State of Rhode Island

AUDIT RESULT HIGHLIGHTS
and
MANAGEMENT COMMENTS

Single Audit
Fiscal Year Ended June 30, 2007

Ernest A. Almonte, CPA, CFE
Auditor General

State of Rhode Island and Providence Plantations
General Assembly
Office of the Auditor General

STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

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♦ *INTEGRITY*
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July 16, 2008

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

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Representative Robert A. Watson

We have completed our Single Audit of the State for the fiscal year ended June 30, 2007 and have issued our *Single Audit Report* separately. This communication supplements the *Single Audit Report* and includes audit result highlights as well as management comments and related recommendations. In our opinion, these management comments, while less significant than findings included in the *Single Audit Report*, still warrant communication and the attention of the State's management.

Sincerely,

Ernest A. Almonte

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Auditor General

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OVERVIEW

We performed a comprehensive audit of the State of Rhode Island for the fiscal year ended June 30, 2007. The State's basic financial statements and our *Independent Auditor's Report* thereon are presented in the *State's Comprehensive Annual Financial Report*. The *Single Audit Report* includes the State's basic financial statements, the Schedule of Expenditures of Federal Awards, our report on internal control over financial reporting and compliance, and our opinion on compliance with requirements applicable to each major federal program and our report on internal control over compliance. The *Single Audit Report*, required by federal law, also includes findings and recommendations, relating to both the financial statements and the administration of federal programs, deemed to be significant deficiencies in internal control, instances of material noncompliance, or matters required to be reported by OMB Circular A-133.

The results of our audit, as communicated in various opinions, reports, and findings and recommendations, are summarized below:

Financial Statements –

- We found that the State's basic financial statements presented fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State, as of June 30, 2007, and the respective changes in financial position for the year then ended.

- We issued a report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards.* This report references 43 significant deficiencies of which 17 are considered material weaknesses in internal control over financial reporting. A table beginning on page 4 demonstrates the wide-ranging impact of the significant deficiencies on multiple functional areas of the State's operations. These significant deficiencies and related recommendations are included in the State's *Single Audit Report* for the year ended June 30, 2007.

- We presented 30 management comments and recommendations (included herein beginning on page 7) intended to improve internal control or enhance compliance with laws, regulations or contracts. These management comments are less significant findings than those considered to be significant deficiencies, yet, in our opinion still warrant communication and the attention of the State's management. In addition, we communicated one management comment relating to the operations of the Division of Taxation separately and confidentially to avoid any unintended impact on taxpayer compliance.

Federal Programs –

- We issued a report on compliance with requirements applicable to each major federal program and on internal control over compliance in accordance with OMB Circular A-133. Our opinion on compliance for each of 34 major programs (or clusters of programs) was qualified for five programs. Material noncompliance was reported for four major federal programs. In the other instance, we were unable to obtain sufficient documentation to determine whether the State complied with certain compliance requirements applicable to a major program.

- These instances of noncompliance, significant deficiencies, and related recommendations are included in the State's *Single Audit Report* for the year ended June 30, 2007. This report references 58 significant deficiencies of which ten are considered material weaknesses in internal control over compliance with federal requirements.

DISCUSSION OF THE SIGNIFICANCE OF THE AUDIT RESULTS

The State received unqualified opinions on its financial statements for fiscal 2007, achieving a long standing goal relating to financial reporting. This was accomplished by addressing accounting and financial reporting issues existing in prior years for the Intermodal Surface Transportation (IST) Fund, and Grant Anticipation Revenue Vehicle Fund (GARVEE), both major funds. Our opinions on these major funds were qualified for fiscal 2006. Accounting and financial reporting issues related to capital assets, which caused our opinion on the State's financial statements to be qualified for many years, had been largely addressed in prior fiscal years.

While our opinions on the State's financial statements were unqualified we noted significant deficiencies in the State's control procedures that require attention. The number of control deficiencies reported increased over prior years due to the implementation of new auditing standards which redefined the criteria for required communication of internal control weaknesses to management. Statement on Auditing Standards No. 112, *Communicating Internal Control Related Matters Identified in an Audit* essentially requires all control deficiencies, that could result in a financial statement misstatement or instance of noncompliance that is more than inconsequential, to be reported by the auditor. The key terms defined in SAS 112 are:

- *control deficiency* as a weakness in the design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

- *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

- *material weakness* is a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Consequently, more control deficiencies met the required reporting criteria.

The State substantially modified and renamed its statewide accounting system for fiscal 2007. The new accounting system, called the Rhode Island Financial and Accounting Network System (RIFANS), includes Oracle's procurement, accounts payable, and asset (capital asset) modules in addition to the general ledger module utilized previously by the State. Implementation of these modules is a move towards a fully-integrated comprehensive accounting system for the State. The design and operation of RIFANS required many operational changes and altered the overall control structure related to the State's accounting and financial reporting processes.

As is often the case in a newly implemented accounting system, all necessary controls are not yet fully operational. We reported several control weaknesses that existed during RIFANS' first year of operation. RIFANS, although more integrated than its predecessor, RISAIL, still lacks many functionalities of a fully integrated comprehensive financial reporting system. The State must continue to make progress towards the goal of a fully integrated accounting system in order to resolve many of the control deficiencies noted during our audit.

The State needs to enhance procedures to better accumulate all relevant financial reporting information from the various agencies and departments of the State. We noted several instances where information (federal program disallowances, legal settlements, etc.) required for the fair presentation of the State's financial statements was not communicated to the Office of Accounts and Control. The State should implement a process whereby key financial managers outside the Office of Accounts and Control are informed of the types of information that could affect the

State's financial reporting. Information meeting the defined criteria should then be forwarded to the Office of Accounts and Control on a timely basis throughout the year. Additionally, the Office of Accounts and Control should make specific inquiries of other departments and agencies in conjunction with drafting the State's annual financial statements. Numerous audit adjustments were required to appropriately reflect these items in the financial statements since critical information was not available or considered in the preparation of the draft financial statements.

The State's Division of Information Technology has developed Comprehensive Information Systems Security Policies and Procedures designed to provide uniform security standards over all the State's information systems. We found that little progress was made during fiscal 2007 to apply these standards to the State's various systems. For example, new systems such as RIFANS have been implemented by the State without complying with the State's system security policies and procedures. System security standards should be operational prior to system implementation.

The State will need to identify security concerns relating to its systems and assign a risk to these concerns so that a plan can be developed that will address these issues on a priority basis. Once the State's policies and procedures are implemented, it will be critical that the State develop adequate monitoring procedures to ensure that these systems remain in compliance.

As the findings included in the *Single Audit Report* and these additional management comments indicate, the State still faces challenges in continuing to reform the State's financial systems and processes, as well as improving the overall security of the State's information technology resources. The State must continue to devote the resources necessary to address the internal control deficiencies cited in the *Single Audit Report*. Further, the State will need to implement modules for other vital financial components such as revenue/receivables, human resources, grants management, cash management, and budget preparation, as examples, to obtain the full benefits and efficiencies of an integrated financial reporting system.

The significant number of findings related to the administration of federal programs is of concern. Continued receipt of federal funding, which constitutes a large part of the State's annual operating budget, is contingent upon compliance with federal program requirements. If the State fails to take timely corrective action on compliance findings, the federal government can request the return of federal funds, withhold future funding, and sanction the State for past noncompliance. Such matters take on increased significance in light of the State's current fiscal challenges.

Control deficiencies in the design and operations of internal control over financial reporting (significant deficiencies and material weaknesses) are described in detail in findings included in the *Single Audit Report*. The management comments included herein are "second tier" findings which in many instances are important control issues that represent less risk to financial reporting than those deemed significant deficiencies and material weaknesses.

The State must continue to address the issues highlighted in the *Single Audit Report* and the management comments included herein. This will be challenging in light of the State's current fiscal challenges; however, the State needs to invest in both personnel and technology to significantly improve the effectiveness and efficiency of its financial management and reporting processes.

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			Functional Impact Area					
Finding	*Description*	*Material Weakness*	*Financial Reporting*	*Accounting Controls*	*Financial Management*	*Asset Management and Protection*	*Information Systems Security*	*Compliance With Laws and Regulations*
2007-1	Controls Over Accounting and Financial Reporting – Statewide Accounting System	●	■	■	■	■		■
2007-2	Complete Implementation of a Comprehensive Fully-Integrated State Accounting System		■	■	■	■	■	
2007-3	Controls Over Compliance With State Purchasing Regulations		■		■	■		■
2007-4	Accumulation and Consideration of All Relevant Data Necessary for Financial Reporting	●	■	■	■	■		■
2007-5	Controls Over Long-Term Account Balances Used in Preparing the Government-Wide Financial Statements	●	■	■	■	■		
2007-6	Controls Over Recording Tax Revenues Consistent With Generally Accepted Accounting Principles	●	■	■	■			
2007-7	Accounting Controls Over Federal Revenue and Expenditures	●	■	■	■			
2007-8	Controls Over State Payroll Processing		■	■	■	■		
2007-9	Controls Over the Identification and Recording of Year End Accruals	●	■	■	■			
2007-10	Transactions With Component Units		■	■	■			
2007-11	Legacy Systems – Account Structure Conversion		■	■	■			
2007-12	Accounting and Physical Control Over Capital Assets	●	■	■	■	■		
2007-13	Capital Leases		■	■	■	■		
2007-14	RIFANS Access Controls		■	■			■	
2007-15	Controls Over Expenditure Data Imports to RIFANS		■	■	■	■		
2007-16	Accounting Control Over Investment Transactions	●	■	■	■	■		
2007-17	Funds on Deposit With Fiscal Agent	●	■	■	■	■		■
2007-18	Disclosure of Deposit and Investment Risks	●	■	■	■			

			Functional Impact Area					
Finding	Description	Material Weakness	Financial Reporting	Accounting Controls	Financial Management	Asset Management and Protection	Information Systems Security	Compliance With Laws and Regulations
2007-19	Controls Over Accounting Transactions Relating to the Issuance of Debt		■	■	■			
2007-20	Taxation – Controls Over Electronic Funds Transfer (EFT) Receipts	●	■	■		■	■	
2007-21	Taxation – Controls Over the Recording of Accounts Receivable Correction Adjustments		■	■				
2007-22	Controls Over Employee Payroll System		■	■		■	■	
2007-23	Comprehensive Information Systems Security Policies and Procedures		■	■	■	■	■	
2007-24	Fiscal Agent Oversight – Medical Assistance Program	●	■	■	■		■	■
2007-25	Automated Data Processing (ADP) Risk Analysis and System Security Review		■	■	■		■	■
2007-26	Intermodal Surface Transportation Fund – Financial Reporting	●	■	■	■			
2007-27	GARVEE Capital Projects Fund	●	■	■	■			
2007-28	Systems Security Over RIDOT IT Applications Impacting Financial Reporting		■	■	■		■	
2007-29	Employment Security Fund and Temporary Disability Insurance Fund – Tax Revenue Accruals	●	■	■	■			
2007-30	Rhode Island Lottery Fund– Monitoring of Video Lottery Operations		■	■	■			
2007-31	Rhode Island Lottery Fund– Reconciliation to the State's Accounting System		■	■	■			
2007-32	Employees' Retirement System – Pension Trust Funds – Improve Monitoring Controls Over System Investments and Enhance Information Required For Financial Reporting		■	■	■			
2007-33	Employees' Retirement System – Pension Trust Funds – Improve the Reliability of Contributions Receivable Reported by the ANCHOR System		■	■	■			

			Functional Impact Area					
Finding	*Description*	*Material Weakness*	*Financial Reporting*	*Accounting Controls*	*Financial Management*	*Asset Management and Protection*	*Information Systems Security*	*Compliance With Laws and Regulations*
2007-34	*Convention Center Authority Fund – Event Agreements and Settlements*		■	■	■			
2007-35	*Convention Center Authority Fund – Review and Approval of Journal Entries*		■	■	■			
2007-36	*Discretely Presented Component Units: URI, RIC, CCRI – Financial Reporting / Closing Process*		■	■	■			
2007-37	*Discretely Presented Component Units: URI, RIC, CCRI – Journal Entry Authorization*		■	■	■			
2007-38	*Discretely Presented Component Unit: RI Resource Recovery Corporation – Tracking of Methane Royalty Revenues*		■	■	■			
2007-39	*Discretely Presented Component Unit: RI Resource Recovery Corporation – Timely Reconciliation of Account Balances*		■	■	■			
2007-40	*Discretely Presented Component Unit: RI Resource Recovery Corporation – Exclusion of Inventory From Year-End Balances*		■	■	■			
2007-41	*Discretely Presented Component Unit: RI Resource Recovery Corporation – Accounting Estimates*	●	■	■	■			
2007-42	*Discretely Presented Component Unit: RI Resource Recovery Corporation – Accounting Department Oversight*	●	■	■	■			
2007-43	*Discretely Presented Component Unit: RI Turnpike and Bridge Authority – Journal Entry Approval*		■	■	■			

Condition Description	Recommendations
MC-1 - Fraud Risk Factors Management is responsible for designing and implementing systems and procedures for the prevention and detection of fraud. The risk of fraud can be reduced through a combination of prevention, deterrence, and detection measures. A strong emphasis on fraud prevention through the development of policies and procedures designed to deter and detect instances of fraud is essential to discourage individuals from committing fraudulent acts. As required by Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit,* we assessed the State's policies and procedures designed to mitigate fraud risk factors. The State has inadequate policies and/or procedures designed specifically for the purpose of mitigating fraud risks. In addition, several weaknesses relating to the State's internal controls over financial reporting also increase the State's overall fraud risk factors. Policies and procedures specific to the prevention, deterrence, and detection of fraud need to be developed and implemented to safeguard State assets and to ensure that the financial reporting process is not impacted by fraud. These policies and procedures could be incorporated into the existing Fiscal Integrity Act process which requires department directors to make an annual assessment and reporting of risks facing their department or agency. *(Repeated from prior year)*	*MC-1* Develop and implement policies and procedures specific to the prevention, deterrence, and detection of fraud, most importantly, as it relates to the misappropriation of assets and opportunities for fraudulent financial reporting.
MC-2 - State Budget The annual budget enacted by the General Assembly encompasses multiple funds (General, IST, University and Colleges, TDI, Unemployment Insurance) in a comprehensive format by governmental function. For budgetary control purposes, the budget must be recorded within the accounting system and be segregated by distinct fund. The Budget Office should explore the possibility of including the fund information within the budget document to facilitate recording the budget within the accounting system and preparation of budget to actual comparisons for financial reporting purposes (which are prepared on a fund basis). *(Repeated from prior year)*	*MC-2* Explore the possibility of including fund information within the budget document to facilitate recording the budget in the accounting system and preparing budget to actual comparisons.

Condition Description	Recommendations
MC-3 - Statewide Centralized Cost Allocations During fiscal year 2007, the State discontinued the use of certain internal service funds and began budgeting and distributing costs for human resources, facilities and maintenance, and information technology services through centralized procedures within the Department of Administration (DOA). In order to obtain federal reimbursement for costs allocable to federal programs the State created "mirror" accounts (within DOA and other departments) for purposes of distributing the federal share of centralized costs to the other departments. Expenditures reported in federal accounts and linked to federal programs were expected to be claimed and drawn down by departments with the federal revenue being moved to reimburse DOA for costs allocable and recoverable from federal programs. We found instances within two departments where federal program expenditures were overstated as a result of the new allocation process. Due to its inherent complexity and the fact that few financial managers fully understood the entire process, the risk of overstating federal revenue and expenditures was significantly increased. Using internal service funds to distribute centralized shared costs to programs and activities is simpler, far less prone to error and subject to enhanced control procedures. The State should reconsider the use of the "mirror" account allocation methodology in light of the known errors discovered during fiscal 2007 and the unnecessary complexity it adds to the accounting system and related procedures.	*MC-3a* Re-evaluate the current centralized cost allocation process for personnel, facilities and maintenance, and information technology services to ensure that these cost allocations comply with financial reporting and federal program requirements. *MC 3b* Reimplement internal service funds as the means to allocate certain centralized costs to multiple departments and agencies.
MC-4 - Use of Bond Proceeds for Non-Capital Purposes The State's capital development program utilizes proceeds from the sale of bonds for a variety of capital related purposes. These include the construction of buildings, acquisition of land, repairs and maintenance of capital assets owned by the State. We observed an inconsistency between the State's capital asset accounting policies and the financing mechanism for acquiring or repairing capital assets. Many of the expenditures funded from bond proceeds were for repairs and maintenance type projects, which were not considered to meet the State's asset capitalization criteria. Consequently, no capital asset was recorded to match the long-term liability resulting from the issuance of the bonds. The State's use of long-term financing to fund projects that are not recorded as capital assets of the State ultimately has a detrimental effect on the State's reported net assets on the Government-wide financial statements. Over time this results in an accumulating deficit within the government-wide financial statements that presents the State's financial condition less favorably. The State should examine the types of projects financed with long term debt as well as its capitalization policies to ensure there is not an inherent inconsistency. One potential option would be to use Rhode Island Capital Plan Funds (excess budget reserve revenues dedicated for capital purposes) for projects that are not considered to meet the State's capitalization criteria.	*MC-4* Reconsider the State's policy of utilizing long-term debt proceeds for projects that do not meet the State's capital asset criteria.

Condition Description	Recommendations
MC-5 - Subrecipient Monitoring – Review of Single Audit Reports Subrecipients assist the State in carrying out various programs funded with state and/or federal monies and include such entities as municipalities, community action programs and local educational agencies. Monitoring of subrecipients, which is required when the State passes through federal funds to another entity, varies depending on the nature of the program or activity but always should include review of subrecipient audit reports. Federal regulations (OMB Circular A-133) require any entity that expends $500,000 or more in federal assistance [direct or pass-through (e.g., State)] have a Single Audit performed. Copies of the Single Audit must be provided to the pass-through entity and the federal government. Receipt and review of subrecipient audit reports is now performed on a decentralized basis as responsibility is vested in numerous departments. The State can improve its subrecipient monitoring practices by centralizing the audit report review function for the reasons outlined below: Many subrecipients receive funding from multiple departments of the State – each is required to receive and review the same audit report. Specific agencies reviewing the audit reports do not consider noted deficiencies from the perspective of the risks that they pose to all state and federal funds passed through to the subrecipient. One large subrecipient of the State, which receives significant funding from multiple departments and agencies, has been very late in presenting its audit reports and those audit reports have highlighted serious deficiencies. There is no centralized database detailing which entities receive funding from the State, which are required to have a Single Audit performed, and the status of the audits. Effective subrecipient monitoring requires that individuals reviewing the audit reports be trained in governmental accounting and auditing requirements (specifically the Single Audit Act and OMB Circular A-133). This level of proficiency is difficult to achieve and maintain at all the departments and agencies now required to review subrecipient audits. We have reported various deficiencies in the process used to review subrecipient audit reports. Considerable advantages can be gained by centralizing the subrecipient monitoring function within one unit of State government. This will raise the level of assurance that subrecipients comply with applicable laws and regulations and both state and federal funds are spent as intended. It will also reduce the amount of resources devoted to this effort and achieve other efficiencies. *(Repeated from prior year)*	*MC-5a* Centralize subrecipient monitoring procedures related to receipt and review of Single Audit Reports within one agency. This function should be staffed with individuals trained in governmental accounting and auditing matters to allow effective review of the Single Audit Reports. *MC-5b* Build a database of all subrecipient entities that receive state and/or federal grant funding.

Condition Description	Recommendations
MC-6 - Require Direct Deposit For All Employee Payroll State employees currently have the option of being paid by check or by direct deposit to their financial institution. Approximately 80% of state employees have opted for direct deposit. The costs to disburse employee payroll through direct deposit are significantly less than for traditional paper checks. Savings accrue from eliminating specialized security check paper, printing costs as well as costs associated with the physical distribution of checks to the various departments and agencies throughout the State. The State should require direct deposit for all employees to accomplish savings and achieve administrative efficiencies.	*MC-6* Require all state employees to be paid through direct deposit.
MC-7 - Drawdowns of Federal Funds Each agency administering a federal program is responsible for drawing federal funds for that program. Federal regulations govern the timing of these draws of federal cash – the federal government generally prohibits drawing cash before expenditures are actually made. Federal grant revenue for the State approximated $2.0 billion this year. Consequently, the timing of receipt of these funds has a significant impact on the State's overall cash management. We have reported for many years that the State does not have adequate controls in place to ensure compliance with federal cash management requirements. In many instances, agencies do not draw federal cash as frequently as permitted by federal regulations thereby adversely impacting the State's overall cash management. We believe responsibility for the drawing of federal funds should be vested in the Office of the General Treasurer where cash management for federal programs could be integrated with other cash management objectives. The function of drawing federal cash should be automated as part of a comprehensive integrated accounting system. As allowable expenditures are recorded for federal programs in the State's accounting system, cash would be drawn by electronic funds transfer into the State's bank accounts. (Repeated from prior year)	*MC-7* Vest responsibility for drawing federal funds with the Office of the General Treasurer. Automate the drawing of federal funds as part of the completion of the State's comprehensive integrated accounting system.

Condition Description	Recommendations
MC-8 - RIFANS – Check Handling Codes The RIFANS accounting system, which is used to disburse most vendor payments, allows users to designate "check" handling codes. The options include "return to agency" whereby the vendor payment check is delivered to the department or agency rather than being mailed from a central location. One of the key controls over disbursements is segregation of duties. Ideally, the distribution of checks should be segregated from the initiation and authorization of payments. We noted numerous vendor payments where the check handling instructions indicated "return to agency". While there are certain situations that warrant returning the check to the agency, widespread use of this option weakens control over disbursements. The Office of Accounts and Control should develop guidelines for use of the "return to agency" option in limited and specific situations.	*MC-8* Implement specific policies regarding the returning of vendor checks to agencies to ensure that its use is limited.
MC-9 - Collateralization of Deposits with Financial Institutions The State typically has significant amounts on deposit with financial institutions of which only a small amount is covered by federal depository insurance. Total bank balances at June 30, 2007 were $208 million of which only $950 thousand was covered by federal depository insurance. As part of an overall cash management program and to reduce the risk associated with uninsured and uncollateralized deposits, the Office of the General Treasurer purchases short-term investments consistent with guidelines outlined by the State Investment Commission. Short-term investments include various collateralized investments (e.g., repurchase agreements and overnight sweep investments). The amount of uninsured and uncollateralized bank balances at June 30, 2007 was approximately $70 million. The Government Finance Officers Association has a long–standing recommended practice which endorses collateralization as an important safeguard for public deposits. In essence, a financial institution would pledge collateral to be held by an independent third-party based on the State's deposit level. The State's General Laws currently require a financial institution to pledge collateral only for time deposits greater than 60 days or if the institution fails to maintain minimum capital standards prescribed by federal regulators. None of the State's deposits with financial institutions was required to be collateralized at June 30, 2007. Collateralization of public deposits is required in numerous other states. We believe the Office of the General Treasurer should review the existing statutory requirements regarding collateralization and practices in other states and determine if modification of existing statutes should be considered to further ensure the safety of the significant amounts on deposit at financial institutions.	*MC-9* Review existing collateralization of public deposit requirements within the General Laws to further ensure the safety of the significant amounts on deposit at financial institutions.

Condition Description	Recommendations
MC-10 - Controls Over Payroll for State Employees The State currently overwrites the direct deposit file for State employee payroll each biweekly pay period rather than retain the file as a permanent electronic record of the payment made to employees. The direct deposit file contains the information necessary to deposit net wages to the financial institution designated by the employee. Each pay period, the previous file is overwritten by the new file. This process negatively impacts the audit trail relating to payroll direct deposit. The State should archive the biweekly direct deposit file each pay period. The State also did not maintain adequate documentation of the reconciliation of each biweekly payroll from the payroll system to the posting in the RIFANS accounting system. This is an important control to ensure this significant expenditure category is appropriately reflected in the RIFANS accounting system.	*MC-10a* Archive the biweekly direct deposit file forwarded to the State's initiating financial institution. *MC-10b* Retain documentation of the reconciliation of the biweekly payroll from the payroll accounting system to RIFANS.
MC-11 - Medicaid Claims Liability Estimation Process The State estimates a liability for amounts owed at year-end to medical providers through the Medical Assistance Program. The estimation methodology employed by the State includes utilizing expenditure data and an average lag period for the various medical service types (inpatient hospital, outpatient, pharmacy, etc.) determined by the Medical Assistance claims payment system to estimate amounts owed at year-end. In addition, the State's calculation also includes information submitted by the various State departments (Mental Health, Retardation, and Hospitals, Children, Youth, and Families, Elderly Affairs, etc.) to derive a net liability (claims due providers minus any cost offsets such as drug rebates) to record in the State's accounting system. In recent years, the estimation results for certain individual claim types, most notably inpatient hospital and pharmacy claims, have reflected significantly different year-end liabilities than the actual claims payment results. These differences suggest that the State's current estimation process should be refined to minimize the risk of reporting a misstated claims liability in future years. Our office has provided DHS with specific recommendations to refine the data underlying the claims liability estimation process and to address some of the individual claim type differences. *(Repeated from prior year)*	*MC-11* Implement specific recommendations to further refine individual claim type data utilized in the Medicaid Claims Liability estimation process.

Condition Description	Recommendations
MC-12 - Government–wide Financial Statements – Accounting for Debt Premiums, Discounts and Issuance Costs The State has implemented the outstanding principal method to amortize debt premiums, discounts, gains/losses on refunded debt, and issuance costs. This method is provided within the State's debt management system. The amortization is calculated on each principal payment date by multiplying the weighted average of the outstanding principal balance by the original premium or discount; however, in years when no principal payment is required, an amortization amount will not be calculated. On the next principal payment date, a cumulative amortization will be taken for that year. This results in inconsistent recognition of costs between years. The effective interest method, which is preferred by GAAP, results in a level or constant yield. The State should discuss with its software vendor any potential software modifications that could be made to recognize costs consistently between years.	*MC-12* Consult with the vendor regarding software enhancements for calculating the amortization of premiums, discounts, gains/losses on refunded debt, and issuance costs.
MC-13 - Timely Settlement of Interfund Receivables and Liabilities For fiscal 2007, the State implemented a centralized disbursement account within the General Fund as part of its RIFANS implementation. The centralized disbursement account resulted in all disbursements regardless of fund to be made through the centralized disbursement account with all other State accounts on a daily basis. This centralized disbursement account significantly reduced the amount of interfund settlements that were required as compared to prior fiscal years. We noted that interfund settlements, although less in number than prior years, were still not being settled in a timely manner. Although all settlements were made at year-end from a financial reporting standpoint, the untimely settlement of accounts during the year reduced the accuracy of accounting system balances used for decision-making throughout the fiscal year.	*MC-13* Implement procedures to ensure the timeliness of interfund settlements within RIFANS.
MC-14 - Assessed Fringe Benefits Rate The State has developed an assessed fringe benefit rate, applied to all payroll, to fund disbursements for certain costs including unemployment compensation and accumulated vacation or sick leave upon retirement. The rate, which is applied to all payroll, results in an equitable distribution of such costs to all programs and activities and is consistent with federal cost allocation requirements applicable to federal programs administered by the State. We observed a situation where a federal program was charged for health care benefits provided to an employee during an extended military leave. We believe this benefit afforded to certain employees on military leave should be included in the assessed fringe benefit rate to result in an equitable distribution of this cost to all programs and activities rather than the program or activity where the employee last worked prior to commencing military leave.	*MC-14* Include a provision for health care benefits provided to employees on military leave within the assessed fringe benefit rate.

Condition Description	Recommendations
MC-15 - RIFANS Web Reporting / Lack of Standardized Reports in RIFANS With the implementation of RIFANS during fiscal 2007, departments and agencies had expanded access to the general ledger module of the accounting system. General ledger information is the official record of the State's revenues and expenditures. Prior to fiscal 2007 and the implementation of RIFANS, various web-based reports were created to provide information to departments and agencies when they lacked access to the general ledger. During fiscal 2007, web-based reports continued to be available and used by departments partly because general ledger based reports had not been developed to meet their specific needs. The web-based reports are developed with information derived from the RIFANS accounting system; however, differences can exist due to specific report criteria. Additionally, a reconciliation process has not been put in place to ensure that information included in the web-based reports is consistent with the general ledger. Web-based reports that are separate from the RIFANS accounting system should be discontinued. RIFANS users should access information directly from the system. Additional reporting capabilities should be developed to meet user needs at the department level.	*MC-15* Discontinue separate web-based reporting of financial data for departments and agencies. Develop additional reporting capabilities for RIFANS to meet user needs at the department level.
MC-16 - Budgetary Comparison Schedules included in the State's Comprehensive Annual Financial Report The State includes a detailed budgetary comparison schedule as required supplementary information within the Comprehensive Annual Financial Report (CAFR). The budgetary comparison schedule replicates the detail in the enacted budget and spans approximately 20 pages. The format of the schedule could be improved to enhance both usefulness and readability. Additionally, the State could explore the option of issuing a separate detailed budgetary comparison schedule apart from the CAFR. The CAFR could then include a more summarized budgetary comparison schedule with the same level of detail as presented in the financial statements rather than the enacted budget detail.	*MC-16* Enhance both the usefulness and readability of the existing budgetary comparison schedule. Explore issuing a separate detailed budgetary comparison schedule apart from the CAFR and present a more summarized schedule within the CAFR.

Condition Description	Recommendations
MC-17 - Improving Cash Reconciliation Efficiency The General Treasurer's Office should continue to explore options to further automate the cash reconciliation process with the State's financial institutions. Electronic matching could be facilitated by aligning transaction detail between the bank and the State's accounting system to minimize any differences. Opportunities for automating the reconciliation process should be explored within the State's new accounting system. (Repeated from prior year)	*MC-17* Explore options to automate as much of the reconciliation process as possible with the State's financial institutions by aligning the manner in which transactions are processed by both the bank and accounting system to allow electronic matching for reconciliation purposes.
MC-18 - Taxation – Taxpayer Compliance – Cross-match Tax Filings The Division of Taxation generally has separate computer systems for each tax. The Division does not routinely cross-match taxpayer files for the purpose of identifying a taxpayer who may be filing for one tax but not for other applicable taxes. For example, we noted instances of taxpayers who paid both sales and withholding taxes, but did not file corporate tax returns. The Division should develop a more integrated tax system where the filing of one type of business tax return is matched with the filings for other types of business taxes to ensure that all required taxes are being paid.	*MC-18* Develop a system report to identify taxpayers who are not filing other business tax returns and investigate for possible noncompliance.
MC-19 - Taxation – Sales Tax Filing Frequency Taxpayers who average $200 per month in sales tax liability may file quarterly returns, but taxpayers who average more than $600 per month must file monthly returns. We noted several taxpayers who paid more than $600 per month but were filing quarterly returns. In some cases, incorrect forms were used or the taxpayers were subsequently changed to monthly filers. However, it is the Division's policy to review the taxpayers' accounts only if they should become delinquent and at that time they will be changed to monthly filers. We noted one taxpayer who consistently filed quarterly returns on a timely basis but remitted more than $30,000 each quarter and as much as $123,000. A periodic report of large sales tax payments made on a quarterly basis would assist the Division to identify noncompliance with filing frequency. Enforcing filing frequency requirements improves the State's cash flow.	*MC-19* Develop a report to identify taxpayers who consistently submit large payments on a quarterly basis and review for compliance with filing status requirements.

Condition Description	Recommendations
MC-20 - Taxation – W-3 Reconciliations Employers are required to file an annual W-3 reconciliation between the withholding payments due compared to the actual amounts paid to the Division of Taxation. Some employers file paper returns, but most of the W-3 data is calculated electronically by the Taxation mainframe system from the W-2 files submitted by employers. During fiscal 2007, over 18,000 W-3 transactions were calculated electronically by the system for tax year 2005. The W-3 reconciliations were due on February 28, 2006, but the transactions were not posted until September 18, 2006, almost 7 months later. The W-3 reconciliations for tax year 2006, which were due February 28, 2007, were still not posted ten months later. When the W-3 data is posted, reports detailing overpayments, underpayments, and discrepancies are run. Because these reports are not run timely, the Division is unaware of potential taxes, interest, and penalties that may be due. The Division should process the W-3 reconciliations more timely to identify and collect any underpayments. (Repeated from prior year)	*MC-20* Process W-3 reconciliations more timely to identify and collect any underpayments.
MC-21 - Taxation – Estimated Receivables The Division of Taxation bills personal income tax receivables to various taxpayers based on estimated data received from the Internal Revenue Service (IRS). This data usually reflects additional income information identified by the IRS but does not take into consideration any deductions, exemptions, filing status, or cost basis that the taxpayer may have as a complete or partial offset to the identified income. This often results in an inflated receivable balance being reported by the Division. The billed taxes that are based on federal information are specifically coded as such on the Division's receivable mainframe system, but they are not differentiated between estimated receivables and receivables derived from a taxpayer's actual federal tax return. The ultimate amount due from the estimated bills is often reduced once the taxpayer files a tax return. Because the estimated balances are not specifically coded in the system, we could not determine how much of the June 30, 2007 receivable balance was based on estimates. However, during our testing we did identify that at least $143,127 of the receivable balance was based on estimates. The Division should consider coding the estimated receivables separately. This would allow more detailed analysis of these balances and an appropriate allowance for financial reporting purposes. (Repeated from prior year)	*MC-21a* Distinctly code tax receivable balances that are based on estimated data received from the IRS. *MC-21b* Once identified, determine whether the allowance for uncollectible amounts is adequate to consider the estimated receivable balances derived from IRS.

Condition Description	Recommendations
MC-22 - Taxation – Reconciliation of Cash Receipts Posted to the Taxation Mainframe System to RIFANS The Division of Taxation (Division) does not reconcile receipts posted to its mainframe system with receipts reported in the RIFANS accounting system. Although the Division does reconcile their cash receipts ledger to RIFANS, controls could be improved if the Division reconciled receipts reported within the Taxation mainframe system to RIFANS. RIFANS data is the basis for much of the information utilized by the State for financial reporting and the reconciliation of that data with the Taxation mainframe system (Division's official record for tracking tax payments and refunds) would provide enhanced control over the State's reporting of tax revenue. *(Repeated from prior year)*	*MC-22* Develop the reporting capability within the Taxation mainframe system to facilitate reconciling receipts reported by Taxation's mainframe system with the RIFANS accounting system.
MC-23 - Taxation – Personal Income Tax Returns The Division of Taxation utilizes a "Management Refund Report" to highlight high dollar tax refunds requiring review prior to payment and for judgmentally selecting other refunds for Revenue Officer review. When a taxpayer elects to apply the refund to next year's tax liability, the carry-forward is not subject to the same review procedures. An overpayment carry-forward is essentially a refund applied towards next year's taxes. Overpayment carry-forwards should be subject to the same review procedures as returns requesting payment of the refund to the taxpayer.	*MC-23* Include refund carryforward returns within the management refund review control procedures. -
MC-24 - Taxation – Returned Tax Refund Checks Tax refund checks are returned to the Division of Taxation for a variety of reasons. The refunds are reversed on the Taxation Mainframe System immediately but the checks are collected for several months before they are returned to Treasury for redeposit into the Personal Income Tax Refund bank account. The checks can span several fiscal years. This situation can cause a timing issue on the financial statements. Some refunds, totaling $468,731, were issued and cancelled on the Taxation Mainframe system between January and June 2007, but were not reversed on the state accounting system until the following fiscal year when Treasury re-deposited the checks and posted the journal entry. For outstanding refund checks issued prior to January 1, 2007, Treasury voided the checks and recorded miscellaneous revenue and cash of $2.4 million in the state accounting system. However, more than $800,000 in refund checks were being held at the Division of Taxation. At June 30, 2007, miscellaneous revenue was overstated and tax revenue was understated.	*MC-24* Provide Treasury with the returned tax refund checks at least on a monthly basis.

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<tr><th>Condition Description</th><th>Recommendations</th></tr>
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MC-25 - Taxation – Taxes Receivable Balances

We found that the receivable balances reported on the Taxation Mainframe system at fiscal year end are not always current. We found instances where the system reported a receivable balance but the taxpayers had made payments; the taxpayer was deceased; the taxpayer was bankrupt; or the taxpayer received a refund instead. Although the Division was aware of these situations before fiscal year end, the receivable balances were not adjusted prior to providing the balances to the Office of Accounts and Control for financial reporting purposes.

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MC-25 Update accounts receivable balances on a timely basis.

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MC-26 - Allowance for Uncollectible Accounts – Department of Labor and Training (DLT)

During fiscal 2007, the State utilized collection data through fiscal 2006 to recalculate the allowance for uncollectible Employment Security (ES), Temporary Disability Insurance (TDI), and Job Development Fund (JDF) taxes due from employers at June 30, 2007. The State's recalculation was flawed due to the following reasons:

- the calculation only considered the age of the receivable and did not consider its status (i.e., active, receivership, bankrupt, etc.); and
- removal of the previously included allowance for "unavailable" taxes for ES and JDF taxes resulted in a 20% reduction in the allowance rate from 2006. No study of actual collection rates has been performed to determine whether the reduced rate is accurate.

The State should correct its calculation of allowance percentages by addressing these issues for fiscal 2008.

(Repeated from prior year)

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MC-26 Consider the classification of the receivable amount and not only its age when calculating the allowance for uncollectible accounts. Consider a study of actual collection rates in determining whether the aging calculation is accurate.

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MC-27 - Department of Health (DOH) – Contract Employees

The State has contracted with a vendor to provide contract workers at various state departments. Each department has a purchase order and a requisition which identify the specific federal or state account where funds are budgeted for each worker. When the contractor invoices are received, the expenditures are electronically posted to these accounts. However, time sheets do not specifically identify the federal or state program where time was actually charged.

The State's written policy requires each department to retain copies of the time sheets to reconcile to contractor billings. However, DOH has not consistently retained copies of the time sheets nor reconciled to the billings available on the State Controller's website.

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MC-27a Revise time sheets to identify the specific federal or state program where time was actually charged.

MC-27b Retain copies of time sheets and reconcile to contractor billings. Identify and resolve differences.

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Condition Description	Recommendations
MC-28 - Cost Allocation of Capitol Police Expenditures Through the Central Utilities Fund The Central Utilities Internal Service Fund was utilized to allocate Capitol Police expenditures to various State agencies. As part of this process, certain Capitol Police personnel expenditures were charged directly through the recording of payroll to the Central Utilities Fund. The State would then charge the respective departments within the General Fund for their share of these costs. This allocation would charge the expenditures in the General Fund and record revenue in the Central Utilities Fund as reimbursement for these personnel expenditures. The State should employ a consistent allocation method to charge all Capitol Police expenditures to the various departments and agencies that utilize their services. Further a separate internal service fund should be established, as required, rather than utilizing the Central Utilities Fund.	*MC-28* Develop a consistent methodology to charge Capitol Police personnel expenditures to agencies utilizing their services. Establish a separate internal service fund as required.
MC-29 - Escrow Liability Account Reconciliations In recent years, the State has improved its controls over escrow liability accounts by working with individual departments to reconcile escrow accounts reported in RIFANS. During our audit, we noted that reconciliations still needed to be conducted on the following escrow liability accounts: ❑ Child Support Enforcement – all child support collections are deposited into this escrow account prior to being disbursed. The Division of Child Support Enforcement within the Department of Human Services should reconcile this account monthly to ensure that balances reported can be matched to underlying system collections pending disbursement. ❑ Court Collections – the State judiciary deposits all court collections into an escrow account at the time of collection. These collections are subsequently transferred based on reports from the Judiciary's Banner System that identifies the nature of the collections. The Judiciary should reconcile the outstanding balance in this account to court system reports on a monthly basis to ensure that the amount reported in the account is fairly stated. The State should ensure that all escrow liability accounts are reconciled at the fiscal year-end to improve overall control over financial reporting.	*MC-29* Completely reconcile remaining escrow account balances to improve controls over financial reporting.

Condition Description	Recommendations
MC-30 – Debt Management System – File Back-up Procedures	
When a computer security incident or other unforeseen event occurs that results in a loss of application data, recovery from the incident or event requires up-to-date file back-ups and proven methods of restoring the lost data. There should be formal documentation offering guidance on the categorization, frequency, type, handling, storage and retention of back-ups for all of the application's data.	*MC-30a* Create end of month and fiscal year end back-up files for the State's DBC debt management system and retain on a two year cycle.
The State's debt management system (*DBC Debt Manager)* maintains an inventory of all outstanding bonded debt including required debt service schedules. Back-up procedures have been established for data maintained within the debt management system which include daily back-up on the server and transfer to a safe, off-site storage location. The daily back- ups are currently on a four week rotation schedule with the Friday back-ups staying off-site for two weeks.	*MC-30b* Perform a review of existing DBC back-up procedures to the guidelines included in DoIT's IT Security Policy and Procedures Manual.
Back-up procedures should be enhanced to include "archived copies" created for the end-of-month and fiscal year end cycles. These files should be retained for two years.	
We also noted that documentation detailing all the operational procedures within the back-up process could be improved. DoIT should perform a compliance review of the existing DBC back-up procedures and documentation and assess the compliance with the established guidelines included in DoIT's IT Security Policy and Procedures Manual.	

The following statements issued by the Governmental Accounting Standards Board (GASB) will impact the State's financial reporting beginning in Fiscal 2008 and subsequent years. Advance planning is important to ensure that required information is available to implement these new standards.

GASB Statement	Description	Effective Date	Implementation Issues
Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*	This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The basic purpose of this Statement is to require accounting for OPEB in a manner similar to pension benefits, which means reporting the costs related to such benefits in the period in which the exchange occurs in contrast to when the benefits are paid (often many years later).	Effective for periods beginning after December 15, 2006. Fiscal Year 2008	This Statement will require the State to: ❑ Recognize the cost of OPEB benefits when the related services are received by the employer. ❑ Provide information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded. ❑ Provide information useful in assessing potential demands on the employer's future cash flows.
Statement No. 48 – *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*	This Statement establishes certain criteria that governments will use to ascertain whether the proceeds derived from the sale or pledge of receivables and future revenues should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues. This statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met.	Effective for periods beginning after December 15, 2006. Fiscal Year 2008	This Statement will require the State to consider its impact on the accounting and disclosure requirements for the following types of transactions: ❑ Sales of future revenues such as those associated with the Tobacco Settlement Financing Corporation. ❑ Pledged revenues, for instance, tax revenues pledged for the repayment of debt.

GASB Statement Title	Description		Effective Date		Implementation Issues
Statement No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations*	This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning.		Effective for periods beginning after December 15, 2007. Fiscal Year 2009		This statement will require the State to determine if any events or situations exist requiring its involvement or potential involvement in pollution remediation activities. If any one of five specified obligating events (as described in the Statement) occurs relating to the State's involvement of pollution remediation activities, the State would be required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods or services are acquired.
Statement No. 50 – *Pension Disclosures – An Amendment of GASB Statements No. 25 and No. 27*	This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in the notes to financial statements or presented as required supplementary information (RSI). The reporting changes required by this Statement amend applicable note disclosures and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Government Employers* to conform with requirements of Statements No.43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.		Effective for periods beginning after June 15, 2007. Fiscal Year 2008		This statement will require the State to consider the additional required note disclosures and RSI requirements in the preparation of the State Comprehensive Annual Financial Report and the financial statements of the Employee's Retirement System. The State will also need to ensure that all component units incorporate the additional reporting requirements into their financial statements.

GASB Statement Title	Description		Effective Date		Implementation Issues
Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*	This Statement provides financial reporting guidance for the classification of intangible assets as capital assets. This Statement includes guidance on recognizing and amortizing intangible assets, as well as provides guidance on determining the useful lives of identified intangible assets. This guidance should be applied in addition to the existing guidance for capital assets.		Effective for periods beginning after June 15, 2009. Fiscal Year 2010		This Statement will provide additional financial reporting guidance applicable to the State's intangible assets.
Statement No. 52 – *Land and Other Real Estate Held as Investment by Endowments*	This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value and other information that they currently present for other investments reported at fair value.		Effective for periods beginning after June 15, 2008. Fiscal Year 2009		This statement should not have a significant impact on the State's financial reporting.

The following corrective action plan was developed by the State's management in response to our management comments.

	Action Planned	Contact Person(s)	Planned Completion Date
MC-1	The Office of Accounts and Control will establish a policy to mitigate fraud risk factors.	Marc Leonetti, State Controller	December 31, 2008
MC-2	This issue has been addressed. The FY2008 revised and FY2009 budget documents include a column with the fund/agency displayed so that it can be identified (See FY2009 Technical Appendix). The budget is uploaded into the RIFANS system in accordance with those fund designations. RIFANS can produce reports using the fund designation so the data is available. Article One, which contains the legal appropriations, is not presented by fund, as it represents a program budget and may include spending from several funds in one agency.	Rosemary Booth-Gallogly, Budget Officer	N/A
MC-3a	The Department of Administration (DOA) has corrected the known issues identified within the process and continues to monitor for accuracy. DOA concurs that the complexity of the process increases the risk of error and would prefer utilizing internal service funds as suggested in 3b.	Bernard Lane, Administrator, Financial Management	N/A
MC-3b	The Budget Office is very much in favor of using internal service funds. The FY2010 budget could be presented that way, but since it involves numerous changes in appropriations from DOA to other agencies, we would not make this change unless there was an agreement with the Legislature.	Rosemary Booth-Gallogly, Budget Officer	
MC-4	Bond referenda approved by the General Assembly and ultimately the voters determines how bond proceeds can be used. Authorized uses may include expenditures for non-capital assets, such as building maintenance, equipment, grants to community agencies, etc. As new requests for bond authorizations are submitted, the Budget Office makes every effort to limit approvals to those that are for the acquisition of capital assets or transfers the project to the Rhode Island Capital Plan Fund. However, the General Assembly can also approve bond referenda that do not meet this definition.	Rosemary Booth-Gallogly, Budget Officer	N/A
MC-5a	The ability to centralize this review function and increase staff is subject to budgetary constraints.	Marc Leonetti, State Controller	N/A
MC-5b	The Office of Accounts and Control will work to establish a database related to sub-recipient entities that receive State and/or federal grant funding.		December 31, 2008
MC-6	The Office of Accounts and Control will facilitate a discussion with the necessary parties regarding a Direct Deposit requirement.	Marc Leonetti, State Controller	December 31. 2008
MC-7	Treasury disagrees with this recommendation. This recommendation would require that Treasury (1) track all expenditures for all agencies administering a federal program, and (2) accurately determine which expenditures are eligible for federal reimbursement under each federal program. This would require significant additional resources at Treasury. The expertise to make these determinations rests with each agency, and the responsibility to request timely drawdown of federal funds and complete the associated journal entry for the receipt should remain at the agency level.	Mark A. Dingley, Chief Legal Counsel/Chief of Staff – Office of the General Treasurer	N/A

	Action Planned	Contact Person(s)	Planned Completion Date
MC-8	Guidelines will be developed to limit the use of the "return to agency" code.	Marc Leonetti, State Controller	December 31, 2008
MC-9	Treasurer Caprio has continued to enhance the practices at Treasury for preservation of principal. During his administration Treasury has done a thorough review of the soundness of all deposits. None of our deposits are invested in any mortgage backed or asset backed securities. All of our money market funds are 100% invested in Government and US Agency Securities backed by the full faith and credit of the US Government. Further, we review our positions and vendors daily for any potential market affectations, and do a monthly review with Standard & Poors and Moody's, and a quarterly review of the financial statements of the banks/broker dealers. From the banking perspective the additional cost of collateral on deposits will result in lower returns and additional fees. Not all banks have access to collateral, meaning we may not be able to use some of our local banks. But, the bottom line is that Treasury feels that our investment and deposit guidelines adequately preserve our capital and when there is even the slightest issue of credit worthiness of an institution, we place them on hold. Lastly, because of our dealing with the State's operating funds and the need for liquidity, none of our investments extend very far in duration, with an average maturity of 7 days or less, and a large share of funds are in Money Markets with daily liquidity.	Mark A. Dingley, Chief Legal Counsel/Chief of Staff – Office of the General Treasurer	N/A
MC-10a	The Office of Accounts and Control will review the request to archive the direct deposit file. However, the source file for direct deposit information is currently archived on a bi-weekly basis.	Marc Leonetti, State Controller	December 31, 2008
MC-10b	Reconciliation documentation will be retained effective July 1, 2008.	Peter Keenan, Associate Controller	July 1, 2008
MC-11	The Department of Human Services has reviewed the specific recommendations to further refine the data underlying the claims liability estimation process. The department will coordinate with the claims processor and request the suggested data reports and modifications to existing reports. This data will be incorporated into the claims liability estimation process unless it impacts the department's ability to comply with the established deadline for submission.	Tim McCormick, Chief Financial Officer	July 31, 2008
MC-12	The Office of Accounts and Control has researched the capabilities of the recently implemented software and learned that there is the capability to amortize premiums and discounts using the outstanding principal method. We have adopted this method which we believe is preferable to the straight line method and will use it consistently in the future. We have asked the software vendor if they plan to enhance the software by adding the effective interest rate method of amortization and they indicated that this is not planned.	Peter Keenan, Associate Controller	N/A
MC-13	Settlements are made on a monthly basis except: (a) when cash flow considerations prevent this or (b) during the 2 months immediately following year end when the closing process impedes the settlement of interfund balances. We will assess the current process in an effort to remove barriers to settling each month.	Peter Keenan, Associate Controller	December 31, 2008

	Action Planned	Contact Person(s)	Planned Completion Date
MC-14	The assessed fringe rate will be reviewed to include a provision for military leave.	Marc Leonetti, State Controller	December 31, 2008
MC-15	The majority of agencies currently utilize the web based reports rather than the Oracle standard reports due to the ability to export data and ease of use. As a result, the recommendation can not be implemented without providing an alternative reporting option. A working group will be established to review reporting alternatives and related costs.	Marc Leonetti, State Controller	June 30, 2009
MC-16	We will explore presenting a more condensed budgetary comparison schedule in the CAFR and a separate document that replicates the detail in the enacted budget.	Peter Keenan, Associate Controller	March 31, 2009
MC-17	Treasury's research has indicated that the additional Oracle module necessary for automated cash reconciliation would require $1,000,000 annually for licensing and maintenance with potential personnel savings of less than $150,000 per year. Treasury does not feel that this would be a prudent general fund expenditure under current budgetary constraints.	Mark A. Dingley, Chief Legal Counsel/Chief of Staff – Office of the General Treasurer	N/A
MC-18	The Division of Taxation is in the process of implementing a data warehouse which will create an environment where all information used by the Division of Taxation is centralized and standardized with updates to the data from a variety of data sources. Once the system is functional, Taxation will have the ability to match business tax returns from different systems to identify noncompliance and non-filing.	David Sullivan, Tax Administrator	June 1, 2009
MC-19	A periodic report of taxpayers remitting more than $600 per quarter would assist in identifying those whose filing frequency should be changed. However, personnel would be needed to review the report, contact taxpayers, update the record, and send notifications, along with new forms. Alternatively, we could do an automatic filing frequency change before the annual booklet update. An automated notice to the taxpayers could be sent 60-90 days in advance of the booklet mailings. These updates could be based upon a 12 month filing average.	Mike Derham, Chief Revenue Agent	Tax Year 2009
MC-20	The W-3s are filed during peak income tax season and have been historically given a low priority in comparison to entering and processing income tax refunds in a timely manner in order to avoid payment of interest. Processing the W-3s is somewhat labor intensive since the W-2s must be stripped from the W-3's and then batched, boxed and recorded on the mainframe. The W-3s are also batched and entered manually onto the mainframe system. After all of the W-3s are entered, a report is run with overpayment/underpayment. There is only one Agent assigned to work the report. That Agent, during peak income tax season, also works with the mailroom to identify payments received without forms, handles all of the withholding refund requests and corrections to the mainframe associated with those refunds, acts as the point of contact for payroll companies and employers with withholding tax questions. Unfortunately, this is a staffing problem from start to finish.	Mike Derham, Chief Revenue Agent	N/A
MC-21a	The Division of Taxation has already established a distinct code to identify this type of transactions.	David Sullivan, Tax Administrator	August 1, 2008

	Action Planned	Contact Person(s)	Planned Completion Date
MC-21b	The collection section will take a closer look at all delinquent accounts to determine if the accounts are uncollectible.		
MC-22	Cash receipts are currently reconciled to the batch counter generated in primary processing. Those batch counters are the record of the batches added to the batch inventory system on the mainframe. When an operator opens a batch, it updates the batch status on the inventory system. If an operator closes a batch out of balance, the difference should be noted on the batch cover sheet. For example, this happens when an item is put into the wrong system i.e. sales payment in a withholding batch. Other than reviewing batch inventory on a schedule to ensure that all batches are processed timely, which would require a full time position, it would be next to impossible to actually reconcile the mainframe to the cash receipts utilizing the current tax systems. A fully integrated system would, most likely, have to be developed and installed. The cost of such a system has historically been determined to be cost prohibitive.	Mike Derham, Chief Revenue Agent	N/A
MC-23	This change will require substantial programming changes to the personal income tax mainframe systems. A request will be submitted to DoIT, but this request may not be top priority and may not be completed within the near future.	David Sullivan, Tax Administrator	N/A
MC-24	Procedure has already been changed to send "redeposit" back to Treasury on a more frequent basis.	Mike Derham, Chief Revenue Agent	N/A
MC-25	Receivable balances are updated prior to the mailing of all delinquency notices. Taxation will submit a request with DoIT to change the mainframe programs to update receivable balances either monthly or more frequently. This request may not be top priority and may not be completed within the near future.	David Sullivan, Tax Administrator	
MC-26	The calculation of the allowance for uncollectible accounts will be adjusted to reflect a more appropriate write-off percentage for bankrupt and receivership status accounts. We will also obtain historical write-off data to further validate the appropriateness of the allowance percentages.	Peter Keenan, Associate Controller	September 30, 2008
MC-27a	Management believes that since the 1) purchase order contains the appropriate Federal or State account, and 2) the funding type is linked to an actual position, a revision to the time sheet to include funding type may not add value. Alternative changes to the time card will be researched.	Marc Leonetti, State Controller	N/A
MC 27b	The Department of Health checks the hours worked for each contracted employee and ensures the hours do not exceed the budgeted amount. The Department will work to maintain appropriate documentation related to the process.	Doug Axelsen, Chief Financial Officer, Department of Health	September 30, 2008
MC-28	A separate internal service fund for capitol police services that are billed to agencies will be established.	Peter Keenan, Associate Controller	July 31, 2008
MC-29	We will work with the two agencies responsible for the reconciliation of Child Support and Court escrow accounts to insure that these accounts are reconciled to subsidiary records on a regular basis. In both cases modifications to subsidiary accounting systems at the respective agencies may be required.	Peter Keenan, Associate Controller	December 31, 2008

	Action Planned	Contact Person(s)	Planned Completion Date
	Office of the General Treasurer:	Mark A. Dingley, Chief Legal Counsel/Chief of Staff – Office of the General Treasurer	
MC-30a	Monthly backups occur on the last business day of the month and are moved off-site. It is our understanding that these backups are retained for one month. Treasury is currently in dialogue with DoIT to implement a longer retention period.		N/A
MC-30b	Treasury has reviewed the back-up procedures provided by DoIT. Outside of the recommendation listed in item MC-30b, the back-up procedures are satisfactory and appear to be adhering to current "best practices".		N/A
	Division of Information Technology:	Alan Dias, Assistant Director of Information Technology	
MC-30a	Additional backup procedures will be implemented as recommended.		August 31, 2008
MC-30b	Management believes that having monthly and year end back–up processes in place, along with archiving the back-up in a secure place, exceeds backup requirements.		N/A