State of Rhode Island

AUDIT RESULT HIGHLIGHTS
and
MANAGEMENT COMMENTS

Single Audit
Fiscal Year Ended June 30, 2006

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Auditor General

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

STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

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May 14, 2007

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

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We have completed our Single Audit of the State for the fiscal year ended June 30, 2006 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, 2006. 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 reportable conditions, 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 opined on the fairness of presentation of the State's basic financial statements (government-wide, major funds and aggregate remaining fund information). Our opinions were qualified because:

  - We could not satisfy ourselves as to the completeness of accounts payable, amounts due from other governments and agencies (federal receivable), deferred revenue and the related expenditures and federal revenue reported for the Intermodal Surface Transportation Fund (a major fund).

  - We could not satisfy ourselves as to the completeness and valuation of the amount of outstanding encumbrances disclosed for the State's Intermodal Surface Transportation and Grant Anticipation Revenue Vehicle funds (both major funds).

  Our opinions on the State's governmental activities, business–type activities, the aggregate discretely presented component units, and the aggregate remaining fund information were unqualified.

  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 21 reportable conditions of which 12 are considered material weaknesses in internal control over financial reporting. A table on pages 4 and 5 demonstrates the wide-ranging impact of the reportable conditions on multiple functional areas of the State's operations. These reportable conditions and related recommendations are included in the State's *Single Audit Report* for the year ended June 30, 2006.

- We presented 31 management comments and recommendations (included herein beginning on page 6) intended to improve internal control or enhance compliance with laws, regulations or contracts. 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. These management comments are less significant findings than those considered to be reportable conditions, yet, in our opinion still warrant communication and the attention of the State's management.

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 31 major programs (or clusters of programs) was qualified for eleven programs. Material noncompliance was reported for three major federal programs. In other instances 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, reportable conditions, and related recommendations are included in the State's *Single Audit Report* for the year ended June 30, 2006. This report references 49 reportable conditions of which 11 are considered material weaknesses in internal control over compliance with federal requirements.

DISCUSSION OF THE SIGNIFICANCE OF THE AUDIT RESULTS

Serious weaknesses in the State's controls over financial reporting continued to exist during fiscal 2006, however, significant progress was made during the fiscal year in addressing many of these long-standing issues. The progress in eliminating these findings resulted from a sustained effort throughout the year to implement specific corrective actions. Since many of the corrective actions were implemented at fiscal year end or subsequently, certain of the findings were repeated for fiscal 2006. Acknowledgment of the specific corrective actions taken has been reflected in our findings. The key corrective actions taken by the State include (1) implementing components of a new statewide accounting system in fiscal 2007 that, when fully implemented, should better meet the State's need for a fully integrated accounting system that supports financial reporting and management decision making; (2) adopting information security policies and procedures and addressing specific control weaknesses in critical computer systems; and (3) improving the dedication of resources to accounting and financial reporting matters.

Preparation and audit of the State's fiscal 2006 financial statements was completed within six months of fiscal year-end--a significant achievement for the State. As a result, (1) audited financial information was available for decision-makers prior to the submission of the 2008 budget and related legislative budget deliberations, (2) debt offerings by the State will include timely audited financial information which is looked upon favorably by debt rating agencies, and (3) the State's *Single Audit Report,* which is required to ensure continuation of federal funding, was filed on time. While notable, this was still largely accomplished through special focus and dedication of resources to the task rather than through improvement in systems that support financial reporting. The goal for the future, which is contingent upon the successful implementation of the State's new accounting system, is to improve and automate the data systems that support financial reporting thereby improving both the timeliness and quality of information.

Significant control issues were reported in the *Single Audit Report* regarding the operations of the Intermodal Surface Transportation (IST) Fund which accounts for transportation activities funded by the gas tax, federal funds and state bond proceeds. While weaknesses in controls over financial reporting for the IST Fund have been reported in past audit reports, fiscal 2006 was further negatively impacted by the Department of Transportation's (RIDOT) implementation of a new financial management system. We found the required interface between RIDOT's financial management system and the State's accounting system to be problematic and consequently activity recorded in the two systems could not be completely reconciled. Ultimately, we recommended that the current design and intended use of DOT's financial management system, including the resources necessary to support the system, be reevaluated.

Due to preexisting control weaknesses and the implementation of RIDOT's financial management system, the State's preparation of financial statements for the IST Fund was difficult. These weaknesses in accounting controls impacted multiple aspects of the IST Fund financial statements and resulted in a qualified opinion on the IST Fund, a major fund, because of our inability to obtain sufficient evidence regarding the completeness of certain account balances.

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 ensure that many of the issues impacting the current accounting system are resolved with the implementation of a new integrated accounting system in fiscal 2007 and subsequent years. In addition to integrating its accounts payable and procurement modules with the general ledger during fiscal 2007, the State will further need to implement modules for other vital financial components such as capital assets, accounts receivable, and budget, as examples, to obtain the full benefits and efficiencies of an integrated financial reporting system.

In relation to information systems security, the State must now effectively communicate the policies and procedures adopted during fiscal 2006 and conduct an assessment of all State systems to identify those that do not currently meet the mandated standards. 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. Also, the State should ensure that all newly implemented State information systems are in compliance with the mandated policies and procedures prior to being placed into service.

Significant deficiencies in the design and operations of internal control over financial reporting (reportable conditions and material weaknesses) are described in detail in the reportable conditions 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 reportable conditions and material weaknesses.

CONCLUSION

Deficiencies in the State's financial reporting and management capabilities have multiple causes, many of which have been long-standing. Our audit recommendations have focused on the fact that an effective solution to these issues must be multi-faceted, requiring the State to invest increased personnel and financial system resources.

The State's focus and dedication to resolving these long-standing issues have begun to produce positive results, most notably, timely audited financial statements. The State will need to continue these efforts to achieve all the benefits and efficiencies of an integrated financial reporting system. In addition, many of the management comments included in this report need the State's attention to further enhance its controls over financial reporting and to prevent more significant control deficiencies from developing over time.

In conclusion, the management of the State should be proud of the accomplishments that have been made in recent years to resolve long standing deficiencies in financial reporting and information systems security. The State, however, must continue its emphasis and related investment in financial management and reporting as well as the security of its information systems to ensure that these advancements continue.

			Functional Impact Area					
Finding	*Description*	*Material Weakness[2]*	*Financial Reporting*	*Accounting Controls*	*Financial Management*	*Asset Management and Protection*	*Information Systems Security*	*Compliance With Laws and Regulations*
2006-1	*Controls Over Accounting and Financial Reporting – Statewide Accounting System*	●	■	■	■	■		
2006-2	*Controls Over Accounting Transactions – RISAIL Accounting System*	●	■	■	■	■	■	
2006-3	*Monitoring Departmental Restricted and Operating Transfer Accounts Within the General Fund*		■	■	■			■
2006-4	*Accounting Control Over Investment Transactions*	●	■	■	■	■		
2006-5	*Accounting and Physical Control Over Capital Assets*	●	■	■	■	■		
2006-6	*Funds on Deposit With Fiscal Agent*	●	■	■	■	■		
2006-7	*Capital Leases*		■	■	■	■		
2006-8	*Accounting Controls Over Federal Revenue and Expenditures*	●	■	■	■			
2006-9	*Taxation – Controls Over Electronic Funds Transfer Receipts*		■	■			■	
2006-10	*RISAIL Access Controls*		■	■			■	
2006-11	*Controls Over Taxation Systems*		■	■			■	
2006-12	*Controls Over Employee Payroll System*		■	■			■	
2006-13	*Comprehensive Information Systems Security Policies and Procedures*		■	■	■	■	■	
2006-14	*Utilization of the RIDOT Financial Management System*	●	■	■	■			
2006-15	*Financial Reporting – Intermodal Surface Transportation Fund*	●	■	■	■			
2006-16	*Controls Over Federal Revenue Recorded Within the IST Fund*	●	■	■	■			
2006-17	*Information Systems Security - Lottery Gaming Systems*		■	■				■

			Functional Impact Area					
Finding	*Description*	*Material Weakness[2]*	*Financial Reporting*	*Accounting Controls*	*Financial Management*	*Asset Management and Protection*	*Information Systems Security*	*Compliance With Laws and Regulations*
2006-18	*Improve Controls Over Financial Reporting – Employees' Retirement System*	●	■	■	■			
2006-19	*Implement Reconciliation Controls Over the ANCHOR and General Ledger Accounting Systems – Employees' Retirement System*	●	■	■	■			
2006-20	*Fiscal Agent Oversight – Medical Assistance Program*	●	■	■	■		■	■
2006-21	*Automated Data Processing (ADP) Risk Analysis and System Security Review*		■	■	■		■	■

(1) ***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 judgment, could adversely affect the State's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

(2) A ***material weakness*** is a reportable 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 caused by error or fraud in amounts, that would be material 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.

	Condition Description	Recommendations
MC-1	<u>Fraud Risk Factors</u> 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. 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. Our assessment found that 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 within operations of the State need to be developed and implemented to safeguard assets of the State and to ensure that the State's 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.	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	<u>Accounting for Disposals of Infrastructure Assets and Related Land Sales</u> During fiscal year 2006, the State accumulated detailed infrastructure project data to record its investment in infrastructure assets for fiscal years 1981 - 2001 in accordance with GASB Statement No. 34. To ensure the accurate reporting of its infrastructure assets going forward, the State will need to implement policies and procedures to record disposals of infrastructure assets as new assets are constructed. The State also needs to implement procedures to ensure that sales of land by the Department of Transportation are accurately recorded in the State's financial statements. Such procedures should also include the recording of the related gain or loss associated with these transactions by the State.	MC-2 Implement policies and procedures to identify and record infrastructure asset disposals and related land sales in accordance with generally accepted accounting principles (GAAP).

	Condition Description		Recommendations
MC-3	<u>Disclosure of Deposit and Investment Risks</u> Generally accepted accounting principles (GAAP) require various disclosures in the notes to the financial statements regarding deposits with financial institutions and investments. Beginning with fiscal 2005, additional disclosures were required due to the implementation of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. During fiscal years 2005 and 2006, the State's GASB 40 disclosure has been prepared by the Office of Accounts and Control. The GASB 40 disclosures provided in the State's draft notes to the financial statements have required adjustment in these years due to instances of inaccurate and, in some cases, incomplete information being disclosed. Since the Office of the General Treasurer is responsible for cash deposits and investments, much of the information required for disclosure is within their control. A work-group comprised of staff from the Offices of Accounts and Control and the General Treasurer should be established to accumulate all the information needed to meet the GAAP disclosure requirements for deposits and investments. The work-group should also accumulate all required information to make deposit and investment risk disclosures for amounts held by trustees. Such amounts included within the caption "Funds on deposit with fiscal agent" on the financial statements totaled nearly $400 million at June 30, 2006.		MC-3 Establish a work-group to accumulate all the information needed to meet the GAAP disclosures for deposit and investment risks.
MC-4	<u>Government–wide Statements – Accounting for Debt Premiums, Discounts and Issuance Costs</u> In accordance with generally accepted accounting principles (GAAP), any premium or discount resulting from issuance of debt is deferred and amortized over the life of the related debt in the government-wide financial statements. The Office of Accounts and Control amortizes these amounts using the "straight-line" method rather than the effective interest method preferred by GAAP. When the amount of premium or discount is small the difference in amortization methods is immaterial, however, recent bond issues have resulted in significant premiums upon issuance. For example, debt issuances in fiscal years 2006, 2005, and 2004 have resulted in $16 million, $18 million, and $31 million in premiums, respectively. The State should explore options within its current debt accounting system to amortize premiums and discounts using the effective interest method.		MC-4 Amortize premiums and discounts from the issuance of debt using the effective interest method.

	Condition Description		Recommendations
MC-5	<u>State Budget</u> The annual budget enacted by the General Assembly encompasses multiple funds (General, ISTEA, 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).		MC-5 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.
MC-6	<u>Revenue Recognition</u> Revenues of the State should be recognized in the financial statements consistent with generally accepted accounting principles (GAAP). The applicable recognition principles are based on the revenue type, the type of fund the revenue is recorded in, and the applicable financial statement (government-wide or fund perspective). One class of revenue transactions is considered "derived tax revenue" transactions resulting from assessments imposed by the State on exchange transactions – these include personal income, corporate income and sales taxes. Other employment related taxes (unemployment insurance and temporary disability taxes) collected by the State's Department of Labor and Training also represent assessments imposed on exchange transactions. GAAP requires that revenue from these taxes be recognized as the underlying exchange transaction occurs. Revenue should also be recognized net of estimated refunds and estimated uncollectible amounts. The State has generally adopted accounting policies to meet GAAP criteria; however, policies for accruing revenues earned by fiscal year end but not received at June 30 were not consistently applied. Consistent application of policies is necessary to ensure revenue recognition is appropriate and consistent between years. Additionally, some tax revenues collected are later refunded, however for certain taxes, no estimate is made of the likely refunds for certain taxes. Instead refunds, when paid, are later deducted from receipts of another period. The State should continually reexamine its accrual methodology for all material revenues to ensure that its processes reflect the provisions of GASB Statement No. 33 - Accounting and Financial Reporting for Nonexchange Transactions. In addition, continual evaluation of its estimation methods would ensure that the State's accruals are supported by the current collection experience for all categories of the State's revenue.		MC-6 Reexamine revenue recognition policies to ensure compliance with GAAP.

	Condition Description		Recommendations
MC-7	<u>Comprehensive Annual Financial Report - Management's Discussion and Analysis</u> "Management's Discussion and Analysis" (MD&A) is a required component of the State's basic financial statements. Its purpose is to provide users of the financial statements with a narrative introduction, overview, and analysis of the basic financial statements and to highlight and explain significant changes. Management is also required to discuss other facts, transactions, and events known as of the date of the *Independent Auditor's Report* that could have a significant impact on the future financial resources of the State. The State should enhance its discussion within MD&A of significant events and transactions that take place after year-end and their anticipated impact on the State's future financial condition. Such enhancements would improve the overall usefulness of the MD&A and ensure that all required elements, as defined by generally accepted accounting principles, (GAAP) have been included.		MC-7 Expand the State's discussion of other facts, transactions, and events within Management's Discussion and Analysis to enhance its usefulness and ensure compliance with GAAP.
MC-8	<u>Medicaid Claims Liability Estimation Process</u> 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. DHS should consider utilizing actual claims processing results to conduct a post analysis of the recorded claims liability estimate as a means to identifying areas where the estimation process needs refinement.		MC-8 Address claim-type issues noted during recent audits to improve the Medical Assistance Claims Liability estimation process.

	Condition Description		Recommendations
MC-9	<u>Comprehensive Disaster Recovery / Business Continuity Plan</u> During fiscal year 2006, the State contracted for the development and implementation of a formal written disaster recovery / business continuity plan to address a reportable condition noted in previous audits. This plan was formally adopted by the State's Division of Information Technology (DoIT) on June 30, 2006. The State must now ensure that all necessary personnel with responsibilities under the plan are trained to ensure that the plan is fully maintained and operational to safeguard the State's most vital operation. Also, the plan must be periodically tested and evaluated to ensure its operational effectiveness. The State should also be certain that the plan's effectiveness is maintained when systems, equipment, or processes change.		MC-9 Continue implementation of the newly adopted disaster recovery / business continuity plan by training necessary personnel and adopting procedures for periodic testing and evaluation of the plan's effectiveness.
MC-10	<u>Transactions With Component Units</u> The State does not currently attempt to align transfer amounts between the primary government and discretely presented component units. This results in transactions being reported inconsistently between the primary government and component units within the State's financial statements. These inconsistencies are caused by differences between the manner in which the component unit records the transaction and how it is coded in the State accounting system. For example, transactions reported as transfers in the general fund may be reported as expenses within component units. Timing differences also cause inconsistencies between the financial statements of the primary government and the component units.		MC-10a Improve natural account coding of transactions with component units in the accounting system. MC-10b Provide guidance to the State's Component Units on recording transactions with the primary government.

	Condition Description	Recommendations
MC-11	<u>Comprehensive Annual Financial Report – Component Unit Note Disclosures</u> The notes to the financial statements should communicate information essential to the fair presentation of the basic financial statements that is not displayed on the face of the financial statements. GASB Codification section 2300.105 states that "Determining which discretely presented component unit disclosures are essential to fair presentation is a matter of professional judgment and should be done on a component unit-by-component unit basis. A specific type of disclosure might be essential for one component unit but not for another depending on the component unit's significance relative to the total component units included in the component units column and the individual component unit's relationship with the primary government". The State's note disclosures relating to component units could be enhanced by consistently applying the GASB criteria (highlighted above) and evaluating all disclosures against this standard. For instance, certain relatively insignificant component unit transactions or balances were disclosed while others of a more significant nature were omitted within the State's fiscal 2006 financial statements. Where certain component units constitute a high percentage of total component unit activity, the State does not report relevant disclosures for at least these significant component units. For example, disclosures of cash and investments were not made for any discretely presented component units even though three component units constituted the majority of component unit assets.	MC-11 Disclose significant transactions relating to discretely presented component units in accordance with generally accepted accounting principles.
MC-12	<u>Taxation – Estimated Receivables</u> The Division of Taxation established personal income tax receivables on the taxation receivable system for 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 Division's receivable system does not currently differentiate between these types of receivables and those derived from a taxpayer's filing of a tax return. Although we could not determine how much of the receivable balance was derived from estimates, we did identify approximately $667,000 of estimated receivable balances in fiscal 2005 that were ultimately reduced to $1,300 in fiscal 2006. The Division should consider coding these receivables separately. This would allow more detailed analysis of these balances and an appropriate allowance for financial reporting purposes.	MC-12a Distinctly code tax receivable balances based on data received from the IRS. MC-12b Once identified, determine whether the allowance for uncollectible amounts on estimated receivable balances derived from IRS data is adequate.

	Condition Description		Recommendations
MC-13	<u>Taxation – Deposits</u> Section 35-6-34 of the RI General Laws requires receipts to be deposited within seven days. Payments received, as a result of hearing adjustments, are not always deposited on a timely basis. These checks are maintained in a locked cabinet until the required paperwork on the revisions is completed so that the adjustments and payments can be posted to the taxpayers' accounts. This process may take weeks or months to complete before the deposits are made.		MC-13 Deposit receipts in accordance with Section 35-6-34 of the RI General Laws.
MC-14	<u>Taxation – Accounting for the Distribution of Motor Fuel Taxes</u> The General Laws establish the distribution formula for motor fuel taxes collected by the State. The Division of Taxation is responsible for the actual distribution of motor fuel cash receipts while the Office of Accounts and Control is responsible for financial reporting aspects. Changes in the distribution formula were made at the beginning of fiscal 2006. Differences existed in how the Division of Taxation interpreted and applied the rate changes and distribution formula changes compared to the Office of Accounts and Control. At issue is whether the changes are effective for the month the Division of Taxation collects the revenue or the month the underlying taxable event occurs (e.g., taxes collected by wholesalers in June are paid to the Division of Taxation in July). The accounting procedures and actual distribution of motor fuel taxes should be consistent.		MC-14 Distribute motor fuel cash receipts in the same manner in which Accounts and Control accounts for motor fuel revenue for financial reporting purposes.
MC-15	<u>Taxation – Controls Over the Recording of Accounts Receivable Correction Adjustments</u> The Division of Taxation (Division) should strengthen controls over Accounts Receivable Correction (ARC) transactions posted to their mainframe systems. The Division currently requires supervisory approval of all ARC transactions for sales, withholding, and corporate taxes before they are posted to those respective systems. However, controls are not in place to ensure that the total of ARC transactions posted matches the amount approved for data entry. In addition, ARC transactions relating to Personal Income taxes do not require any supervisory review prior to posting. The lack of data entry controls could result in an ARC transaction being incorrectly posted to the mainframe system and not being detected by management.		MC- 15 Improve data entry controls over ARC transactions.

	Condition Description		Recommendations
MC-16	<u>Taxation – Reconciliation of Cash Receipts Posted to the Taxation Mainframe System With RISAIL</u> The Division of Taxation (Division) does not reconcile receipts posted to its mainframe system with receipts reported in the RISAIL accounting system. Although the Division does reconcile their cash receipts ledger to RISAIL, controls would be improved if the Division reconciled receipts reported within the Taxation mainframe system with RISAIL. RISAIL 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.		MC-16 Develop the reporting capability within the Taxation mainframe system to facilitate reconciling receipts reported by Taxation's mainframe system with the RISAIL accounting system.
MC-17	<u>Taxation – W-3 Reconciliations</u> 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. Most W-3 data is calculated electronically by the Taxation Mainframe system from the W-2 file submitted by the employer. During fiscal 2006, nearly 18,000 W-3 transactions were calculated electronically by the system for tax year 2004. W-3 reconciliations for tax year 2004 were due on February 28, 2005, but were not posted until October 18, 2005, almost 8 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.		MC-17 Process W-3 reconciliations more timely to identify and collect any underpayments.
MC-18	<u>Allowance for Uncollectible Accounts – Department of Labor and Training (DLT)</u> During fiscal 2006, the State utilized collection data through fiscal 2005 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, 2006. 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 ❑ The calculation included a component for "unavailable" taxes for ES, TDI, and JDF taxes , even though the calculation is only required for TDI, which is accounted for as a governmental fund. The State should correct its calculation of allowance percentages by addressing these issues for fiscal 2007.		MC-18 Correct the calculation of the allowance for uncollectible accounts relating to DLT tax categories to ensure its proper recording in fiscal 2007.

	Condition Description		Recommendations
MC-19	<u>Tax Revenue Accrual – Department of Labor and Training (DLT)</u> The State accrues DLT tax revenue at year-end based on taxes received subsequent to year-end through a date designated by the Office of Accounts and Control. The report utilized by the Controller's office to record the tax accrual at June 30, 2006, however, did not include all taxes received by DLT. The report included only receipts with taxpayer remittance reports. Checks received without remittances and ACH remittances that have remittances submitted at a later date were not included in this report and were omitted from the Controller's calculated accrual.		MC-19 Reevaluate the DLT revenue accrual process to ensure that it encompasses all receipts of the department.
MC-20	<u>Reconciliation of Unemployment Insurance (UI) Benefit Overpayments Reported to the Federal Government</u> The Department of Labor and Training (DLT) maintains a record of UI benefit overpayments due from claimants. As required by federal regulation, DLT reports outstanding amounts due from claimants on federal reports for the UI program. Unlike financial reporting policies, federal reporting requirements do not allow for the reporting of an allowance for uncollectible accounts relating to amounts due from claimants. Instead, federal reports only require amounts outstanding less than two years to be reported. Due to the fact that outstanding receivables reported to the federal government are done on a basis different than that used for the financial statements, DLT should reconcile the amounts reported with the underlying financial data that supports the financial statements. This reconciliation will enhance controls over receivable amounts reported on federal reports for the UI program.		MC-20 Reconcile UI benefit receivables reported on federal reports with amounts reported in the State's financial statements.
MC-21	<u>Improving Cash Reconciliation Efficiency</u> 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. Further, the State should examine its existing configuration of bank accounts with the objective of streamlining the number of accounts and the amount of inter-account transactions. Opportunities for automating the reconciliation process should be explored within the State's new accounting system.		MC-21a 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-21b Assess the existing configuration of bank accounts with the objective of streamlining the number of accounts and the amount of inter-account transactions.

	Condition Description	Recommendations
MC-22	<u>Coordinated Financial Management</u> The State should consider appointing a Chief Financial Officer with the intent of better coordinating and controlling the financial management, including financial reporting, aspects of State operations. This position should be empowered with the resources and the authority to ensure that all agencies comply with coordinated financial management and financial reporting policies and procedures. Various units of State government perform financial management functions with the Budget Office, the Office of Accounts and Control and the Office of the General Treasurer assuming primary responsibility. Other agencies are responsible for a significant amount of the State's financial operations – for example the Department of Human Services is responsible and has its own systems to administer a significant portion of the overall State budget. Many of the control weaknesses related to financial reporting stem from a lack of coordination of the State's various operating units. Because the current statewide accounting system is not integrated, many independent accounting system and departmental systems contain essential data for financial management and financial reporting purposes. Certain of these data sources are redundant while others are not reconcilable or consistent with other data sources. Significant effort will be required to integrate these data sources into a comprehensive integrated financial management system. Improvement is also needed in enforcing uniform policies and procedures among state agencies. A Chief Financial Officer with the authority to prioritize and align resources to meet the State's overall financial management objectives could coordinate these efforts.	MC-22 Consider appointing a Chief Financial Officer to coordinate financial management, including financial reporting, aspects of State operations.

	Condition Description		Recommendations
MC-23	<u>Subrecipient Monitoring – Review of Single Audit Reports</u> 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.		MC-23a 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-23b Build a database of all subrecipient entities that receive state and/or federal grant funding.

	Condition Description		Recommendations
MC-24	<u>Drawdowns of Federal Funds</u> 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.		MC-24 Vest responsibility for drawing federal funds with the Office of the General Treasurer. Automate the drawing of federal funds as part of the implementation of a comprehensive integrated accounting system.
MC-25	<u>Liability for Compensated Absences</u> The State's Office of Accounts and Control calculates a liability for compensated absences each year-end from payroll accrual data extracted by DoIT. The data provided to Accounts and Control includes a significant number of records that makes the manual application of Excel formulas to this large file highly susceptible to error. Such errors have occurred in recent years resulting in incorrect liability amounts being reported in the State's financial statements. The State should consider correcting an already existing COBOL program by DoIT to fully calculate the liability for compensated absences at year-end to eliminate the manual effort required in the current process and to reduce the potential for calculation errors and financial statement misstatements.		MC-25 Consider modifying the existing COBOL program to calculate the year-end liability for compensated absences.

	Condition Description		Recommendations
MC-26	<u>Accounts Payable – Department of Education</u> The Department of Education (RIDE) is responsible for the administration of several federal programs that require the State to reimburse local school districts for qualified expenditures relating to the delivery of program services to qualifying students in those districts. For several years, the State has had problems ensuring that all transactions relating to these programs have been properly accrued at year-end in accordance with GAAP. The State attributes its failure to record these liabilities in recent years to the fact that the processing of these transactions after year-end is significantly longer than most expenditure transactions due to delays in receiving the related reimbursement requests from the local school districts. These transactions must first be reviewed by RIDE and approved for reimbursement before being processed through the State accounting system. The State should review the process for the submission of these transactions at year-end to develop a recording process that will ensure that liabilities outstanding at year-end relating to these federal programs are materially stated in accordance with GAAP.		MC-26 Develop a process for the recording of liabilities relating to RIDE federal programs in accordance with GAAP.
MC-27	<u>Controls Over Payroll Data</u> During fiscal year 2006, we noted the following weaknesses relating to controls over data reported in the State's payroll system: ❑ Individuals that were left active on the payroll system after leaving State employment; ❑ Invalid social security numbers listed for certain employees of the State; ❑ Data entry errors of employee data that went uncorrected; and ❑ Incomplete data reported for certain employees. The State's controls over employee payroll data could be improved by performing the following procedures: ❑ Subscribe to a social security verification service to validate social security numbers reported in the State's payroll system; ❑ Match data reported in the State's personnel system with data reported in the State payroll system to identify discrepancies between the two systems; and ❑ Periodically review data fields in the State's payroll system to identify missing or incomplete data. Improving controls over employee payroll data is important to ensure that only authorized individuals are paid through the State payroll system.		MC-27 Improve controls over employee payroll data to prevent unauthorized individuals from being paid through the State payroll system.

	Condition Description		Recommendations
MC-28	<u>Liability Estimate for Health Insurance Claims for State Employees</u> The State records a liability in its financial statements each year for amounts due for medical services that have been provided to State employees and retirees that have not been billed or paid. The State has estimated the liability at year-end using data provided by the State's health insurance contractor. Our comparison of the estimate to claims payment data reported by the State's health insurance contractor subsequent to year-end found that the estimate was materially overstated. The State should perform certain due diligence procedures to ensure that the liability for employee and retiree medical costs recorded at year-end are fairly stated in all material respects. Such procedures could include, for example, a comparison of actual claims processing results to the recorded claims liability estimate to evaluate the effectiveness of the State estimation process.		MC-28 Develop procedures to ensure that the estimate recorded at year-end for the cost of unbilled medical services provided to State employees and retirees is fairly stated in all material respects.
MC-29	<u>Department of Health – WIC Food Benefits</u> The expenditures posted to the State accounting system for WIC food benefits is equivalent to the amount of federal funds drawn rather than the actual WIC checks that cleared the bank. As a result, the financial statements do not reflect the actual federal expenditures or the proper amount due from the federal government. In addition, federal WIC funds and federal and state Farmers' Market funds are combined in one bank account. The bank statements distinguish the monthly WIC transactions from the Farmers' Market transactions, but the distinction is not maintained in the cash balance. Therefore, without a proper recording of the expenditures in the accounting system, the WIC program could temporarily be subsidizing the Farmers' Market program or vice versa.		MC-29 Record actual WIC checks that have cleared the bank as expenditures in the State accounting system.

	Condition Description	Recommendations
MC-30	<u>Record Rhode Island Capital Fund Expenditures in a Capital Projects Fund</u> In accordance with the State Constitution and General Laws, the State maintains a Budget Reserve and Cash Stabilization Account ("rainy day fund") which requires dedication of a percentage of general revenues to first be credited to the account and, once these funds reach a mandated balance, the excess funds can be used for either capital projects or debt service. Use of the excess funds has now been limited, by Constitutional amendment, to just capital projects beginning in fiscal 2008. The statute creating the Budget Reserve Account requires that the excess funds be transferred to the State's bond capital fund. In practice, the excess funds are transferred to the bond capital fund, however, such amounts are transferred back to the general fund for the purpose of funding appropriated debt service and/or capital outlay expenditures. These capital outlay or debt service expenditures are included in the general fund for financial reporting purposes. Since future use of the "excess" revenue will be limited to capital projects, recording this activity within a capital projects fund rather that the general fund appears more consistent with the statute and more appropriate from a financial reporting perspective. Clearer segregation of operating-type from capital outlay expenditures (those benefiting more than just the current period) results in enhanced financial reporting.	MC-30 Consider reporting capital outlay expenditures funded through excess budget reserve account funding within a capital projects fund.
MC-31	<u>Utilize the Federal Excluded Parties List System to Identify Suspended or Debarred Vendors</u> The State is prohibited from paying federal funds to vendors or other parties who have been suspended or debarred by the federal government. In general, the State obtains certifications from these parties stating that they have not been suspended or debarred by the federal government. A federal website (EPLS) exists which lists all such parties and is intended to serve as resource to state and local governments administering federal programs. The State should consider searching the EPLS website at the time a vendor is registered to commence doing business with the State. Additionally, a periodic comparison of the State's vendor file to the EPLS website data could provide additional assurance that the State is not making payments with federal funds to suspended or debarred parties.	MC-31a Search the EPLS website upon vendor registration with the State to ensure the vendor is not a suspended or debarred party. MC-31b Perform a periodic comparison of the State's vendor file to the EPLS website data.

The following statements issued by the Governmental Accounting Standards Board (GASB) will impact the State's financial reporting beginning in Fiscal 2007 and subsequent years. Advance planning is important to ensure that required information is available to implement these new standards when required.

GASB Statement	Description		Effective Date		Implementation Issues
Statement No. 43 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*	This Statement establishes uniform financial reporting standards for "other postemployment benefits" (OPEB) plans and supersedes the interim guidance included in Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans.* The approach followed in this Statement generally is consistent with the approach adopted in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* with modifications to reflect differences between pension plans and OPEB plans.		Effective for periods beginning after December 15, 2005 Fiscal Year 2007		Statement No. 45, which is closely related to Statement No.43, includes the majority of implementation issues relating to OPEB financial reporting requirements. The applicability of Statement No.43 will be relevant if the State opts to account for its OPEB plan in a trust fund. The State should begin considering the accounting treatment of its OPEB plan in preparation of the future implementation of Statements No. 43 and 45.
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.

GASB Statement Title	Description		Effective Date		Implementation Issues
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 transaction involving receivables should 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.
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.

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 State Controller will develop and implement policies and procedures to prevent, deter and detect fraud in conjunction with the Financial Integrity and Accountability policies and procedures.	Lawrence C. Franklin, Jr., State Controller	December 31, 2007
MC-2	Meeting with DOT management took place in March 2007 at which time a process for notifying the Office of Accounts & Control of asset disposals was agreed upon.	Peter Keenan, Associate Controller-Finance	June 30, 2007
MC-3	Because disclosure issues identified in the FY 2006 audit have been addressed and GASB pronouncements in this area have been in place for several years, we do not believe there is a need to convene a work group to discuss GAAP disclosures for deposit and investment risks.	Peter Keenan, Associate Controller-Finance	N/A
MC-4	We have researched the capabilities of the recently implemented DBC software and learned that DBC has the capability to amortize premiums and discounts using the outstanding principal method. We believe this is preferable to the straight line method, which is currently used, and will adopt this method for FY 2007 and thereafter.	Peter Keenan, Associate Controller-Finance	June 30, 2007
MC-5	The new chart of accounts used within the RIFANS accounting system and within the budget system contains the fund agency designation as a field which can easily be identified. The FY 2008 Technical Appendix, which tracks the revised FY 2007 appropriations and FY 2008 appropriations, contains "the fund" code associated with each account (line item sequence). The RIFANS system is capable of producing budget to actual reports by fund and should address this issue going forward.	Rosemary Booth-Gallogly, Budget Officer	June 30, 2007
MC-6	As part of the planning process for each fiscal year end, we review significant revenue recognition policies to insure they are in compliance with GAAP.	Lawrence C. Franklin, Jr., State Controller	June 30, 2007
MC-7	This recommendation was implemented in fiscal year 2006. We will again consider the GASB guidance in this area when preparing the FY 2007 CAFR.	Lawrence C. Franklin, Jr., State Controller	June 30, 2007
MC-8	The State Controller has requested the Department of Human Services to review its assumptions, source data and methodology used to estimate the Medical Assistance Claims Liability at fiscal year end. Prior year data will be used to model a different estimate. If the test indicates that future estimates will not understate the liability, the new assumptions, source data or methodology will be used to calculate future liability estimates.	Lawrence C. Franklin, Jr., State Controller	June 30, 2007
MC-9	Training has been ongoing.	John Landers, Chief Information Officer	June 30, 2007
MC-10a	Natural accounts related to all significant transactions with component units were reevaluated and realigned in FY 2006.	Peter Keenan, Associate Controller-Finance	N/A
MC-10b	Guidelines to be used when preparing financial statements are being distributed to all component units this month.		April 30, 2007

	Action Planned	Contact Person(s)	Planned Completion Date
MC-11	We will reassess notes to the financial statements to insure component unit disclosures comply with all GASB pronouncements.	Peter Keenan, Associate Controller-Finance	September 30, 2007
MC-12a	The tax receivables based on data received from the IRS are presently coded in "9200" batches to separately identify them.	David Sullivan, Tax Administrator	April 13, 2007
MC- 12b	Taxation will evaluate these receivables at year-end to ensure an appropriate allowance is established for these accounts.		July 1, 2007
MC-13	Taxation will reinforce the statutory requirement to deposit payments within seven (7) days. This will be communicated to all employees and reinforced during regular staff meetings.	David Sullivan, Tax Administrator	April 13, 2007
MC-14	After reviewing this issue with Accounts and Control as well as Budget, it was determined that the two methods would remain; one method accounts on a cash basis and the other accounts on an accrual basis.	David Sullivan, Tax Administrator	N/A
MC-15	This would require substantial re-writes to all systems and additional personnel to reconcile these entries. We would like to do both but it does not appear to be economically feasible. We have controls in place where supervisors must approve the ARC's sent to Data Entry based on previous audit recommendations.	David Sullivan, Tax Administrator	N/A
MC-16	Currently, Taxation reconciles deposits to RI-FANS. It does not appear possible with the current RI-FANS system and the current tax systems. A fully integrated tax system would, most likely, have to be installed to handle this type of reconciliation.	David Sullivan, Tax Administrator	N/A
MC-17	For tax year 2005, the majority of these returns were entered and reconciled by August 2006.	David Sullivan, Tax Administrator	August 2006
MC-18	We concur with your recommendation to not include a component for ES "unavailable" taxes and will correct this for FY 2007.	Peter Keenan, Associate Controller-Finance	June 30, 2007
MC-19	We will reevaluate the DLT year end tax revenue accrual process to insure all material amounts are accrued.	Peter Keenan, Associate Controller-Finance	June 30, 2007
MC-20	The Department of Labor and Training will reconcile the amounts required to be reported on the federal reports with amounts reported in the State's financial statements, as recommended.	Michael Hayes, Chief Financial Officer, DLT	June 30, 2007
MC-21a	Treasury along with Accounts & Control and DoIT have met with Oracle regarding the cash management module, which would enable automatic reconciliation. Despite several requests by Treasury, Oracle has failed to provide any cost estimate for implementation, which is expected to be high.	Mark A. Dingley Chief Legal Counsel/Chief of Staff – Office of the General Treasurer	
MC-21b	RIFANS has combined all payments of special and general funds into one disbursement account. However, these accounts (approximately 20) remain open for receipts only but are much easier to reconcile. Further consolidation is not feasible since Treasury cannot force different agencies such as Courts and Child Support to combine accounts.		

	Action Planned	Contact Person(s)	Planned Completion Date
MC-22	The State will consider and review the creation of a Chief Financial Officer position consistent with current priorities and budgetary constraints.	Beverly E. Najarian, Director of Administration	
MC-23a MC-23b	The Office of Accounts and Control will develop a program to monitor sub-recipients. It is planning to begin this function by September 30, 2007	Lawrence C. Franklin, Jr., State Controller	September 30, 2007
MC-24	Under the current system it would be impossible for this function to be transferred to the Office of the General Treasurer. First, the office cannot handle the volume this additional responsibility would bring to the office. While there are some large programs, i.e. Medicaid, where we are tuned in to the spending patterns, there are many agencies that draw funds where we do not have any notification that it triggers a Federal drawdown. Secondly, we do not currently have a schedule as to which payments trigger Federal drawdowns. For example, the Department of Education has many grant programs that they pass on to the cities and towns. They can happen any day and can be lumped together in an ACH payment to a particular city or town. As a result we would not know which grant to draw from. Thirdly, each grant has a separate drawdown schedule. Since we are not familiar with any of these schedules, it would be very cumbersome for us to deal with all of these payments. In summary, under the current system, we are best served to have the agency CFO's simultaneously drawdown the funds as they issue the payments. I realize that this frequently does not happen, but in speaking with the Budget Office, they have implemented a system that if an agency goes to a red balance the agency would not be able to spend unless it made its deposits. This is the best we can hope for under the current system. A new system could address this topic, but it could be costly and will not happen in the near future.	Mark A. Dingley Chief Legal Counsel/Chief of Staff – Office of the General Treasurer	
MC-25	We will consider modifying the existing COBOL program to calculate the year-end liability for compensated absences. However the resources that would be needed to complete this process are currently devoted to correction of other audit recommendations. In addition, it should be noted that such an effort would only produce maximum results if all branches of government recorded data related to compensated absences in the state's automated system.	Lawrence C. Franklin, Jr., State Controller	December 31, 2007
MC-26	A process that will record all significant liabilities for RIDE federal grants has been developed.	Peter Keenan, Associate Controller-Finance	March 31, 2007
MC-27	The Office of Accounts and Control will improve controls over employee payroll as follows: • Match employee data in the State personnel system with data in the State payroll system. • Periodically review data fields in the State payroll system to identify missing or incomplete data.	Lawrence C. Franklin, Jr., State Controller	July 1, 2007
MC-28	We will develop procedures to ensure that the estimate recorded at year-end for the cost of unbilled medical services provided to State employees and retirees is fairly stated.	Peter Keenan, Associate Controller-Finance	July 31, 2007
MC-29	Expenditures, equal to the amount of WIC food benefit checks that have cleared the bank, will be recorded in the state's accounting system, effective July 1, 2007 (the start of the State's new fiscal year).	Lawrence C. Franklin, Jr., State Controller	July 1, 2007

	Action Planned	Contact Person(s)	Planned Completion Date
MC-30	We will establish such a fund pursuant to the constitutional amendment approved by the voters in the general election held in November 2006.	Lawrence C. Franklin, Jr., State Controller	July 1, 2007
MC-31a MC-31b	The following procedures will be put in place and executed by the State's Vendor Coordinator. Upon receipt of the vendor registration information, the EPLS web site will be thoroughly searched in order to ensure that the vendor is neither a suspended nor debarred party. 1. If the vendor has been suspended or debarred by the federal government, and the program for which the services are being procured is part of a federal program, the vendor will immediately be disqualified from participating in the bidding opportunity. The vendor file will also be noted with the suspension / debarment documentation. 2. If the verification process proves negative with no findings against the vendor, the registration process will continue. 3. On a quarterly basis, the State's vendor file will be compared with the EPLS web site in order to verify that vendors providing services and being paid with federal funds do not have any adverse findings. a. In order to complete the verification, it will be necessary to verify, on a quarterly basis, the services that are procured with federal funds. A list of these vendors must be compiled and cross checked with the EPLS database.	Lorraine Hynes, Acting Purchasing Agent	June 30, 2007