization and its principals are not suspended or debarred from participating in the Medicaid Program.						
	98-54a	Require all applicable contractors to certify annually that neither the entity nor its principals are suspended or debarred from participating in the Medical Assistance Program.	1998		X			Target completion date – June 30, 2000.
	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.	1998		X			Target completion date – June 30, 2000.
98-55	R&D Cluster various	The University of Rhode Island did not have controls in place to ensure that suspension and debament certifications were in place before federal funds are obligated.						

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<u>Finding and Recommendation Number</u>	<u>CFDA</u>	<u>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</u>	<u>Initial Year of Rec.</u>	<u>Imple-mented</u>	<u>Partially Imple-mented</u>	<u>Not Imple-mented</u>	<u>No Longer Valid</u>	<u>Comments</u>
98-55		The University should have a system to ensure that the proper certifications are obtained before funds are obligated.	1998	X				
98-56	R&D Cluster 11.304	Quarterly reports were not submitted for the grant during fiscal 1998.						
98-56		Quarterly reports should be submitted on a timely basis, in accordance with grant requirements.	1998	X				