State of Rhode Island
and Providence Plantations

SINGLE AUDIT REPORT

Fiscal Year Ended June 30, 2016

Office of the Auditor General
State of Rhode Island and Providence Plantations - General Assembly
Dennis E. Hoyle, CPA - Auditor General
oag.ri.gov
33 Broad Street • Suite 201 • Providence, RI • 02903-4177
tel: 401.222.2435 • fax: 401.222.2111

March 31, 2017

FINANCE COMMITTEE OF THE HOUSE OF REPRESENTATIVES

JOINT COMMITTEE ON LEGISLATIVE SERVICES, GENERAL ASSEMBLY,

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS:

I am pleased to submit the State's ***Single Audit Report*** for the fiscal year ended June 30, 2016. This audit was required by both state law (sections 22-13-4 and 35-7-10 of the General Laws) and the federal Single Audit Act. The audit was conducted in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). As required, this report is submitted to the Federal Single Audit Clearinghouse for distribution to federal funding agencies.

The *Single Audit Report* includes our reports on (1) the basic financial statements of the State of Rhode Island, (2) internal control over financial reporting and on compliance and other matters, and (3) compliance with requirements applicable to each major federal program and on internal control over compliance. A detailed Schedule of Expenditures of Federal Awards is also included as outlined in the Table of Contents.

Findings and related recommendations that are required to be reported in the *Single Audit Report* are included in the Schedule of Findings and Questioned Costs. These include financial statement related findings and those related to the administration of federal programs.

The State's management has prepared a corrective action plan addressing each finding, which is included in *Section E* of this report. The status of prior year findings has also been prepared by the State and is included herein in *Section F*.

The following two pages highlight selected information from the report including findings related to federal programs and key statistics about federal funds expended by the State of Rhode Island.

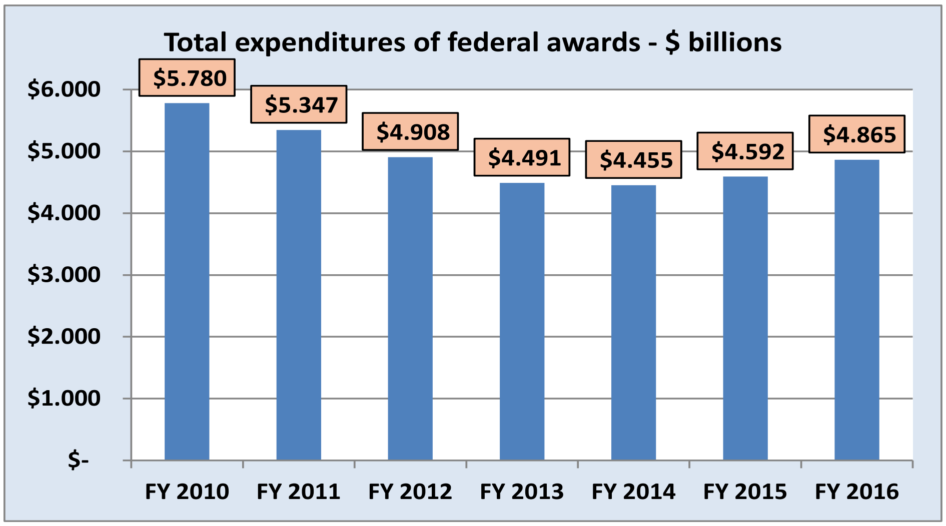
I would like to express our appreciation to the many individuals that cooperated with and assisted us in the conduct of our audit.

Respectfully submitted,

Dennis E. Hoyle, CPA
Auditor General

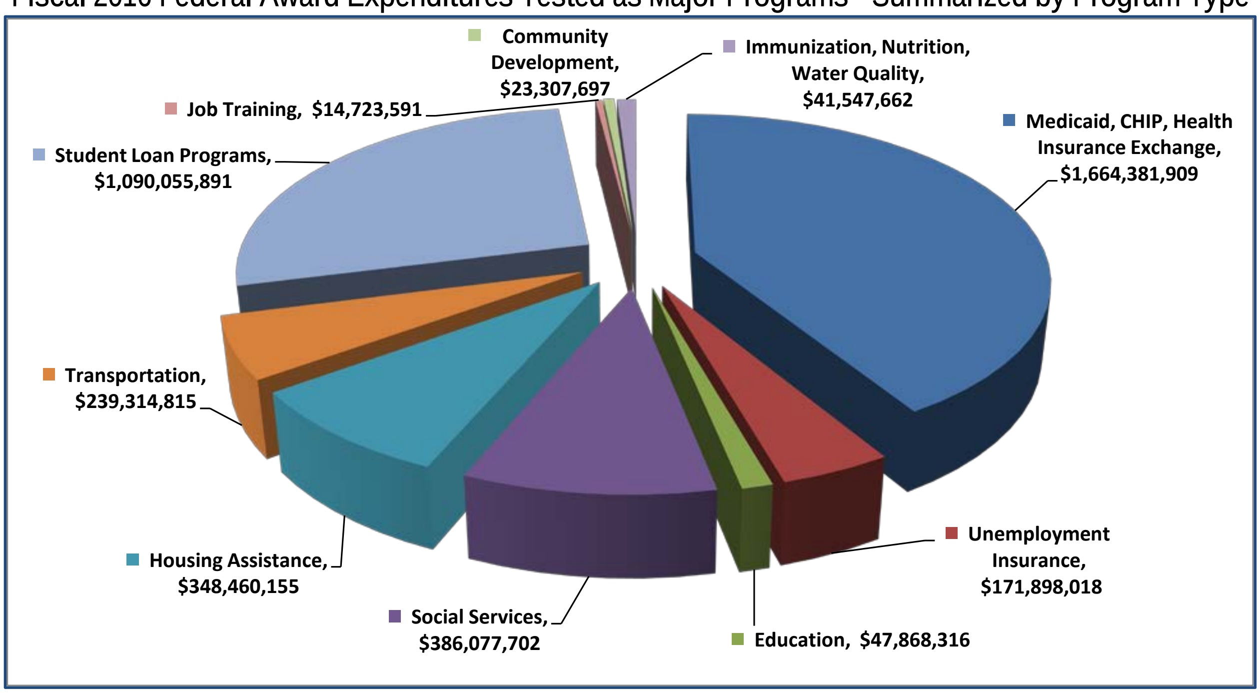
The annual Single Audit is required by federal law and regulation as a condition of continued federal assistance. The report includes the State's financial statements, a detailed schedule of federal award expenditures and our reports outlining internal control deficiencies over financial reporting and the administration of federal programs.

Federal funding represents more than 41% of the State's General Fund expenditures and is the State's second largest revenue source. The graph below depicts the changes in total expenditures of federal awards as reported in the State's *Single Audit Reports* for fiscal years 2010 to 2016. The general decrease in aggregate federal funding in years 2010 through 2014 is largely due to the phase-out of federal stimulus funding (American Recovery and Reinvestment Act – ARRA) which began in fiscal year 2009 but resulted in significant expenditures in fiscal years 2010 and 2011. More recently in fiscal 2016, reductions in federally insured student loan balances and reductions in unemployment insurance benefits are offset by increases in Medicaid funding due to the implementation of the Affordable Care Act. This resulted in a net increase of $273 million in total expenditures of federal awards compared to fiscal 2015.



Federal assistance consists of both direct cash and noncash awards (e.g., loan and loan guarantee programs and donated food commodities). Federal assistance is received under a wide variety of more than 450 individual programs. Many programs are jointly financed with federal and state funding. Medicaid is the single largest program with fiscal 2016 expenditures totaling approximately $2.6 billion - the federal government shared $1.6 billion of that cost. Consistent with federal guidelines, we tested 83% of the total expenditures of federal awards as major programs. Major program expenditures are summarized in the chart below.

Fiscal 2016 Federal Award Expenditures Tested as Major Programs - Summarized by Program Type



The Single Audit Report includes 73 findings as summarized in the following table.

Summary of findings included in the *2016 Single Audit Report*			
	Primary government	Component units	Total
Findings related to the financial statements			
Material weaknesses in internal control	10	2	12
Significant deficiencies in internal control	14	3	17
Other compliance matters	1	1	2
Findings related to the administration of federal programs			
Material weaknesses in internal control	12		12
Significant deficiencies in internal control	21	7	28
Material noncompliance / material weakness in internal control	2		2
Total	60	13	73

Highlighted Federal Program Related Findings

Medicaid and Children's Health Insurance Program:

- We were unable to collectively evaluate the State's compliance with federal regulations regarding recipient eligibility due to lagging eligibility redeterminations, incomplete Medicaid Eligibility Quality Control reviews, data mismatches between the eligibility and claims payment systems, and insufficient access to comprehensive case data. These factors were all related to implementation of the Unified Health Infrastructure Project integrated eligibility system. (*Finding 2016-061*)

- Eligibility data discrepancies exist between the UHIP system and the claims/capitation payments system (MMIS). The volume of differences is significant and the underlying causes have not been sufficiently determined. This impacts controls to ensure payments are only made on behalf of eligible individuals and increases the risk that duplicate managed care organization (MCO) capitation payments could be made. (*Finding 2016-063*)

- EOHHS lacks strong oversight procedures regarding fiscal monitoring and contract settlement for its MCOs. MCO capitation payments represent nearly 75% of all Medicaid outlays. EOHHS needs to develop a comprehensive risk assessment and monitoring plan to ensure that managed care expenditures are validated and settled each contract period. More stringent audit and financial monitoring procedures should be employed. *(Finding 2016-066)*

- Governance for the UHIP development project must be enhanced to ensure contractual requirements are met by the lead vendor and others and also to ensure that system defects and other implementation issues are identified, prioritized and corrected on a timely basis. *(Finding 2016-065)*

Highway Planning and Construction - RIDOT should enhance its quality assurance program to ensure that required materials tests are performed and documented consistent with federal regulations and RIDOT policy. (*Finding 2016-042*)

HealthSource RI - HealthSource RI can enhance its controls and related documentation supporting the allowability of costs reimbursed through the State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges program. (*Finding 2016-055*)

LIHEAP – the Department of Human Services (DHS) did not comply with the period of performance requirement for the LIHEAP grant - $5.0 million of awards were not expended or obligated by the required date. (*Finding 2016-056*)

Community Development Block Grant – the Office of Housing and Community Resources should improve its monitoring of subrecipients. (*Finding 2016-035*)

Preparation of the Schedule of Expenditures of Federal Awards – Controls need to be implemented to identify amounts passed-through to subrecipients within the State's accounting system, which is the basis for preparing the schedule required by the Uniform Guidance. (*Finding 2016-031*)

Condensed Table of Contents

Financial Statements

Basic Financial Statements

Table of Contents

Basic Financial Statements

Table of Contents (continued)

Page

REQUIRED SUPPLEMENTARY INFORMATION

Office of the Auditor General
State of Rhode Island and Providence Plantations - General Assembly
Dennis E. Hoyle, CPA - Auditor General
oag.ri.gov
33 Broad Street • Suite 201 • Providence, RI • 02903-4177
tel: 401.222.2435 • fax: 401.222.2111

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements 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 of Rhode Island and Providence Plantations (the State), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of:

- the Tobacco Settlement Financing Corporation, a blended component unit which represents 1% of the assets and deferred outflows and 1% of the revenues of the governmental activities and 1% of the assets and 2% of the revenues of the aggregate remaining fund information;

- the Convention Center Authority, a major fund, which also represents 34% of the assets and deferred outflows and 2% of the revenues of the business-type activities;

- the HealthSource RI Trust, an agency fund, the Ocean State Investment Pool, an investment trust fund, and the Rhode Island Higher Education Savings Trust, a private-purpose trust fund, which collectively represent 43% of the assets and 35% of the revenues of the aggregate remaining fund information; and

- all the component units comprising the aggregate discretely presented component units.

The financial statements for these entities were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the governmental activities, the business-type activities, the aggregate discretely presented component units, the Convention Center Authority major fund, and the aggregate remaining fund information, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Finance Committee of the House of Representatives
Joint Committee on Legislative Services

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As described in Note 1(U) *Changes in Reporting Entity* and Note 17(F) *Restatements – Net Position*, the State's fiscal 2016 financial statements include the Rhode Island Higher Education Savings Trust as a private-purpose trust. Beginning net position of the fiduciary funds was increased by $7.4 billion. Additionally, beginning net position of the discretely presented component units was increased by a net amount of $516 million primarily to reflect the inclusion of two entities previously considered related organizations.

The fair values of certain investments included within the fiduciary funds - pension and other employee benefit trusts, which represent 27% of the assets of the pension and other employee benefit trusts and 14% of the assets of the aggregate remaining fund information, have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or general partners.

As described in Note 19 *Restatement of Components of Net Position,* the Rhode Island Turnpike and Bridge Authority (Authority), a discretely presented component unit, restated the components of its net position at June 30, 2016. The Authority's auditors have audited the restated amounts and furnished their reissued report to us. The components of net position within the aggregate discretely presented component units have been similarly restated to reflect these revised amounts for the Authority.

Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages A-4 through A-27, the Budgetary Comparison Schedules on pages A-143 through A-146, and information about the State's pension plans and other postemployment benefit plans on pages A-148 through A-167 be presented to supplement the basic financial statements. Such information, although not a part of

Finance Committee of the House of Representatives
Joint Committee on Legislative Services

the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we will issue our report on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report will be included in the State's 2016 *Single Audit Report*. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

Dennis E. Hoyle, CPA
Auditor General

December 23, 2016, except for Note 19 and our opinion on the aggregate discretely presented component units as to which the date is February 2, 2017 and except for the Schedule of Expenditures of Federal Awards for which the date is March 30, 2017.

Management's Discussion and Analysis

State of Rhode Island
Fiscal Year Ended
June 30, 2016

Management's discussion and analysis (MD&A) provides a narrative overview and analysis of the financial activities of the State of Rhode Island (State) for the fiscal year ended June 30, 2016. The MD&A is intended to serve as an introduction to the State's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The MD&A is designed to (a) assist the reader in focusing on significant financial matters, (b) provide an overview of the State's financial activities, (c) identify any material changes from the original budget, and (d) highlight individual fund matters. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the State's financial condition, the financial statements, notes and required supplementary information which follow the MD&A should be reviewed in their entirety.

Financial Highlights – Primary Government

Government-wide Financial Statements

- **Net Position:** The total assets plus deferred outflows of resources of the State was less than total liabilities plus deferred inflows of resources on June 30, 2016 by ($294.3) million. This amount is presented as "net position (deficit)" on the Statement of Net Position for the Total Primary Government. Of this amount, ($4.3) billion was reported as unrestricted net position (deficit), $1.0 billion as restricted net position, and $3.0 billion as net investment in capital assets.

- **Changes in Net Position:** The increase in the primary government's net position in fiscal year 2016 of $237.9 million which reduced the overall net deficit reported by the State at June 30, 2016 was mostly attributable to the following factors:

  - Governmental activities experienced continued revenue growth in fiscal year 2016. A $47.6 million increase in charges for services was mostly attributable to the General Government and Human Services functions. In addition, general revenues increased by $46.5 million over fiscal year 2015 mostly attributable to an increase in inheritance taxes for a few individually significant return filings and additional fees collected by the Division of Motor Vehicles for purposes of funding the State's Highway Maintenance fund.

  - Total governmental activities expenses increased by $310.3 million in fiscal year 2016. Expenses increased in all functional categories with notable increases in general government and education relating to additional investments in education and economic development initiatives made by the State. Public safety expenses also increased significantly due primarily to pension expense for non-contributory plans of the State Police and Judges being determined based on a lower discount rate in fiscal year 2016. The above increases in total expenses reflect interest and other charges which were reduced by approximately $38 million in fiscal year 2016 resulting from certain debt refundings that are more fully described in the Debt Administration section of this Management's Discussion and Analysis.

  - Business-type activities experienced an increase in net position of $134 million during the fiscal year mostly attributable to the Employment Security Fund operating at a $130.7 million surplus in fiscal year 2016. The Lottery also contributed approximately $369 million in resources to the governmental activities in fiscal year 2016.

Fund Financial Statements

Governmental Funds

- The State's governmental funds reported a combined ending fund balance of $1,161.9 million, a slight decrease of $10.3 million in comparison with the previous fiscal year. This is primarily a result of the decrease in the Other Governmental Funds' fund balance of $41.4 million, which was due to a number of factors including the expenditure of prior years' debt proceeds.

- As of June 30, 2016, the State's General Fund reported an ending fund balance of $509.4 million, a slight increase of $7.5 million as compared to the prior year. This favorable change is primarily attributable to a net increase in tax revenues due to several significant inheritance tax payments which were offset by slight declines, compared to fiscal year 2015, in revenues from personal income and corporate income taxes along with a slight decline in lottery revenue. On the expenditure side, total general revenue expenditures were slightly under budget ($24.7 million) due to careful management and close monitoring in this area.

- As of June 30, 2016, the State's Intermodal Surface Transportation (IST) Fund reported an ending fund balance of $136.1 million, an increase of $23.6 million as compared to the prior year. The increase was mainly due to the decrease in debt service principal payments of $33.9 million due to a significant refunding of debt.

Proprietary Funds

- The Rhode Island State Lottery transferred $369.8 million to the General Fund in support of general revenue expenditures during the fiscal year, a decrease of $12.1 million in comparison with the previous fiscal year. Increased sales of traditional lottery products were more than offset by a decline in video lottery net terminal income revenues of 5.3 percent in fiscal year 2016 as Massachusetts opened its first gaming facility, a slots parlor in nearby Plainville, MA, in late June of 2015.

- The Employment Security Fund ended the fiscal year with a net position of $281.7 million, an increase of $130.7 million from fiscal year 2015. This favorable change is principally attributable to full repayment of prior borrowings and a slight reduction in benefits paid due to the improving employment level in the State as well as a steady level of tax revenue.

- The Rhode Island Convention Center Authority ended the fiscal year with a net position deficiency of ($56.9) million, a deficit decrease of $3.4 million compared with the prior year. The Authority has historically had a net position deficiency, because the amount of debt related to capital assets has exceeded the net book value of the capital assets and because the repayment term for the debt is generally longer than the depreciable life of the assets.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements include three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements provide a broad view of the State's finances. The statements provide both short-term and long-term information about the State's financial position, which assist in assessing the State's financial condition at the end of the year. These financial statements are prepared using the accrual basis of accounting, which recognizes all revenues and grants when earned, and expenses at the time the related liabilities are incurred.

- The **Statement of Net Position** presents all of the government's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as "net position." Over time, increases and decreases in the government's net position may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

- The **Statement of Activities** presents information showing how the government's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods -- for example, uncollected taxes and earned but unused vacation leave. This statement also presents a comparison between direct expenses and program revenues for each function of the government.

Both of the government-wide financial statements have separate sections for three different types of activities:

- **Governmental Activities:** The activities in this section represent most of the State's basic services and are generally supported by taxes, grants and intergovernmental revenues. The governmental activities of the State include general government, human services, education, public safety, natural resources, and transportation. The net position and change in net position of the internal service funds are also included in this column.

- **Business-type Activities:** These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the State include the operations of the Rhode Island Lottery, Rhode Island Convention Center Authority and the Employment Security Trust Fund.

- **Discretely Presented Component Units:** Component units are entities that are legally separate from the State, but for which the State is financially accountable. These entities are listed in Note 1. The financial information for these entities is presented separately from the financial information presented for the primary government.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on the individual parts of State government and report the State's operations in more detail than the government-wide financial statements. The State's funds are divided into three categories: governmental, proprietary and fiduciary.

- **Governmental funds:** Most of the State's basic services are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on spendable resources available at the end of the fiscal year. Such information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the State's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities in the government-wide financial statements.

Governmental funds include the general fund, special revenue, capital projects, debt service, and permanent funds. The State has several governmental funds, of which GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* defines the general fund as a major fund. The criteria for determining if any of the other governmental funds are major funds are detailed in Note 1 C. Each of the major funds is presented in a separate column in the governmental funds balance sheet and statement of revenues, expenditures and changes in fund balances. The remaining governmental funds are combined in a single aggregated column on these financial statements. Individual fund data for each of these nonmajor governmental funds can be found in the supplementary information section of the State's Comprehensive Annual Financial Report.

- **Proprietary funds:** Services for which the State charges customers a fee are generally reported in proprietary funds. The State maintains two different types of proprietary funds -- enterprise funds and internal service funds. Enterprise funds report activities that provide supplies and services to the general public. Internal service funds report activities that provide supplies and services for the State's other programs and activities. Similar to the government-wide statements, proprietary funds use the accrual basis of accounting. The State has three enterprise funds -- the Lottery Fund, the Rhode Island Convention Center Authority (RICCA) Fund, and the Employment Security Fund. These funds are each presented in separate columns on the basic proprietary fund financial statements. The State's internal service funds are reported as governmental activities on the government-wide statements, because the services they provide predominantly benefit governmental activities. The State's internal service funds are reported on the basic proprietary fund financial statements in a single combined column. Individual fund data for these funds is provided in the form of combining statements and can be found in the supplementary information section of the State's CAFR.

- **Fiduciary funds:** These funds are used to account for resources held for the benefit of parties outside the State government. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support the State's programs. These funds, which include the pension and other post-employment benefits trusts, an external investment trust, a private-purpose trust and agency funds, are reported using accrual accounting. Individual fund data for fiduciary funds can be found in the supplementary information section of the State's CAFR.

Discretely Presented Component Units

Discretely presented component units are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These discretely presented component units serve or benefit those outside of the primary government. The State distinguishes between major and nonmajor component units. The criteria for distinguishing between major and nonmajor component units are discussed in Note 1 B.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the fiduciary funds financial statements.

Required Supplementary Information

The basic financial statements and accompanying notes are followed by a section of required supplementary information, including information concerning the State's pension obligations and progress in funding its obligation to provide other post-employment benefits to its employees. This section also includes a budgetary comparison schedule for each of the State's major governmental funds that have a legally enacted budget.

Other Supplementary Information

Other supplementary information, which follows the required supplementary information in the State's CAFR, includes the combining financial statements for nonmajor governmental funds, internal service funds and fiduciary funds.

Government-Wide Financial Analysis

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The State's combined net position (deficit) (governmental and business-type activities) totaled ($294.3) million at the end of fiscal year 2016, compared to ($532.2) million at the end of the prior fiscal year, as restated. Governmental activities reported unrestricted net position (deficit) of ($4,306.3) million.

A portion of the State's net position reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets), less any related debt outstanding that was needed to acquire or construct the assets. The State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources.

An additional portion of the State's net position represents resources that are subject to external restrictions on how they may be used.

State of Rhode Island's Net Position as of June 30, 2016 and 2015
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015*	2016	2015	2016	2015*
Current and other assets	$ 2,218,492	$ 2,180,618	$ 321,087	$ 187,869	$ 2,539,579	$ 2,368,487
Capital assets	4,044,868	3,857,807	146,304	154,569	4,191,172	4,012,376
Total assets	6,263,360	6,038,425	467,391	342,438	6,730,751	6,380,863
Deferred outflows of resources	340,857	296,111	6,230	6,431	347,087	302,542
Long-term liabilities outstanding	5,822,768	5,451,838	216,946	228,954	6,039,714	5,680,792
Other liabilities	1,166,963	1,177,042	49,937	46,335	1,216,900	1,223,377
Total liabilities	6,989,731	6,628,880	266,883	275,289	7,256,614	6,904,169
Deferred inflows of resources	115,200	302,235	300	1,166	115,500	303,401
Net position (deficit):						
Net investment in capital assets	3,063,627	2,934,439	(57,493)	(61,956)	3,006,134	2,872,483
Restricted	741,971	841,777	283,901	155,682	1,025,872	997,459
Unrestricted	(4,306,312)	(4,380,849)	(19,970)	(21,312)	(4,326,282)	(4,402,161)
Total net position (deficit)	$ (500,714)	$ (604,633)	$ 206,438	$ 72,414	$ (294,276)	$ (532,219)

*-Restated. See Note 17 F for an explanation of the restatements.

As indicated above, the State reported a balance in unrestricted net position (deficit) of ($4.3) billion as of June 30, 2016. Two primary factors, which are discussed below, contributed to this deficit.

The State has adopted Governmental Accounting Standards Board Statement No. 68 *Accounting and Financial Reporting for Pensions* and Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* As required by Statements No. 68 and 73 the State recognizes the net pension liability for all of the pension plans it has funding responsibility for. Recognition of this liability has had a significant adverse impact on unrestricted net position. At June 30, 2016 the net pension liability related to governmental activities was $3.23 billion and the net pension liability related to business-type activities was $15 million.

Another significant contributing factor creating the deficit in unrestricted net position is the State's use of general obligation bond proceeds (which are reported as debt of the primary government) for other than the primary government's direct capital purposes. In these instances, proceeds are transferred to municipalities, discretely presented component units (including the University of Rhode Island), and non-profit organizations within the State to fund specific projects. As of June 30, 2016 approximately $590.6 million of general obligation bonds related to such projects were outstanding.

Examples of these uses of general obligation bond proceeds include, but are not limited to, the following:

- Certain transportation projects funded with bond proceeds that do not meet the State's criteria for capitalization as infrastructure;
- Construction of facilities at the State's university and colleges, which are reflected in the financial statements as discretely presented component units;
- Water resources projects including the acquisition of sites for future water supply resources, various water resources planning initiatives, and funding to upgrade local water treatment facilities;
- Environmental programs to acquire, develop, and rehabilitate local recreational facilities and ensure that open space is preserved;

- Historical preservation initiatives designed to protect and preserve historical buildings as well as to provide funding for cultural facilities.

Other debt that is not utilized for the State's acquisition of capital assets is as follows:

- Tobacco Settlement Asset-Backed Bonds and Accreted Interest - The Tobacco Settlement Financing Corporation (TSFC), a blended component unit, has issued Tobacco Asset-Backed Bonds that were used to purchase the State's future rights in the Tobacco Settlement Revenues under the Master Settlement Agreement and the Consent Decree and Final Judgment. The bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC and do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof, and the State has no obligation to satisfy any deficiency or default of any payment of the bonds. As of June 30, 2016 approximately $695.0 million of principal and $85.2 million of accreted interest are included in the State's debt.

- Historic Tax Credit Bonds - In fiscal years 2009 and 2015 the R.I. Commerce Corporation (RICC), on behalf of the State, issued $150.0 million and $75.0 million, respectively, of revenue bonds under the Historic Structures Tax Credit Financing Program. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The State is obligated under a Payment Agreement to make payments to the trustee. This obligation is subject to annual appropriation by the General Assembly. The proceeds of the bonds are being used to provide funds for redemption of Historic Structures Tax Credits. As of June 30, 2016, approximately $107.0 million of such bonds are outstanding.

- The State has entered into certain capital lease agreements, known as Certificates of Participation (COPS), the proceeds of which are to be used, for example, by the State's university and colleges for energy conservation projects or by local school districts to improve technology infrastructure on a state-wide basis. Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly. As of June 30, 2016, approximately $41.0 million is outstanding relating to these projects.

In the above instances, the primary government records a liability for the outstanding debt, but no related capitalized asset is recorded. A cumulative deficit in unrestricted net position results from financing these types of projects through the years.

Changes in Net Position

The State's overall net position for the primary government improved by $237.9 million during fiscal year 2016. Total revenues of $8,028.7 million increased by $82.9 million compared to fiscal year 2015. The favorable results were aided by increased general revenues due primarily to several significant non-recurring inheritance tax payments, as well as slight increases related to charges for services as well as operating grants and contributions. The State's expenses, which cover a wide range of services, increased by $322.9 million. This net increase, which occurred primarily in the education, general government, public safety and transportation categories, was caused by a number of factors including significant investments in education as well as a number of new economic development initiatives. Offsetting these cost increases were savings in debt service costs due to a significant refunding of debt that occurred during fiscal year 2016.

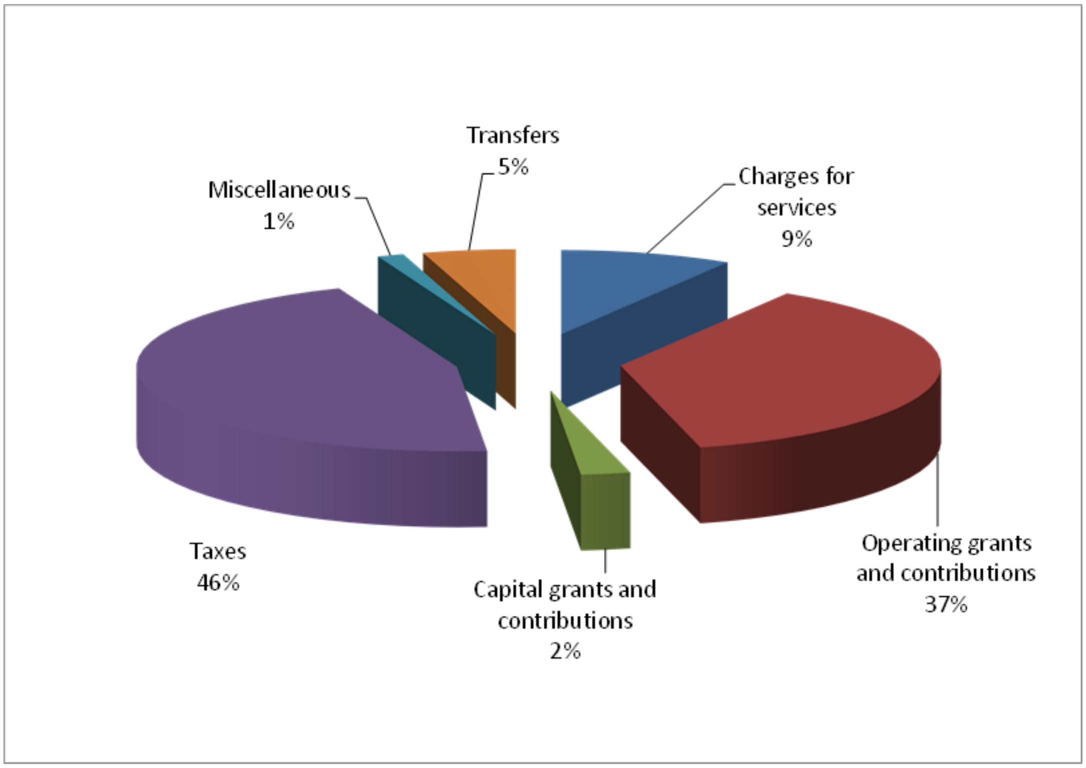
A more detailed analysis of changes in revenues and program expenses for both governmental activities and business-type activities is presented after each of the following pie charts.

State of Rhode Island's Changes in Net Position
For the Fiscal Year Ended June 30, 2016 and 2015
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	$ 624,753	$ 577,157	$ 1,177,083	$ 1,163,752	$ 1,801,836	$ 1,740,909
Operating grants and contributions	2,677,431	2,666,243	1,558	839	2,678,989	2,667,082
Capital grants and contributions	178,628	217,604			178,628	217,604
General revenues:						
Taxes	3,266,347	3,206,935			3,266,347	3,206,935
Interest and investment earnings	3,134	3,212	164	186	3,298	3,398
Miscellaneous	95,529	108,375	4,106	1,531	99,635	109,906
Total revenues	6,845,822	6,779,526	1,182,911	1,166,308	8,028,733	7,945,834
Program expenses:						
General government	769,469	695,611			769,469	695,611
Human services	3,652,875	3,631,236			3,652,875	3,631,236
Education	1,595,289	1,472,786			1,595,289	1,472,786
Public safety	545,329	478,854			545,329	478,854
Natural resources	87,537	83,979			87,537	83,979
Transportation	343,270	283,085			343,270	283,085
Interest and other charges	83,899	121,845			83,899	121,845
Lottery			507,199	484,293	507,199	484,293
Convention Center			48,905	48,628	48,905	48,628
Employment Security			157,018	167,527	157,018	167,527
Total expenses	7,077,668	6,767,396	713,122	700,448	7,790,790	7,467,844
Excess (deficiency) before transfers	(231,846)	12,130	469,789	465,860	237,943	477,990
Transfers	335,765	345,190	(335,765)	(345,190)		
Special items		(5,000)				(5,000)
Change in net position	103,919	352,320	134,024	120,670	237,943	472,990
Net position (deficit) - Beginning	(596,579)	(948,899)	72,414	(48,256)	(524,165)	(997,155)
Cumulative effect of prior period adjustments	(8,054)				(8,054)	
Net position (deficit) - Beginning, as restated	(604,633)	(948,899)	72,414	(48,256)	(532,219)	(997,155)
Net position (deficit) - Ending	$ (500,714)	$ (596,579)	$ 206,438	$ 72,414	$ (294,276)	$ (524,165)

Chart 1 depicts the State's sources of revenues from Governmental Activities for the fiscal year ended June 30, 2016.

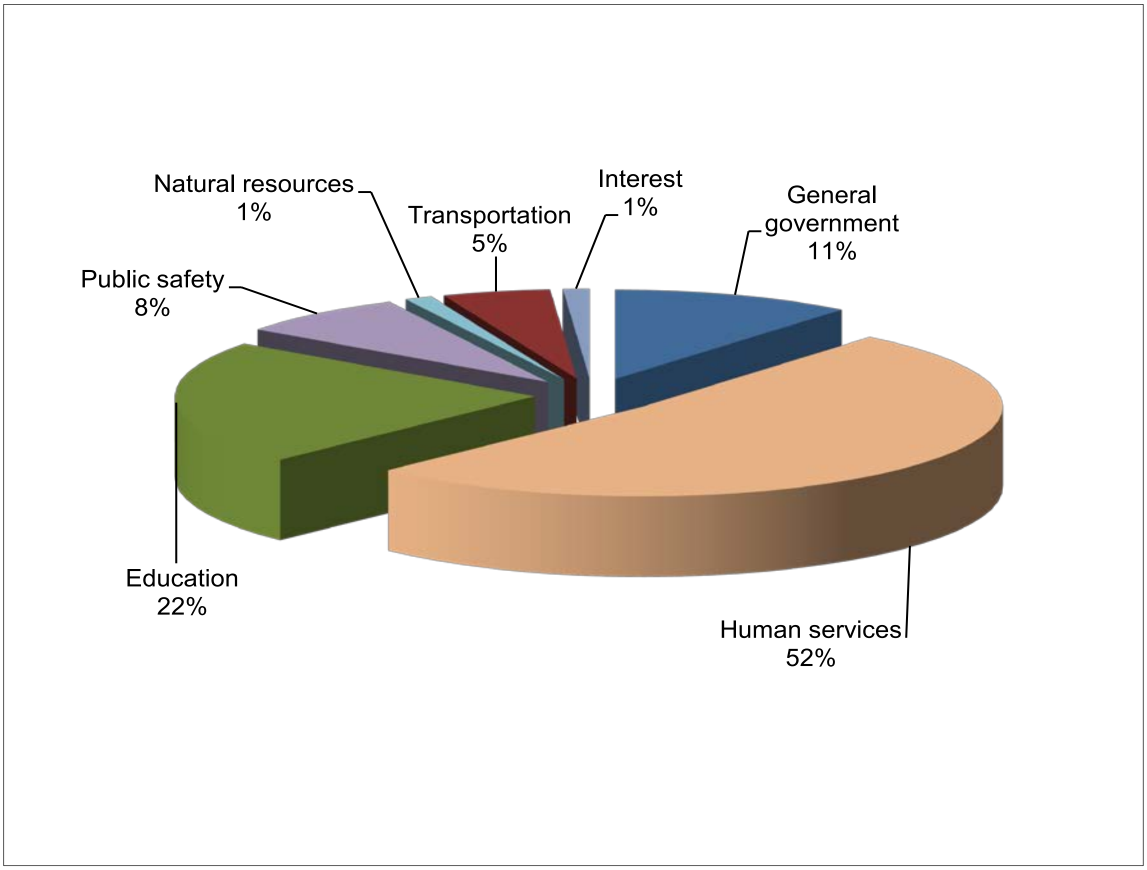
Chart 1 - Revenues and Transfers - Governmental Activities



The relative mix of revenue and transfers by source for governmental activities remained fairly constant in fiscal year 2016 versus the prior fiscal year. Taxes continued to represent the largest source of revenue at 46% of the total while operating grants and contributions represented 37% of the total in fiscal year 2016.

Chart 2 depicts the purposes for which program expenses related to Governmental Activities were expended during the fiscal year ended June 30, 2016.

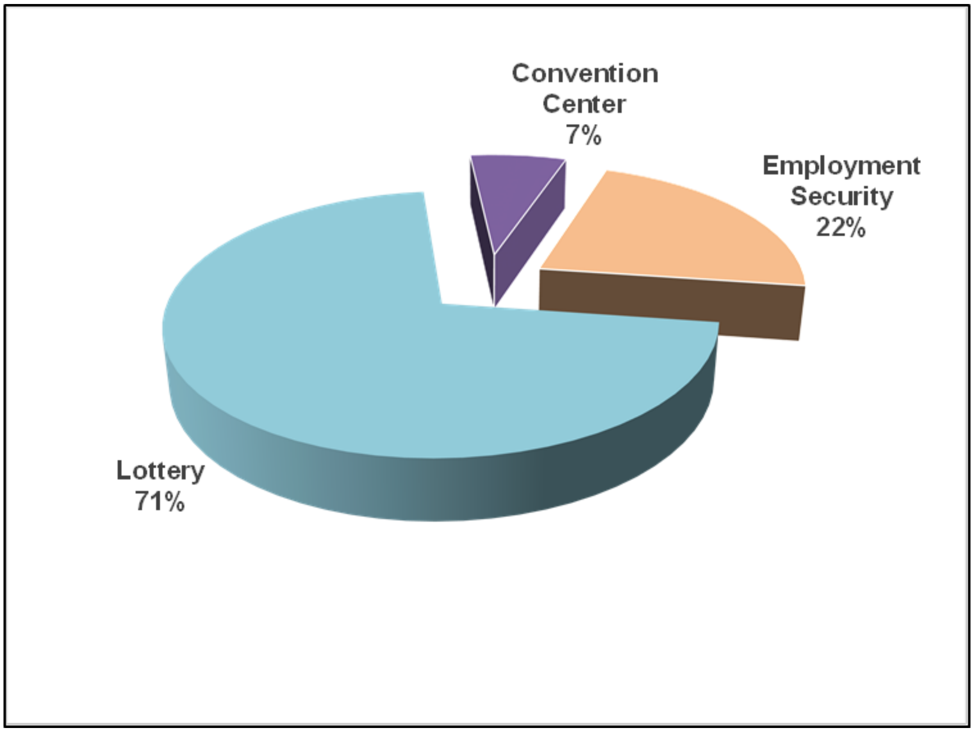
Chart 2 - Program Expenses - Governmental Activities



The relative mix of program expenses for governmental activities remained about the same in fiscal year 2016 as in the prior fiscal year. There were slight increases in general government expenses due to a number of new economic development programs and transportation as a result of increased investments in this area. A slight decline in interest expense resulted from a significant refunding of debt that occurred during fiscal year 2016.

Chart 3 depicts the program expenses related to Business Type Activities during the fiscal year ended June 30, 2016.

Chart 3 – Program Expenses – Business Type Activities



The relative mix of expenses for business type activities changed slightly as spending on employment security programs declined due to the improving local economy and lower unemployment rates.

Financial Analysis of the State's Funds

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. At the end of the current fiscal year, the State's governmental funds reported a combined ending fund balance of $1,161.9 million, a decrease of $10.3 million from June 30, 2015. A breakdown of the components follows (expressed in thousands):

			Increase (decrease) from 2015	
	2016	2015*	Change	Percent
Governmental Funds				
Nonspendable	$ 174	$ 174	$	
Restricted	747,880	795,076	(47,196)	-5.94%
Unrestricted				
Committed	43,150	13,288	29,862	224.73%
Assigned	137,114	130,964	6,150	4.70%
Unassigned	233,577	232,645	932	0.40%
Total	$ 1,161,895	$ 1,172,147	$ (10,252)	-0.87%

*- Reclassified to conform to current year presentation. See Note 7 for more information.

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned primarily based on the extent to which the State is bound to honor constraints on how specific amounts can be spent. More Information about each category is presented below:

- Nonspendable fund balance – amounts that cannot be spent because they are either (a) not spendable in form, or (b) legally or contractually required to be maintained intact.

- Restricted fund balance – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by constitutional provisions or by law through enabling legislation enacted by the General Assembly.

- Committed fund balance – amounts that can only be used for specific purposes determined by the enactment of legislation by the General Assembly, and that remain binding unless removed in the same manner. The underlying action that imposed the limitation must occur no later than the close of the fiscal year and must be binding unless repealed by the General Assembly.

- Assigned fund balance – amounts that are constrained by the State's intent that they be used for specific purposes. The intent is generally established by legislation enacted by the General Assembly and is implemented at the direction of the Governor.

- Unassigned fund balance – In the State's General Fund, the residual classification for amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

Significant changes in fund balance are discussed below:

- The $47.2 million decrease in the restricted portion of the fund balance results primarily from expenditures in fiscal year 2016 of the proceeds of certain prior year debt issuances.

- The net increase of $29.9 million in the committed portion of the unrestricted fund balance primarily resulted from an increase of $26.8 million in the RI Highway Maintenance Account within the Intermodal Surface Transportation Fund. This account, which is funded by a variety of motor vehicle and license related fees, was created by the General Assembly in the 2014 session to address the State's highway and bridge infrastructure improvement needs.

General Fund

The General Fund is the chief operating fund of the State. The fund balance of the General Fund consisted of the following (expressed in thousands):

	2016	2015*	Increase (decrease) from 2015 Change	Percent
Restricted	$ 133,193	$ 134,231	$ (1,038)	-0.77%
Unrestricted				
Committed	3,975	2,561	1,414	55.21%
Assigned	137,114	130,964	6,150	4.70%
Unassigned	235,096	234,131	965	0.41%
Total	$ 509,378	$ 501,887	$ 7,491	1.49%

*- Reclassified to conform to current year presentation. See Note 7 for more information.

Revenues and other sources of the General Fund totaled $6.6 billion in fiscal year 2016, an increase of $47.8 million or 0.73%, from the previous year. The revenues from various sources and the change from the previous year are shown in the following tabulation (expressed in thousands):

	2016	2015	Increase (decrease) from 2015 Amount	Percent
Revenues				
Taxes:				
Personal income	$ 1,211,678	$ 1,225,561	$ (13,883)	-1.13%
Sales and use	1,173,770	1,168,852	4,918	0.42%
General business	428,573	435,219	(6,646)	-1.53%
Other	81,519	44,802	36,717	81.95%
Subtotal	2,895,540	2,874,434	21,106	0.73%
Federal grants	2,610,735	2,619,412	(8,677)	-0.33%
Restricted revenues	241,872	227,631	14,241	6.26%
Licenses, fines, sales, and services	355,731	326,003	29,728	9.12%
Other general revenues	52,701	59,364	(6,663)	-11.22%
Subtotal	3,261,039	3,232,410	28,629	0.89%
Total revenues	6,156,579	6,106,844	49,735	0.81%
Other sources				
Transfer from Lottery	369,761	381,936	(12,175)	-3.19%
Other transfers	74,210	69,007	5,203	7.54%
Capital leases	5,021		5,021	
Total revenues and other sources	$ 6,605,571	$ 6,557,787	$ 47,784	0.73%

Fiscal year 2016 personal income taxes fell modestly from fiscal year 2015 levels, declining $13.9 million or 1.1 percent. Final payments, payments made with a return, and extension payments decreased by 10.0 percent while estimated payments rose a modest 2.1 percent. The decrease in final payments and the modest rise in estimated payments reflect the uneven performance of the state's economy between the two fiscal years. Personal income tax withholding payments decelerated to a rate of growth of 2.5 percent in fiscal year 2016. The tempered increase in withholding tax payments was consistent with the declining rate of decrease in the state's unemployment rate, from 6.7 percent in fiscal year 2015 to 5.5 percent in fiscal year 2016, and with the slowing of the rate of growth in non-farm employment between the two fiscal years.

The State's unemployment rate continued to decline as, according to IHS Markit, it fell from 6.7 percent in fiscal year 2015 to 5.5 percent in fiscal year 2016, a decline of 1.2 percentage points or slightly more than half as much as the 2.1 percentage points decline experienced between fiscal year 2014 and fiscal year 2015. Nominal personal income growth fell from 4.4 percent in fiscal year 2015 to 3.4 percent in fiscal year 2016. General sales and use tax revenue showed meager gains of 0.9 percent in fiscal year 2016 over fiscal year 2015, attributable in large part to a narrowing of the general sales tax base resulting from the exemption of energy used by non-manufacturing commercial enterprises from the sales and use tax. Fiscal year 2016 motor vehicle use tax revenues increased by 8.7 percent, more than double the 4.0 percent rate of growth between fiscal year 2014 and fiscal year 2015. Sales taxes collected from the provision of prepared meals and beverages increased 7.5 percent in fiscal year 2016, a slight acceleration from the growth rate recorded in fiscal year 2015.

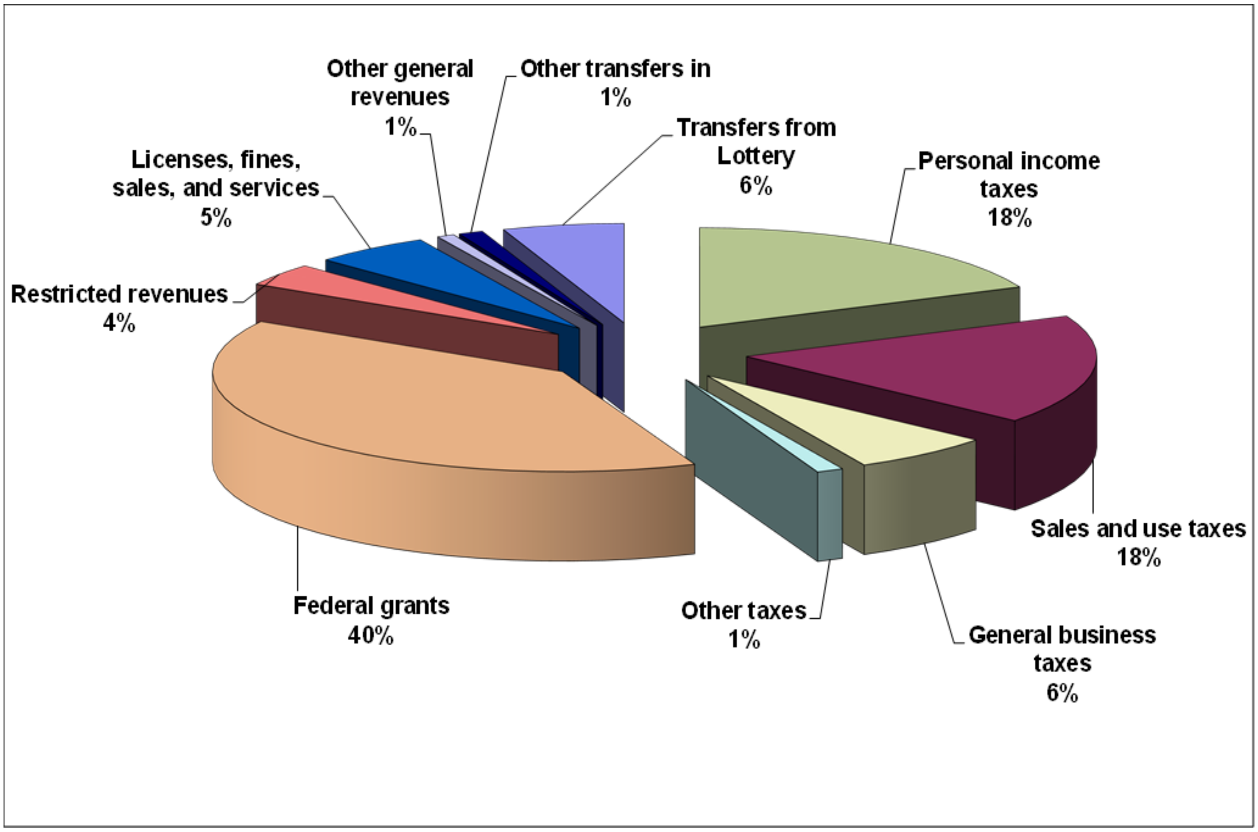
General business tax revenues fell by 1.5 percent in fiscal year 2016, driven primarily by a substantial decline in business corporation tax payments of 8.8 percent and financial institutions tax revenues of 7.2 percent. These declines were offset in part by a gain in insurance companies' gross premiums tax receipts of 8.4 percent, which was realized through an increase in tax revenues from property, casualty and life insurance premiums.

Other taxes increased by 82.0 percent over fiscal year 2016. Estate and transfer tax revenues increased by 104.7 percent from fiscal year 2015 levels, due overwhelmingly to the receipt of the two largest estate and transfer tax payments in state history in May and June 2016. Realty transfer taxes rose 9.9 percent from fiscal year 2015 levels, reflecting continued improvement in the state's housing market.

Finally, the R.I. Lottery's transfer to the General Fund was down 3.2 percent in fiscal year 2016 from fiscal year 2015. Sales of traditional lottery products were up 7.3 percent year-over-year, powered by the largest Powerball jackpot in history which surpassed $1.0 billion in January 2016. This increase in the sales of traditional lottery products was offset by a decline in video lottery net terminal income revenues of 4.3 percent in fiscal year 2016 as Massachusetts opened its first gaming facility, a slots parlor in nearby Plainfield, MA in late June of 2015. Finally, net revenues from the operation of table games at Twin River increased by 22.3 percent in fiscal year 2016.

Chart 4 depicts the General Fund's revenues and other sources for the fiscal year ended June 30, 2016.

Chart 4 – Revenues and Other Sources – General Fund



Expenditures and transfers out totaled $6,598.1 million in fiscal year 2016, an increase of $115.5 million, or 1.78%, from the previous year. Changes in expenditures and other uses by function from the previous year are shown in the following tabulation (expressed in thousands):

	2016	2015	Increase (decrease) from 2015 Amount	Percent
General government	$ 577,399	$ 518,101	$ 59,298	11.45%
Human services	3,694,123	3,661,964	32,159	0.88%
Education	1,467,236	1,403,507	63,729	4.54%
Public safety	504,217	490,981	13,236	2.70%
Natural resources	78,270	79,897	(1,627)	-2.04%
Debt Service:				
Principal	74,705	123,178	(48,473)	-39.35%
Interest	59,705	61,727	(2,022)	-3.28%
Total expenditures	6,455,655	6,339,355	116,300	1.83%
Transfers out	142,425	143,266	(841)	-0.59%
Total expenditures and transfers out	$ 6,598,080	$ 6,482,621	$ 115,459	1.78%

The significant increase of over $50.0 million in the General Government function is primarily attributable to the Governor's Economic Development Initiatives under the Executive Office of Commerce. These include the I-195 Redevelopment Fund, the Affordable Housing Fund, the First Wave Closing Fund, Small Business Assistance and the Rebuild RI Fund.

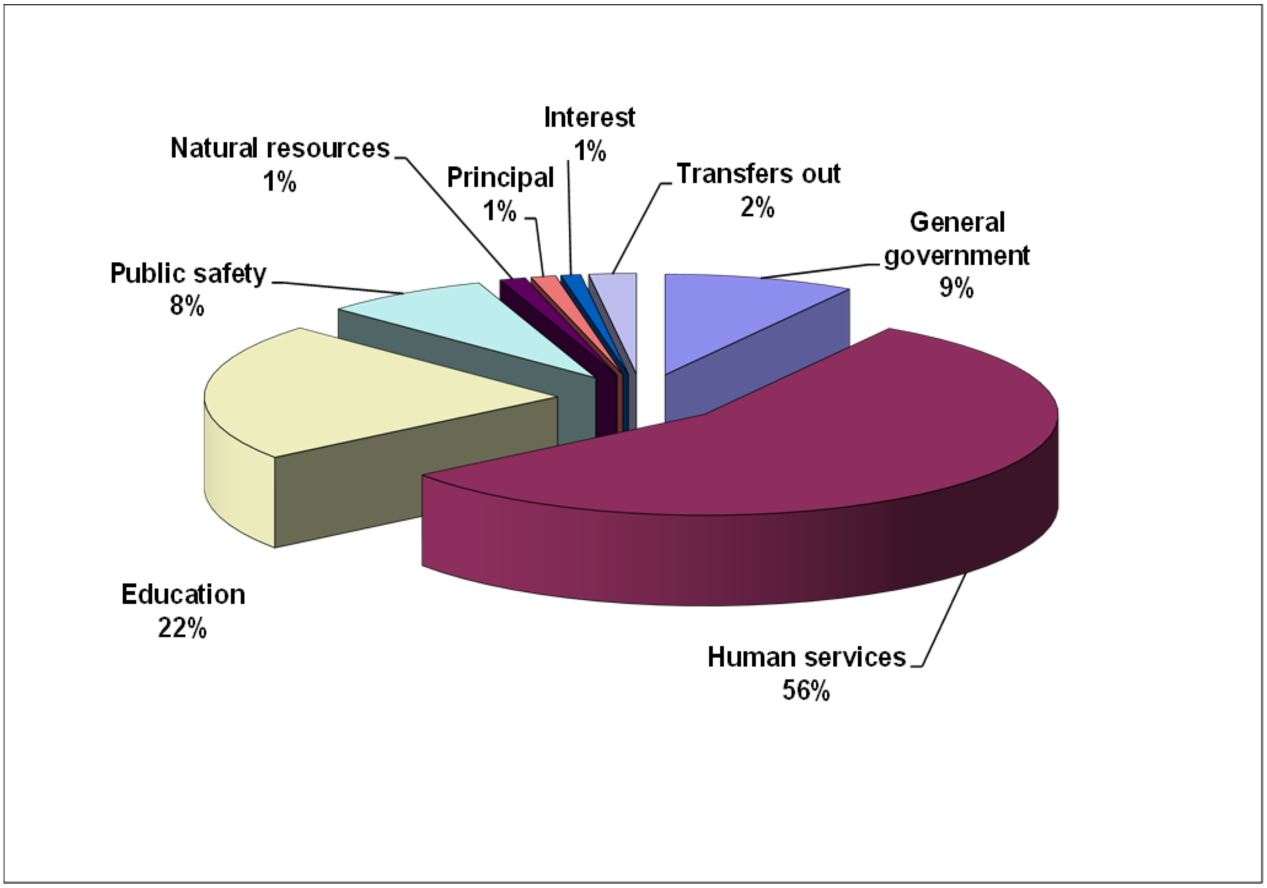
The increase of just over $32.0 million in the Human Services function is primarily attributable to further increases in enrollment in the Medicaid program resulting from the Affordable Care Act (ACA). This is also coupled with growth in the regular Medicaid program due to caseload increases. The ACA related costs were still 100 percent federally funded in fiscal year 2016.

The primary driver of the increase in the Education function expenditures is the continued transition to the Education Funding Formula, which required over $37.0 million in additional funding in fiscal year 2016. Also in this functional area, $20.0 million was appropriated for the new School Building Authority Fund to be managed by the Rhode Island Health and Educational Building Corporation, a discretely presented component unit, which will provide loans and grants to school districts for improvements to school facilities. Finally, the fiscal year 2016 budget included an increase of over $6.0 million in state support for the three institutions of higher education.

The large decline in debt service from fiscal year 2015 to fiscal year 2016 is the result of a restructuring of debt undertaken in July 2015 that freed up resources to be invested in economic development programs. This restructuring resulted in some immediate savings from reissuing debt at lower interest rates, but also deferred some debt service to later years.

Chart 5 depicts the General Fund's expenditures and other uses for the fiscal year ended June 30, 2016.

Chart 5 – Expenditures and Other Uses – General Fund



Intermodal Surface Transportation Fund

The Intermodal Surface Transportation Fund (IST) is a special revenue fund that accounts for the collection of gasoline tax, motor vehicle registration and licensing fees, federal grants, Rhode Island Capital Plan funds, and bond proceeds that are used for maintenance, upgrading, and construction of the State's surface transportation systems. It also accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds, the I-195 Redevelopment District Commission bonds, and related expenditures. The components of the fund balance of the IST fund are as follows (expressed in thousands):

			Increase (decrease) from 2015	
	2016	2015*	Change	Percent
Restricted	$ 98,595	$ 103,325	$ (4,730)	-4.58%
Unrestricted				
Committed	39,063	10,637	28,426	267.24%
Unassigned (deficit)	(1,519)	(1,486)	(33)	-2.22%
Total	$ 136,139	$ 112,476	$ 23,663	21.04%

*- Reclassified to conform to current year presentation.

The net increase of $28.4 million in the committed portion of the unrestricted fund balance primarily resulted from an increase of $26.8 million in the RI Highway Maintenance Account. This account, which is funded by a variety of motor vehicle and license related fees, was created by the General Assembly in the 2014 session to address the State's highway and bridge infrastructure improvement needs.

General Fund Budgetary Highlights – General Revenue Sources

According to the State's Constitution, general revenue appropriations in the general fund cannot exceed 97% of available general revenue sources. These sources consist of the current fiscal year's budgeted general revenue plus the general fund undesignated fund balance from the prior fiscal year. Excess revenue is transferred to the State Budget Reserve Account. If the balance in the Reserve exceeds 5% of the total general revenues and opening surplus, the excess is transferred to the R.I. Capital Plan Fund to be used for capital projects. The current fiscal year's general revenue estimates are established by the State's revenue estimating conference. If actual general revenue is less than the projection, appropriations have to be reduced or additional revenue sources must be identified. Certain agencies have federal programs that are entitlements, which continue to require State funds to match the federal funds. Agencies may get additional appropriation from the General Assembly, provided a need is established.

Adjustments to general revenue receipt estimates resulted in an increase of $91.3 million between the original budget and the final budget. General revenue appropriations increased from the original budget by $20.6 million. Some significant changes between the preliminary and final estimated general revenues and the enacted and final general revenue appropriations (expressed in thousands) are listed below.

General Fund Budgetary Highlights
General Revenue Sources

	Original Budget	Final Budget	Actual	Final Budget vs. Actual Variance
Revenues and other sources:				
Taxes:				
Personal income	$ 1,215,737	$ 1,224,900	$ 1,217,430	$ (7,470)
General business	429,745	441,200	435,203	(5,997)
Sales and use	1,166,190	1,182,500	1,173,770	(8,730)
Other taxes	31,711	36,600	81,520	44,920
Departmental revenue	357,236	363,800	367,641	3,841
Other sources:				
Lottery transfer	331,740	370,100	369,761	(339)
Unclaimed property	10,000	12,100	14,167	2,067
Miscellaneous	1,397	3,829	4,102	273
Total revenues and other sources	3,543,756	3,635,029	3,663,594	28,565
Expenditures and other uses:				
General government	448,687	466,563	455,148	11,415
Human services	1,361,094	1,382,806	1,366,085	16,721
Education	1,268,225	1,251,331	1,249,882	1,449
Public safety	433,963	431,110	436,216	(5,106)
Natural resources	40,020	40,772	40,574	198
Total expenditures and other uses	3,551,989	3,572,582	3,547,905	24,677
Excess of revenues and other sources over expenditures and other uses	$ (8,233)	$ 62,447	$ 115,689	$ 53,242

The slight positive variance between the fiscal year 2016 actual revenues and the fiscal year 2016 original budget for personal income taxes was reflected in positive variances for the estimated payments, final payments and refunds and adjustments components of the personal income tax and negative variances for withholding payments and the net accrual component of the personal income tax. Personal income tax estimated payments were $8.1 million more than the original budget. Personal income tax final payments were $6.4 million above the original budget, while personal income tax refunds and adjustments were $21.9 million less than the original budget. Personal income tax withholding payments were nearly $19.0 million less than the amount included in the original budget. The personal income tax net accrual was $15.8 million less than in the original budget, as the revenue impact of several tax law changes that took effect on January 1, 2015 were accounted for in the net accrual, as were excess personal income tax refunds that were processed in July and August of 2016 that normally would have been paid during fiscal year 2016.

Actual fiscal year 2016 general business taxes came in $5.5 million above the original budget due primarily to actual financial institutions and insurance companies gross premiums tax revenues coming in $9.7 million higher than the estimated amount included in the original budget. These realized increases were offset by business corporation tax, public utilities gross earnings tax, and healthcare provider assessment revenues coming in $4.8 million below their originally budgeted amounts.

Sales and use tax revenues actually received in fiscal year 2016 outperformed estimated sales and use tax revenues included in the fiscal year 2016 original budget due to stronger than anticipated cigarette and other tobacco products excise tax revenues, general sales and use tax revenues and motor vehicle licenses and fees revenues exceeding the estimates included in the original budget.

Finally, the actual fiscal year 2016 Lottery transfer to the General Fund significantly outperformed the estimated Lottery transfer to the General Fund contained in the fiscal year 2016 original budget in the amount of $38.0 million. This outperformance was due in large part to the fact that the onset of slots-only gaming in Massachusetts did not have as significant a negative impact on Rhode Island's full casino at Twin River and its slots-only facility at Newport Grand as was initially forecast.

The positive expenditure variance in the General Government function of approximately $11.4 million was primarily in two agencies, Administration and Legislature. Within Administration, the majority of the positive variance, $1.8 million, was in the Division of Capital Asset Maintenance and Management program due to lower than anticipated energy and repair costs. In addition, several programs had surpluses due to funding enacted for specific projects remaining unspent at year end, which was subsequently approved by the Governor for reappropriation to fiscal year 2017. These included $388,428 for a classification and compensation study and $258,319 for building code training and code book publishing. In the Legislature's budget the positive variance was $6.3 million. Under Rhode Island law, the entire surplus for the Legislature is reappropriated to fiscal year 2017.

The positive variance in the Human Services function of approximately $16.7 million was due to a positive variance of $17.6 million in the Office of Health and Human Services (OHHS), offset by a deficit of $922,000 in the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (BHDDH). The OHHS positive variance was primarily in the Medicaid program due to final caseloads being lower than estimated by the Caseload Estimating Conference in May 2016. The BHDDH deficit was primarily in the Developmental Disabilities program due to certain savings initiatives not being achieved.

The positive variance in the Education function is almost entirely from the Department of Elementary and Secondary Education, due to lower than estimated expenditures for the state's share of Teachers' Retirement. Payments are based on actual teacher payrolls, which are difficult to estimate at the time of the budget submission.

The negative variance of $5.1 million in Public Safety is almost entirely due to additional unbudgeted personnel costs resulting from an arbitration award to the RI Brotherhood of Correctional Officers.

Capital Assets and Debt Administration

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2016 amounts to $4,191.2 million, net of accumulated depreciation of $2,829.1 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. The total increase in the State's investment in capital assets for the current fiscal year was approximately 4.66% of net book value (as restated). This increase is primarily caused by investments in the construction and rehabilitation of highways and bridges as well as other infrastructure and major software modernization initiatives.

Actual expenditures to purchase or construct capital assets were $370.8 million for the year. Of this amount, $182.0 million was used to construct or reconstruct highways. Depreciation charges for the year totaled $186.5 million.

State of Rhode Island's Capital Assets as of June 30, 2016 and 2015
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Capital assets not being depreciated or amortized						
Land	$ 393,739	$ 392,753	$ 46,808	$ 46,808	$ 440,547	$ 439,561
Works of Art	3,449	2,923			3,449	2,923
Intangibles	171,992	170,130			171,992	170,130
Construction in progress*	648,279	513,518	293	178	648,572	513,696
Total capital assets not being depreciated or amortized	1,217,459	1,079,324	47,101	46,986	1,264,560	1,126,310
Capital assets being depreciated or amortized						
Land improvements	4,665	3,700			4,665	3,700
Buildings	724,551	721,971	234,384	234,384	958,935	956,355
Building improvements	372,596	279,919			372,596	279,919
Equipment	304,793	294,897	31,104	31,255	335,897	326,152
Intangibles	14,040	14,040	175	175	14,215	14,215
Infrastructure	4,069,394	3,954,550			4,069,394	3,954,550
	5,490,039	5,269,077	265,663	265,814	5,755,702	5,534,891
Less: Accumulated depreciation or amortization	2,662,630	2,498,285	166,460	158,231	2,829,090	2,656,516
Total capital assets being depreciated or amortized	2,827,409	2,770,792	99,203	107,583	2,926,612	2,878,375
Total capital assets (net)	$ 4,044,868	$ 3,850,116	$ 146,304	$ 154,569	$ 4,191,172	$ 4,004,685

*Certain fiscal year 2015 balances have been restated.

Additional information on the State's capital assets can be found in Note 5 to the financial statements of this report.

Debt Administration

Under the State's Constitution, the General Assembly has no power to incur State debts in excess of $50 thousand without the consent of the people (voters), except in the case of war, insurrection or invasion, or to pledge the faith of the State to the payment of obligations of others without such consent. At the end of the current fiscal year, the State's governmental activities had total bonded debt outstanding of $2.1 billion, of which $1,051.8 million is general obligation debt, $391.3 million is special obligation debt and $695.0 million is debt of the blended component units. Additionally, accreted interest of $85.2 million has been recognized for debt of one blended component unit, which is not scheduled to be paid until 2052. On an overall basis the State's total bonded debt decreased by $36.6 million during fiscal year 2016. This decrease consists of a $28.9 million increase in general obligation debt, a decrease of $44.3 million in special obligation debt, and a decrease of $21.2 million in the blended component units' debt. The general obligation debt is supported by the full faith and credit of the State. Other obligations subject to annual appropriation by the R.I. General Assembly totaling $316.3 million and $979.3 million are supported by pledged revenue. These obligations are discussed in Notes 6 and 17 G.

In July 2015 the State issued $175.2 million of general obligation refunding bonds with interest rates ranging from 2.00% to 5.00%, maturing from 2017 through 2028. These bonds, combined with the premium of $23.8 million, were used to advance refund $190.1 million of bonds with interest rates from 4.00% to 6.00% and maturities from 2016 to 2028. The refunding, which resulted in a reduction of debt service over the term of the bonds of $7.4 million, was designed to take advantage of lower market interest rates. It also reconfigured debt service payments freeing up current resources for critical economic development initiatives.

The State's assigned general obligation bond ratings are as follows: AA (Stable) by Standard & Poor's Ratings Services (S&P), Aa2 (Stable) by Moody's Investor Service, Inc., and AA (Stable) by Fitch Ratings. The State does not have any debt limitation.

Bonds authorized by the voters that remain unissued as of June 30, 2016 amounted to $319.6 million; other obligations that are authorized but unissued totaled $174.2 million and are described in Note 6. Additional information on the State's long-term debt can be found in the notes to the financial statements of this report.

Conditions Expected to Affect Future Operations

Fiscal Year 2017 Budget

The first quarter report for fiscal year 2017 prepared by the State Budget Office contains estimates of annual expenditures based upon analysis of expenditures through the first quarter of fiscal year 2017, as well as caseload and medical assistance expenditure estimates and revenue estimates adopted at the November 2016 Caseload and Revenue Estimating Conferences. The fiscal year 2017 balance, based upon these assumptions, is estimated to reflect a $58.7 million general revenue surplus in the General Fund.

The Budget Office continues to review department and agency fiscal year 2017 expenditure plans in conjunction with the fiscal year 2018 budget process. In the first quarter report for fiscal year 2017 prepared by the State Budget Office, a number of departments, primarily in the human service area as well as the Department of Corrections, are projecting deficits. All changes recommended by the Governor in the fiscal year 2017 enacted appropriations, or adopted revenues, will be incorporated in the supplemental appropriations bill, which under current law must be submitted to the General Assembly in early 2017.

The November Revenue Estimating Conference's estimates reflect recent revenue trends and expected collections based upon the current economic forecast. On the revenue side, general revenue receipts are expected to be $44.9 million more than enacted for fiscal year 2017. Taxes are expected to exceed enacted estimates by $41.5 million, while departmental revenues and other sources, including lottery revenues, are expected to exceed enacted estimates by $3.3 million. The November Revenue Estimating Conference estimates that revenues will be $3,719.6 million as compared with the enacted estimate of $3,674.7 million for fiscal year 2017.

The November Caseload Estimating Conference estimates reflect, in comparison to the fiscal year 2017 enacted budget, increased general revenue funding for fiscal year 2017 of $4.7 million. This is due to a number of factors, including increased costs for medical assistance programs which were offset to an extent by savings in other programs.

Lottery Revenue

The General Fund derives more than 10% of general revenue from the Rhode Island Lottery.

The Lottery's gaming operations currently compete with casinos in nearby Connecticut and Massachusetts. In addition, both neighboring States have already approved or are considering additional casino expansion likely to increase gaming competition in New England. The Lottery and the State continually monitor the risk to gaming operations resulting from competition in nearby states.

In November 2016 the voters of the state approved a referendum to allow the opening of a new casino/hotel in Tiverton near the Massachusetts border. This facility, which will replace the Newport Grand Casino, will be operated by the same company that operates the Twin River Casino in Lincoln.

Pension Benefits

The State's financial statements include the net pension liability for the various defined benefit pension plans covering state employees and teachers. Please see Note 13 for information about each of the State's pension plans.

Legal challenges to pension reforms initiated in prior years have been largely resolved through settlement and legislative enactment of those settlement provisions at the close of fiscal 2015. The changes to benefit provisions resulting from the settlement and subsequent amendment of the statutory provisions regarding pension benefits have been reflected in the net pension liability as well as the actuarially determined contribution rates for fiscal year 2017. The terms of the settlement maintained the majority of the future savings projected in the initial enactment of the Rhode Island Retirement Security Act.

With the implementation of GASB Statement No. 68, the accounting measures of pension expense and related liabilities will differ from those used for funding purposes. The accounting measures are likely to be more volatile year to year since the net pension liability reflects the fair value of pension plan assets at June 30 whereas the funding measures use a five-year smoothed actuarial value of assets.

Future operations will continue to be affected by the amounts actuarially required to responsibly fund pensions consistent with statutory and actuarial requirements. Similarly, the State's overall net position will continue to be affected by market conditions affecting the fair value of assets accumulated for future pension benefits and the accounting measures reflecting the changes in those pension liabilities year to year.

Other Postemployment Benefits (OPEB)

Pursuant to legislation enacted by the General Assembly, the State established a trust in fiscal year 2011 to accumulate assets and pay benefits and other costs associated with its OPEB plans. In addition, effective in fiscal year 2011, all participating employers are required by law to fully fund the actuarially determined annual required contribution.

In accordance with GASB Statement No. 45, the State began accounting for retiree health care benefits on an actuarial basis in fiscal year 2008. The most recent actuarial study completed as of June 30, 2015 has determined the State's net unfunded actuarial liability for all six plans included in the Rhode Island State Employees' and Electing Teachers OPEB System to be $644.3 million. Based on a discount rate of 5.0%, the State's and other participating employers' annual required contribution was $53.4 million. For fiscal year 2016, the State funded the retiree health care program in accordance with law by contributing the actuarially required contribution. At June 30, 2016 the OPEB Trust's net position was $179.3 million.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Future changes in healthcare costs, as well as investment returns and other assumptions, could significantly affect the level of contributions required of the State.

In fiscal year 2018 the State will be implementing GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of GASB Statement No. 45 related to accounting for other post-employment benefit plans that are administered through trusts or equivalent arrangements. This Statement will require the State to restate opening net position as of July 1, 2017 to recognize its share of the net OPEB liability relating to the OPEB plans it administers. The restatement is expected to reduce net position of the primary government, but the amount of the restatement has not yet been determined.

Transportation Funding Initiative

In order to address Rhode Island's continuing issues with deteriorating roads and bridges, in February 2016 a new initiative proposed by the Governor, called RhodeWorks, was enacted by the General Assembly. RhodeWorks calls for investing an additional $1 billion above current plans in transportation infrastructure to fix more than 150 structurally deficient bridges and make repairs to another 500 bridges to prevent them from becoming structurally deficient. The plan also refocuses efforts to expand transit. The plan will be financed by 1) user fees on large commercial trucks, 2) $300 million of new GARVEE debt that will be repaid with federal funds, and 3) $129 million of federal funds made available sooner by restructuring existing federally-funded debt. The plan is expected to save nearly $1 billion over 10 years by addressing transportation infrastructure problems on a more proactive basis.

Google Inc. Settlement

An investigation by the United States Attorney's Office in Rhode Island and the U.S. Food and Drug Administration's Office of Criminal Investigations Rhode Island Task Force resulted in the forfeiture of $500 million in revenue by Google. Because several State law enforcement agencies participated in the investigation, the State was awarded $110 million of this forfeiture. As of June 30, 2016 the State had spent approximately $31.2 million of the total award and will be able to use the balance of the award in future years. The funds must be utilized for public safety purposes.

In September 2016, pursuant to legislation enacted by the General Assembly, the State established a trust to fund and pay benefits that were earned under the provisions of the State Police Non-Contributory Retirement Plan discussed in Note 13. The State deposited $15 million of the Google Inc. settlement funds into the newly established Trust.

Local Government Financial Matters

The State has certain oversight responsibilities with respect to municipalities which are outlined in the General Laws and carried out by the Department of Revenue – Division of Municipal Finance and the Office of the Auditor General. The General Laws give the State, acting through the Department of Revenue, the power to implement three levels of oversight and control: fiscal overseer, budget commission, and state receiver.

The State has intervened in certain municipalities in recent years utilizing these powers. Most notably, the City of Central Falls was under the control of a State appointed receiver and subsequently filed for federal bankruptcy protection in August 2011. The Fourth Amended Plan of Debt Adjustment became effective on October 25, 2012 and allowed the City of Central Falls to emerge from bankruptcy.

A State fiscal overseer and a budget commission were appointed for the City of East Providence in 2011. In September 2013 it was determined that the fiscal health of the City improved to a level that such oversight was no longer necessary. In addition, a budget commission was appointed for the City of Woonsocket in May 2012. In March 2015 it was determined that the fiscal health of the City improved to a level that such oversight was no longer necessary.

During the 2014 legislative session, the General Assembly amended the Fiscal Stability Act to extend its provision to fiscally distressed fire districts. At that time, the Central Coventry Fire District was under judicial receivership and had been scheduled for liquidation. The State appointed a Receiver on May 6, 2014 and in December of that year, the Receiver filed for Chapter 9 bankruptcy. The receivership was terminated effective October 1, 2015. The Receiver filed a motion to dismiss the Chapter 9 petition which was granted by the U.S. Bankruptcy Court, effective October 1, 2015.

The State is continually monitoring the financial status of all municipalities and other local governmental entities with the goal of avoiding the need for more extensive intervention. These ongoing monitoring efforts specifically include the City of Providence which has a deficit reduction plan in place as approved by the Office of the Auditor General, and is challenged by significant unfunded pension and OPEB obligations.

Requests for Information

This report is designed to provide a general overview of the State's finances and accountability for all of the State's citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be sent to Jennifer.findlay@doa.ri.gov. The State's Comprehensive Annual Financial Report may be found on the State Controller's home page, http://controller.admin.ri.gov/index.php. Requests for additional information related to component units should be addressed to the entities as listed in Note 1 of the financial statements.

Basic Financial Statements

State of Rhode Island
Fiscal Year Ended
June 30, 2016

State of Rhode Island and Providence Plantations
Statement of Net Position
June 30, 2016
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business - Type Activities	Totals	Component Units
Assets and deferred outflows of resources				
Current assets:				
Cash and cash equivalents	$ 1,001,740	$ 28,364	$ 1,030,104	$ 331,187
Funds on deposit with fiscal agent	144,808	201,703	346,511	
Investments				10,108
Receivables (net)	777,802	87,035	864,837	102,480
Restricted assets:				
Cash and cash equivalents	52,235	2,241	54,476	531,475
Investments				128,547
Receivables (net)				70,143
Other assets				38,291
Due from primary government				58,098
Due from component units	4,222		4,222	343
Internal balances	2,128	(2,128)		
Due from other governments and agencies	143,868	1,362	145,230	4,013
Inventories	1,796	1,275	3,071	10,412
Other assets	6,501	534	7,035	7,391
Total current assets	2,135,100	320,386	2,455,486	1,292,488
Noncurrent assets:				
Investments				178,070
Receivables (net)	24,991		24,991	43,505
Due from other governments and agencies	11,026		11,026	
Restricted assets:				
Cash and cash equivalents				48,955
Investments				384,013
Other assets				2,459,314
Due from component units	47,375		47,375	1,478
Capital assets - nondepreciable	1,217,459	47,101	1,264,560	219,033
Capital assets - depreciable (net)	2,827,409	99,203	2,926,612	1,809,417
Other assets		701	701	157,913
Total noncurrent assets	4,128,260	147,005	4,275,265	5,301,698
Total assets	6,263,360	467,391	6,730,751	6,594,186
Deferred outflows of resources	340,857	6,230	347,087	54,282
Liabilities and deferred inflows of resources				
Current Liabilities:				
Accounts payable	682,634	17,644	700,278	106,173
Due to primary government				4,222
Due to component units	58,098		58,098	343
Due to other governments and agencies		1,555	1,555	
Accrued expenses		6,524	6,524	
Unearned revenue	107,120		107,120	29,225
Other current liabilities	129,295	400	129,695	222,952
Current portion of long-term debt	189,816	16,506	206,322	214,397
Obligation for unpaid prize awards		7,308	7,308	
Total current liabilities	1,166,963	49,937	1,216,900	577,312
Noncurrent Liabilities:				
Due to primary government				47,375
Net pension liability	2,113,105	15,074	2,128,179	271,402
Net pension liability-special funding situation	1,117,395		1,117,395	
Net OPEB obligation	8,503		8,503	68,322
Unearned revenue		4,353	4,353	14,268
Due to component units				1,478
Notes payable				34,604
Loans payable				45,642
Obligations under capital leases	203,114		203,114	3,936
Compensated absences	6,632	332	6,964	21,035
Bonds payable	2,320,226	197,187	2,517,413	2,738,340
Other liabilities	53,793		53,793	359,346
Total noncurrent liabilities	5,822,768	216,946	6,039,714	3,605,748
Total liabilities	6,989,731	266,883	7,256,614	4,183,060
Deferred inflows of resources	115,200	300	115,500	12,080
Net position (deficit)				
Net investment in capital assets	3,063,627	(57,493)	3,006,134	1,313,097
Restricted for:				
Capital Projects	146,841		146,841	
Debt	100,429	2,241	102,670	245,509
Assistance to other entities	64,070		64,070	
Employment insurance programs	152,285	281,660	433,945	
Other	278,172		278,172	737,779
Nonexpendable	174		174	127,710
Unrestricted	(4,306,312)	(19,970)	(4,326,282)	29,233
Total net position (deficit)	$ (500,714)	$ 206,438	$ (294,276)	$ 2,453,328

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Statement of Activities
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
					Primary Government			
Functions/Programs	**Expenses**	**Charges for Services**	**Operating grants and contributions**	**Capital grants and contributions**	**Governmental activities**	**Business-type activities**	**Totals**	**Component Units**
Primary government:								
Governmental activities:								
General government	$ 769,469	$ 229,659	$ 85,197	$ 369	$ (454,244)	$	$ (454,244)	$
Human services	3,652,875	266,091	2,251,782	1,019	(1,133,983)		(1,133,983)	
Education	1,595,289	29,749	197,798	427	(1,367,315)		(1,367,315)	
Public safety	545,329	45,245	39,800	3,137	(457,147)		(457,147)	
Natural resources	87,537	28,655	18,617	4,411	(35,854)		(35,854)	
Transportation	343,270	25,354	84,237	169,265	(64,414)		(64,414)	
Interest and other charges	83,899				(83,899)		(83,899)	
Total governmental activities	7,077,668	624,753	2,677,431	178,628	(3,596,856)		(3,596,856)	
Business-type activities:								
State Lottery	507,199	875,362				368,163	368,163	
Convention Center	48,905	28,081				(20,824)	(20,824)	
Employment security	157,018	273,640	1,558			118,180	118,180	
Total business-type activities	713,122	1,177,083	1,558			465,519	465,519	
Total primary government	$ 7,790,790	$ 1,801,836	$ 2,678,989	$ 178,628	(3,596,856)	465,519	(3,131,337)	
Component units:	$ 1,379,259	$ 733,555	$ 538,227	$ 165,735				58,258
General Revenues:								
Taxes:								
Personal income					1,211,419		1,211,419	
General business					428,418		428,418	
Sales and use					1,173,905		1,173,905	
Gasoline					152,122		152,122	
Other					300,483		300,483	
Interest and investment earnings					3,134	164	3,298	43,174
Miscellaneous revenue					90,836	4,106	94,942	53,747
Gain on sale of capital assets					4,693		4,693	
Special items								38,348
Transfers (net)					335,765	(335,765)		
Total general revenues and transfers					3,700,775	(331,495)	3,369,280	135,269
Change in net position					103,919	134,024	237,943	193,527
Net position (deficit) - beginning as restated					(604,633)	72,414	(532,219)	2,259,801
Net position (deficit) - ending					$ (500,714)	$ 206,438	$ (294,276)	$ 2,453,328

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Balance Sheet
Governmental Funds
June 30, 2016
(Expressed in Thousands)

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 654,828	$ 60,631	$ 252,970	$ 968,429
Funds on deposit with fiscal agent		67,684	77,123	144,807
Restricted cash equivalents			52,241	52,241
Receivables (net)	698,438	15,783	72,294	786,515
Due from other funds	4,054	941	390	5,385
Due from other governments and agencies	107,606	44,256		151,862
Loans to other funds	5,918		108,813	114,731
Other assets	505			505
Total assets	$ 1,471,349	$ 189,295	$ 563,831	$ 2,224,475
Liabilities, deferred inflows of resources and fund balances				
Liabilities				
Accounts payable	596,206	27,092	20,662	643,960
Due to other funds			2,340	2,340
Due to component units	37,441	7,338	23,908	68,687
Loans from other funds	108,813		8	108,821
Unearned revenue	98,763			98,763
Other liabilities	99,228	10,264	535	110,027
Total liabilities	940,451	44,694	47,453	1,032,598
Deferred inflows of resources	21,520	8,462		29,982
Fund Balances				
Nonspendable			174	174
Restricted	133,193	98,595	516,092	747,880
Unrestricted				
Committed	3,975	39,063	112	43,150
Assigned	137,114			137,114
Unassigned	235,096	(1,519)		233,577
Total fund balances	509,378	136,139	516,378	1,161,895
Total liabilities, deferred inflows of resources and fund balances	$ 1,471,349	$ 189,295	$ 563,831	$ 2,224,475

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Reconciliation of the Balance Sheet of the Governmental Funds
to the Statement of Net Position
June 30, 2016
(Expressed in Thousands)

Fund balance - total governmental funds		$	1,161,895
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital Assets used in the governmental activities are not financial resources and therefore are not reported in the funds.			
Capital assets	6,700,929		
Accumulated depreciation	(2,658,729)		
			4,042,200
Deferred outflows of resources			340,857
Bonds, notes, certificates of participation, accrued interest, net pension liabilities and other liabilities are not due and payable in the current period and therefore are not recorded in the governmental funds.			
Compensated absences	(73,396)		
Bonds payable	(2,223,320)		
Net premium/discount	(187,141)		
Obligations under capital leases	(214,321)		
Premium	(16,769)		
Interest payable	(21,115)		
Net pension liabilities	(3,230,500)		
Other liabilities	(67,945)		
			(6,034,507)
Other long-term assets and unearned revenue are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			
Receivables	5,674		
Due from component units	51,597		
Unavailable revenue	21,624		
			78,895
Deferred inflows of resources			(115,200)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net position of the internal service funds is reported with governmental activities.			25,146
Net position - total governmental activities		$	(500,714)

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	$ 2,895,540	$ 184,793	$ 186,283	$ 3,266,616
Licenses, fines, sales, and services	355,731	22,444	2,201	380,376
Departmental restricted revenue	241,872	2,882		244,754
Federal grants	2,610,735	254,271		2,865,006
Income from investments	1,516	487	1,014	3,017
Other revenues	51,185	1,699	47,472	100,356
Total revenues	6,156,579	466,576	236,970	6,860,125
Expenditures:				
Current:				
General government	577,399		186,667	764,066
Human services	3,694,123			3,694,123
Education	1,467,236			1,467,236
Public safety	504,217			504,217
Natural resources	78,270		37	78,307
Transportation		385,174	1,538	386,712
Capital outlays			185,361	185,361
Debt service:				
Principal	74,705	4,375	24,230	103,310
Interest and other charges	59,705	10,680	29,417	99,802
Total expenditures	6,455,655	400,229	427,250	7,283,134
Excess (deficiency) of revenues over (under) expenditures	(299,076)	66,347	(190,280)	(423,009)
Other financing sources (uses):				
Issuance of bonds and notes			72,000	72,000
Issuance of refunding bonds		230,280	228,955	459,235
Capital leases	5,021			5,021
Premiums		38,619	34,897	73,516
Transfers in	443,971	15,400	113,198	572,569
Payment to refunded bonds escrow agent		(267,327)	(265,453)	(532,780)
Transfers out	(142,425)	(59,656)	(34,723)	(236,804)
Total other financing sources (uses)	306,567	(42,684)	148,874	412,757
Net change in fund balances	7,491	23,663	(41,406)	(10,252)
Fund balances - beginning	501,887	112,476	557,784	1,172,147
Fund balances - ending	$ 509,378	$ 136,139	$ 516,378	$ 1,161,895

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of the Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ (10,252)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Current year acquisitions are therefore deducted from expenses on the Statement of Activities, less current year depreciation expense and revenue resulting from current year disposals.		
Capital outlay	378,935	
Depreciation expense	(175,778)	
		203,157
Bond, note, and certificate of participation proceeds provide current financial resources to governmental funds by issuing debt which increases long-term debt in the Statement of Net Position. Repayments of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
Principal paid on debt	103,310	
Debt redeemed and defeased in refunding	493,430	
Accrued interest and other charges	(1,435)	
Proceeds from sale of debt	(531,235)	
Deferral of premium/discount	(73,516)	
Amortization of premium/discount	29,926	
Accreted interest paid	(11,845)	
Deferral of refunding gains/losses	21,416	
Amortization of refunding gains/losses	14,269	
		44,320
Revenues (expenses) in the Statement of Activities that do not provide (use) current financial resources are not reported as revenues (expenditures) in the governmental funds.		
Compensated absences	2,340	
Pension expenses, net of related deferred outflows	(127,088)	
Program expenses	11,766	
Program revenue	(364)	
Capital grant revenue	(593)	
General revenue - taxes	(268)	
General revenue-miscellaneous	(14,537)	
		(128,744)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net position of the internal service funds is reported with governmental activities.		(4,562)
Change in net position - total governmental activities		$ 103,919

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Statement of Net Position
Proprietary Funds
June 30, 2016
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Assets and deferred outflows of resources					
Current assets:					
Cash and cash equivalents	$ 20,965	$ 6,332	$ 1,067	$ 28,364	$ 33,304
Restricted cash and cash equivalents		2,241		2,241	
Funds on deposit with fiscal agent			201,703	201,703	
Receivables (net)	5,501	1,311	80,223	87,035	13,636
Due from other funds	444	269		713	1,023
Due from other governments and agencies			1,362	1,362	
Inventories	1,275			1,275	1,796
Other assets	42	492		534	5,996
Total current assets	28,227	10,645	284,355	323,227	55,755
Noncurrent assets:					
Capital assets - nondepreciable		47,101		47,101	
Capital assets - depreciable (net)	368	98,835		99,203	2,668
Other assets		701		701	
Total noncurrent assets	368	146,637		147,005	2,668
Total assets	28,595	157,282	284,355	470,232	58,423
Deferred outflows of resources	1,399	4,831		6,230	
Liabilities and deferred inflows of resources					
Current liabilities:					
Accounts payable	12,124	5,516	4	17,644	22,432
Due to other funds	1,679	172	990	2,841	1,940
Due to other governments and agencies			1,555	1,555	
Loans from other funds					5,910
Accrued expenses	6,524			6,524	
Unearned revenue	625	4,208		4,833	
Other current liabilities	395		5	400	2,995
Bonds payable		11,440		11,440	
Compensated absences	233			233	
Obligation for unpaid prize awards	7,308			7,308	
Total current liabilities	28,888	21,336	2,554	52,778	33,277
Noncurrent liabilities:					
Net pension liability	15,074			15,074	
Unearned revenue	3,750	462	141	4,353	
Bonds payable		197,187		197,187	
Compensated absences	332			332	
Total noncurrent liabilities	19,156	197,649	141	216,946	
Total liabilities	48,044	218,985	2,695	269,724	33,277
Deferred inflows of resources	300			300	
Net Position (Deficit)					
Net investment in capital assets	368	(57,861)		(57,493)	2,668
Restricted for:					
Debt		2,241		2,241	
Employment insurance programs			281,660	281,660	
Unrestricted	(18,718)	(1,252)		(19,970)	22,478
Total net position (deficit)	$ (18,350)	$ (56,872)	$ 281,660	$ 206,438	$ 25,146

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Operating revenues:					
Charges for services	$	$ 27,781	$ 269,159	$ 296,940	$ 314,894
Lottery sales	260,833			260,833	
Video lottery, net	488,691			488,691	
Table games	125,838			125,838	
Federal grants			1,558	1,558	
Miscellaneous		300	4,481	4,781	
Total operating revenues	875,362	28,081	275,198	1,178,641	314,894
Operating expenses:					
Personal services	10,301	15,673		25,974	13,417
Supplies, materials, and services	337,408	12,560		349,968	306,007
Prize awards, net of prize recoveries	159,379			159,379	
Depreciation and amortization	111	10,423		10,534	169
Benefits paid			157,018	157,018	
Total operating expenses	507,199	38,656	157,018	702,873	319,593
Operating income (loss)	368,163	(10,575)	118,180	475,768	(4,699)
Nonoperating revenues (expenses):					
Interest revenue	163	1		164	117
Other nonoperating revenue	939		3,167	4,106	20
Interest expense		(10,249)		(10,249)	
Total nonoperating revenue (expenses)	1,102	(10,248)	3,167	(5,979)	137
Income (loss) before transfers	369,265	(20,823)	121,347	469,789	(4,562)
Transfers in	444	24,209	9,449	34,102	
Transfers out	(369,761)		(106)	(369,867)	
Change in net position	(52)	3,386	130,690	134,024	(4,562)
Net position (deficit) - beginning	(18,298)	(60,258)	150,970	72,414	29,708
Net position (deficit) - ending	$ (18,350)	$ (56,872)	$ 281,660	$ 206,438	$ 25,146

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Cash flows from operating activities:					
Cash received from gaming activities	$ 875,903	$	$	$ 875,903	$
Cash received from customers		29,439	267,593	297,032	311,932
Cash received from grants			1,558	1,558	
Cash payments for gaming activities	(491,121)			(491,121)	
Cash payments to suppliers	(4,718)	(12,879)		(17,597)	(303,374)
Cash payments to employees	(9,544)	(15,269)		(24,813)	(13,824)
Cash payments for benefits			(148,783)	(148,783)	
Other operating revenue (expense)			65	65	20
Net cash provided by (used for) operating activities	370,520	1,291	120,433	492,244	(5,246)
Cash flows from noncapital financing activities:					
Payment of interest on loan from federal government			(34)	(34)	
Loans from other funds					9,563
Loans to other funds					(10,837)
Repayment of loans to other funds					11,310
Repayment of loans from other funds					(10,125)
Transfers in		24,177	10,490	34,667	
Transfers out	(369,414)		(148)	(369,562)	
Net transfers from (to) fiscal agent			(130,483)	(130,483)	
Net cash provided by (used for) noncapital financing activities	(369,414)	24,177	(120,175)	(465,412)	(89)
Cash flows from capital and related financing activities:					
Principal paid on capital obligations		(11,332)		(11,332)	
Interest paid on capital obligations		(11,709)		(11,709)	
Acquisition of capital assets	(24)	(1,981)		(2,005)	(49)
Net cash provided by (used for) capital and related financing activities	(24)	(25,022)		(25,046)	(49)
Cash flows from investing activities:					
Interest on investments	163	1		164	117
Net cash provided by investing activities	163	1		164	117
Net increase (decrease) in cash and cash equivalents	1,245	447	258	1,950	(5,267)
Cash and cash equivalents, July 1	19,720	8,126	809	28,655	38,571
Cash and cash equivalents, June 30	$ 20,965	$ 8,573	$ 1,067	$ 30,605	$ 33,304
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	368,163	(10,575)	118,180	475,768	(4,699)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	111	10,423		10,534	169
Other revenue (expense) and transfers in (out)	313		65	378	20
Net changes in assets and liabilities:					
Receivables, net	(78)	(483)	(1,474)	(2,035)	(3,582)
Operating revenue deposited directly with the fiscal agent			3,662	3,662	
Inventory	(363)			(363)	1,316
Deferred outflows of resources	(216)			(216)	
Prepaid items		56		56	
Due to / due from transactions	(61)			(61)	
Accounts and other payables	(2,139)	29		(2,110)	1,937
Accrued expenses	2,083			2,083	(407)
Net pension liability	1,758			1,758	
Deferred inflows of resources	(866)			(866)	
Unearned revenue	87	1,841		1,928	
Prize awards payable	1,728			1,728	
Total adjustments	2,357	11,866	2,253	16,476	(547)
Net cash provided by (used for) operating activities	$ 370,520	$ 1,291	$ 120,433	$ 492,244	$ (5,246)

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016
(Expressed in Thousands)

	Pension and Other Employee Benefit Trusts	Investment Trust Ocean State Investment Pool	Private Purpose Trusts	Agency Funds
Assets				
Cash and cash equivalents	$ 9,846	$	$	$ 14,882
Deposits held as security for entities doing business in the State				57,212
Advance held by claims processing agent	775			
Receivables				
Contributions	65,358			
Plan participant units sold			9,125	
Due from State for teachers	23,190			
Due from other plans	30			
Other	2,394			
Miscellaneous	199		2,314	2,939
Total receivables	91,171		11,439	2,939
Prepaid expenses	5,611			
Investments, at fair value				
Equity in short-term investment fund		1,869		
Equity in pooled trust	7,703,467			
Other investments	516,133		6,696,027	
Total investments	8,219,600	1,869	6,696,027	
Total assets	8,327,003	1,869	6,707,466	$ 75,033
Liabilities				
Accounts payable	6,188		17,398	3,176
Due to other plans	30			
Incurred but not reported claims	1,614			
Due to other funds	2,249			
Deposits held for others				71,857
Total liabilities	10,081		17,398	$ 75,033
Net position				
Restricted for:				
Pension benefits	8,136,796			
Other postemployment benefits	180,126			
Pool participants		1,869		
Tuition savings program			6,687,526	
Other			2,542	
Total net position	$ 8,316,922	$ 1,869	$ 6,690,068	

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Pension and Other Employee Benefit Trusts	Investment Trust Ocean State Investment Pool	Private Purpose Trusts
Additions			
Contributions			
Member contributions	$ 204,205	$	$
Employer contributions	430,987		
Supplemental employer contributions	408		
State contributions for teachers	87,998		
Interest on service credits purchased	145		
Service credit transfer payments	13,406		
From program participants		41	765,916
Total contributions	737,149	41	765,916
Other income	1,807		
Investment income			
Net appreciation (depreciation) in fair value of investments	(69,096)		(295,110)
Interest	59,174	9	
Dividends	23,249		214,370
Other investment income	10,996		145
	24,323	9	(80,595)
Less: investment expense	20,220	2	
Net investment income	4,103	7	(80,595)
Total additions	743,059	48	685,321
Deductions			
Retirement benefits	928,232		
Death benefits	3,482		
Distributions	9,225	1,738	
Program participant redemptions			1,351,248
Refund of contributions	8,046		
Administrative expense	8,738		63,975
Service credit transfers	13,406		
OPEB benefits	38,519		
Total deductions	1,009,648	1,738	1,415,223
Change in net position:			
Pension benefits	(299,329)		
Other postemployment benefits	32,740		
Tuition Savings Program			(729,789)
Other		(1,690)	(113)
Fiduciary net position - beginning, as restated	8,583,511	3,559	7,419,970
Fiduciary net position - ending	$ 8,316,922	$ 1,869	$ 6,690,068

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Combining Statement of Net Position
Component Units
June 30, 2016
(Expressed in Thousands)

	RIAC	RICC	I-195 RDC	RIPTA	RITBA
Assets and deferred outflows of resources					
Current Assets:					
Cash and cash equivalents	$ 30,675	$ 5,968	$ 187	$ 4,055	$ 13,198
Investments				215	
Receivables (net)	18,798	1,776		1,166	51
Restricted assets:					
Cash and cash equivalents	24,038	34,845	56		12,126
Investments	3,939	3,507			27,524
Receivables (net)	1,348	523			786
Other assets	44				
Due from primary government	299	1,363	25,056	6,745	1,508
Due from other governments			18	2,728	
Due from other component units		26			
Inventories				1,578	64
Other assets	533	262	46	461	114
Total current assets	79,674	48,270	25,363	16,948	55,371
Noncurrent Assets:					
Investments		1,038		1,005	7,458
Receivables (net)	490	5,652			
Restricted assets:					
Cash and cash equivalents	33,932	9,455			
Investments	2,263	18,999			64,088
Receivables (net)		302			
Other assets					
Capital assets - nondepreciable	62,378	129		12,592	757
Capital assets - depreciable (net)	494,902	103		131,767	194,917
Due from other component units					
Other assets, net of amortization	890		287		
Total noncurrent assets	594,855	35,678	287	145,364	267,220
Total assets	674,529	83,948	25,650	162,312	322,591
Deferred outflows of resources	1,916	512		16,446	
Liabilities and deferred inflows of resources					
Current liabilities:					
Accounts payable	7,399	407	109	6,322	12,329
Due to primary government				539	
Due to other component units	235				
Unearned revenue	443	4,780	56	179	
Other liabilities	12,476	1,635	151	6,659	4,373
Current portion of long-term debt	15,512	2,560			4,810
Total current liabilities	36,065	9,382	316	13,699	21,512
Noncurrent liabilities:					
Due to primary government	390			13,108	
Due to other component units	1,478				
Unearned revenue		14,038			
Notes payable					
Loans payable	41,541				
Obligations under capital leases					
Net pension liability	2,226	273		52,200	
Net OPEB obligation				55,534	
Other liabilities		26,733		11,169	
Compensated absences				365	
Bonds payable	255,994	21,584	38,400		184,292
Total noncurrent liabilities	301,629	62,628	38,400	132,376	184,292
Total liabilities	337,694	72,010	38,716	146,075	205,804
Deferred inflows of resources	44	380		1,793	30
Net position (deficit)					
Net investment in capital assets	260,203	232		130,712	68,667
Restricted for:					
Debt					35,353
Other	39,120		25,000		
Other nonexpendable		20,733			
Unrestricted	39,384	(8,895)	(38,066)	(99,822)	12,737
Total net position (deficit)	$ 338,707	$ 12,070	$ (13,066)	$ 30,890	$ 116,757

(Continued)

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Combining Statement of Net Position
Component Units
June 30, 2016
(Expressed in Thousands)

	URI	RIC	CCRI	Other Component Units	Totals
Assets and deferred outflows of resources					
Current Assets:					
Cash and cash equivalents	$ 141,946	$ 30,704	$ 20,920	$ 83,534	$ 331,187
Investments				9,893	10,108
Receivables (net)	49,999	5,772	2,043	22,875	102,480
Restricted assets:					
Cash and cash equivalents				460,410	531,475
Investments				93,577	128,547
Receivables (net)				67,486	70,143
Other assets				38,247	38,291
Due from primary government	4,761	10,621	1,524	6,221	58,098
Due from other governments			648	619	4,013
Due from other component units				317	343
Inventories	4,010	262	895	3,603	10,412
Other assets	1,340	35	179	4,421	7,391
Total current assets	202,056	47,394	26,209	791,203	1,292,488
Noncurrent Assets:					
Investments	138,705	26,454	3,170	240	178,070
Receivables (net)	21,102	3,747	10	12,504	43,505
Restricted assets:					
Cash and cash equivalents	1,750	714		3,104	48,955
Investments				298,663	384,013
Receivables (net)				1,046,128	1,046,430
Other assets	16,907	1,182		1,394,795	1,412,884
Capital assets - nondepreciable	18,695	24,853	7,249	92,380	219,033
Capital assets - depreciable (net)	633,816	119,420	75,390	159,102	1,809,417
Due from other component units				1,478	1,478
Other assets, net of amortization	1,859	7		154,870	157,913
Total noncurrent assets	832,834	176,377	85,819	3,163,264	5,301,698
Total assets	1,034,890	223,771	112,028	3,954,467	6,594,186
Deferred outflows of resources	10,153	3,243	2,307	19,705	54,282
Liabilities and deferred inflows of resources					
Current liabilities:					
Accounts payable	47,251	12,044	4,468	15,844	106,173
Due to primary government	1,970	1,033	680		4,222
Due to other component units				108	343
Unearned revenue	16,511	3,410	2,433	1,413	29,225
Other liabilities	4,239	5,533	5,673	182,213	222,952
Current portion of long-term debt	10,647	949	266	179,653	214,397
Total current liabilities	80,618	22,969	13,520	379,231	577,312
Noncurrent liabilities:					
Due to primary government	11,780	19,142	2,955		47,375
Due to other component units					1,478
Unearned revenue				230	14,268
Notes payable		1,010		33,594	34,604
Loans payable	579			3,522	45,642
Obligations under capital leases	3,538			398	3,936
Net pension liability	113,016	39,783	29,073	34,831	271,402
Net OPEB obligation				12,788	68,322
Other liabilities	11,819	4,415	10	305,200	359,346
Compensated absences	17,082	1,230	84	2,274	21,035
Bonds payable	206,490	16,580	2,082	2,012,918	2,738,340
Total noncurrent liabilities	364,304	82,160	34,204	2,405,755	3,605,748
Total liabilities	444,922	105,129	47,724	2,784,986	4,183,060
Deferred inflows of resources	2,251	792	705	6,085	12,080
Net position (deficit)					
Net investment in capital assets	433,219	113,032	76,655	230,377	1,313,097
Restricted for:					
Debt				210,156	245,509
Other	74,859	5,904	1,216	591,680	737,779
Other nonexpendable	87,264	17,509	2,204		127,710
Unrestricted	2,528	(15,352)	(14,169)	150,888	29,233
Total net position (deficit)	$ 597,870	$ 121,093	$ 65,906	$ 1,183,101	$ 2,453,328

(Concluded)

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Combining Statement of Activities
Component Units
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	RIAC	RICC	I-195 RDC	RIPTA	RITBA	URI	RIC	CCRI	Other Component Units	Totals
Expenses	$ 86,991	$ 57,641	$ 1,811	$ 120,490	$ 27,739	$ 513,536	$ 148,624	$ 121,482	$ 300,945	$ 1,379,259
Program revenues:										
Charges for services	70,718	4,115	83	22,692	20,872	325,226	71,659	36,220	181,970	733,555
Operating grants and contributions		3,404	26,709	76,102		164,751	73,494	83,989	109,778	538,227
Capital grants and contributions	27,434			13,136	15,701	46,471	17,158	3,359	42,476	165,735
Total program revenues	98,152	7,519	26,792	111,930	36,573	536,448	162,311	123,568	334,224	1,437,517
Net (Expenses) Revenues	11,161	(50,122)	24,981	(8,560)	8,834	22,912	13,687	2,086	33,279	58,258
General revenues:										
Interest and investment earnings	241	7,703		18	697	(5,370)	(434)	51	40,268	43,174
Miscellaneous revenue	(21)	50,693		391	141	(1,578)	452		3,669	53,747
Total general revenue	220	58,396		409	838	(6,948)	18	51	43,937	96,921
Special items									38,348	38,348
Change in net position	11,381	8,274	24,981	(8,151)	9,672	15,964	13,705	2,137	115,564	193,527
Net position (deficit) - beginning as restated	327,326	3,796	(38,047)	39,041	107,085	581,906	107,388	63,769	1,067,537	2,259,801
Net position (deficit) - ending	$ 338,707	$ 12,070	$ (13,066)	$ 30,890	$ 116,757	$ 597,870	$ 121,093	$ 65,906	$ 1,183,101	$ 2,453,328

The notes to the financial statements are an integral part of this statement.

Index

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying basic financial statements of the State of Rhode Island and Providence Plantations (the State) and its component units have been prepared in conformance with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

The accompanying financial statements include all funds of the State and its component units. GASB defines component units as legally separate organizations for which the elected officials of the primary government (such as the State) are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with the State are such that exclusion from the State's financial statements would cause the statements to be misleading.

GASB has set forth criteria to be considered in determining financial accountability. The primary government (the State) is financially accountable if it appoints a voting majority of the entity's governing body **and** (1) it is able to impose its will on that entity **or** (2) there is a potential for the entity to provide specific financial benefits to, or to impose specific financial burdens on, the State. Also, the State is financially accountable if an entity is fiscally dependent on the State and there is the potential for the entity to provide specific financial benefits to, or to impose specific financial burdens on, the State, regardless of the State's appointment power over the governing body.

In accordance with GAAP, entities such as local school districts, charter schools, and other local authorities that may only partially meet the criteria for inclusion in this report have not been included. The State's financial support for the public education system is reported in the General Fund.

Blended Component Units

A component unit is reported as part of the primary government and blended into the appropriate funds in any of the following circumstances:

- The component unit provides services entirely or almost entirely to the primary government, or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it; or
- The component unit's governing body is substantively the same as the governing body of the primary government and (a) there is a financial benefit or burden relationship between the primary government and the component unit, or (b) management of the primary government has operational responsibility for the component unit; or
- The component unit's total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government.

For each blended component unit the potential exists for a financial burden or benefit to be imposed on the State as a result of the existence of the component unit. Also, for the blended component units included in the State's CAFR, the State, generally acting through the Governor, appoints a voting majority of the component units' governing boards.

The following component units are reported as part of the primary government in both the fund and government-wide financial statements.

Rhode Island Convention Center Authority (RICCA)

The RICCA was established by State law as a single purpose building authority to finance the development of convention and other event facilities in Providence, RI. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veterans Memorial Auditorium Arts and Cultural Center located in Providence. RICCA is dependent upon annual State appropriations of lease revenue by the General Assembly to fund debt service on its outstanding bonds; therefore RICCA's total debt outstanding, including leases, is expected to be repaid entirely with the resources of the State. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Convention Center Authority, One LaSalle Square, Providence, RI 02903 or at www.riconvention.com.

Tobacco Settlement Financing Corporation (TSFC)

TSFC was organized in June 2002 as a public corporation by the State. TSFC is legally separate and provides services exclusively to the State through the purchase of its future tobacco settlement revenues. TSFC is authorized to issue bonds necessary to provide sufficient funds for carrying out its purpose.

The Corporation recognizes receivables and revenue with respect to Tobacco Settlement Revenues (TSRs) based on the domestic shipment of cigarettes. The Corporation accrues at June 30th for TSRs that are derived from estimated sales of cigarettes from January 1 to June 30. This accrual is estimated based upon the historical TSR payments for the prior three fiscal years.

The GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* (the Statement), effective for financial statement periods beginning on or after December 15, 2006. The Statement required restatement of prior period financial statements, except for the deferral requirements relative to sales of future revenues which were permitted to be applied prospectively.

As allowed under GASB Statement No. 48, the Corporation and the State elected to not retroactively apply the deferral requirements to its 2002 and 2007 TSR sales completed prior to the effective date. In accordance with accounting standards in effect at the time of the 2002 and 2007 TSR sales, the State fully recognized the amount received for its sale of future TSRs to the TSFC as revenue in those years.

For more detailed information, a copy of the financial statements can be obtained by writing to the Tobacco Settlement Financing Corporation, One Capitol Hill, Providence, RI 02908.

Rhode Island Public Rail Corporation (RIPRC)

This corporation was created and established for the purpose of enhancing and preserving the viability of commuter rail operations in the State. Currently its primary purpose, as outlined in the State's General Laws, is to provide indemnity for rail service operating within the State. The State is fully responsible for reimbursing RIPRC for all costs associated with the purchase of such insurance coverage. RIPRC provides services exclusively to the State. Separately issued financial statements are not available for RIPRC.

Discretely Presented Component Units

Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading.

For each discretely presented component unit the potential exists for a financial burden or benefit to be imposed on the State as a result of the existence of the component unit. For the discretely presented component units included in the State's CAFR, the State, generally acting through the Governor, appoints a voting majority of the component units' governing boards. These discretely presented component units primarily serve or benefit those outside of the primary government.

The State distinguishes between major and nonmajor component units based upon the nature and significance of the component unit's relationship to the State. The factors underlying this determination include the type and dollar value of services provided to the citizens of the State, the presence of significant transactions with the State, and a significant benefit or burden relationship with the State. Discretely presented component units, grouped by major and nonmajor categories, are as follows:

Major Component Units

Rhode Island Airport Corporation (RIAC)

This corporation was created in 1992 and its purpose is to undertake the management, operation, maintenance and improvements of the six airports in the State. Revenues of RIAC include airline and concession contract revenues, federal grants, licenses, and permits. RIAC leases the land on which the State's largest airport is located from the State and reimburses the State annually for general obligation proceeds utilized for certain airport projects. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, Rhode Island Airport Corporation, 2000 Post Road, Warwick, RI 02886 or at www.pvdairport.com.

Rhode Island Commerce Corporation (RICC)

This corporation was created in 1995 and its purpose is to promote and encourage the preservation, expansion, and sound development of new and existing industry, business, commerce, agriculture, tourism, and recreational facilities in the State, so as to promote economic development. RICC has the power to issue tax-exempt bonds to accomplish its corporate purpose. Until June 30, 2013 the corporation was known as the R.I. Economic Development Corporation. RICC has one component unit, the Small Business Loan Fund Corporation, which was created for the purpose of granting secured and unsecured loans to Rhode Island's small business community. RICC's activities are largely supported by State appropriations and RICC has used its debt issuance authority to finance various economic development initiatives on behalf of the State. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Commerce Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at www.commerceri.com.

I-195 Redevelopment District Commission (I-195 RDC)

This commission was created in 2011 by the Rhode Island General Assembly, to oversee, plan, implement, and administer the development of land reclaimed from the Interstate 195 relocation project and the Washington Bridge project. The I-195 RDC issued debt and utilized the proceeds to reimburse the State for the fair value of the land acquired. The State appropriates amounts to the I-195 RDC for debt service and operating assistance until sufficient land sale proceeds are available to fund these expenses. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R. I. Commerce Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at www.195district.com.

Rhode Island Public Transit Authority (RIPTA)

This authority was established in 1964 to acquire any mass motor bus transportation system that has filed a petition to discontinue its service, provided that the Authority has determined it to be in the public interest to continue such service. Revenues of RIPTA include passenger revenue, a portion of the tax on gasoline and operating assistance grants from the State and federal governments. In addition to significant operating assistance, the State has also forgiven certain debt service obligations owed to the State as a means to provide additional financial assistance to the Authority. For more detailed information, a copy of the financial statements can be obtained by writing to the Finance Department, R.I. Public Transit Authority, 265 Melrose Street, Providence, RI 02907, or at www.ripta.com.

Rhode Island Turnpike and Bridge Authority (RITBA)

This authority was created by the General Assembly as a body corporate and politic, with powers to construct, acquire, maintain and operate bridge projects as defined by law. RITBA is responsible for the maintenance and operation of the Claiborne Pell, Mount Hope, Jamestown, and Sakonnet River Bridges which are a vital segment of the State's infrastructure. Title relating to the Jamestown and Sakonnet River bridges has remained with the State, thus those capital assets are reported within the primary government on the State's government-wide financial statements. The Claiborne Pell and Mount Hope bridges are reported as capital assets of RITBA. For more detailed information, a copy of the financial statements can be obtained by writing to the Executive Director, R.I. Turnpike and Bridge Authority, P.O. Box 437, Jamestown, RI 02835-0437, or at www.ritba.org.

University and Colleges

The Board of Education has oversight responsibility for the University of Rhode Island, Rhode Island College and the Community College of Rhode Island. The university and colleges are funded through State appropriations, tuition, federal grants, and private donations and grants. For more detailed information, a copy of the financial statements can be obtained by writing to Office of the Controller, University of Rhode Island, 75 Lower College Road, Kingston, RI 02881; Office of the Controller, Rhode Island College, 600 Mount Pleasant Avenue, Providence, RI 02908; and Office of the Controller, Community College of Rhode Island, 400 East Avenue, Warwick, RI 02886-1805. The financial statements can also be viewed at www.riopc.edu.

Nonmajor Component Units

Central Falls School District

The Central Falls School District (the District) is governed by a seven member board of trustees that is appointed by the State's Board of Education (Board). As a result of the enactment of Chapter 312 of Rhode Island Public Laws of 1991, the State assumed responsibility for the administration and operational funding of the District effective July 1, 1991. In June 2002, Chapter 16-2 of the Rhode Island General Laws established the board of trustees to govern the District in a manner consistent with most local school committees. In addition, the Commissioner of Elementary and Secondary Education and the Board have oversight over the development and approval of the District's operating budget and for other significant operating decisions and contracts. The District, which provides elementary and secondary education to residents of the City of Central Falls, is funded primarily through State appropriations and federal grant funds. For more detailed information, a copy of the financial statements can be obtained by writing to the Central Falls School District, 949 Dexter Street – Lower Level, Central Falls, RI 02863-1715.

Division of Higher Education Assistance (DHEA)

DHEA was established on July 1, 2015 by an Act of the Rhode Island General Assembly for the dual purpose of guaranteeing loans to students in eligible institutions and administering other programs of post-secondary student financial assistance assigned by law to the Division. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, Office of Postsecondary Commissioner, Division of Higher Education Assistance, 560 Jefferson Boulevard, Warwick, RI 02886, or at www.riopc.edu.

Rhode Island Housing and Mortgage Finance Corporation (RIHMFC)

This corporation, established in 1973, was created in order to expand the supply of housing available to persons of low and moderate income and to stimulate the construction and rehabilitation of housing and health care facilities in the State. It has the power to issue notes and bonds to achieve its corporate purpose. Certain debt issued by RIHMFC is secured in part by capital reserve funds. The General Assembly may, but is not required to, appropriate funding of any deficiencies in such reserves. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, R.I. Housing and Mortgage Finance Corporation, 44 Washington Street, Providence, RI 02903-1721, or at www.rhodeislandhousing.org.

Rhode Island Industrial Facilities Corporation (RIIFC)

The purpose of this corporation is to issue revenue bonds, construction loan notes and equipment acquisition notes for the financing of projects which further industrial development in the State. All bonds and notes issued by RIIFC are payable solely from the revenues derived from leasing or sale by RIIFC of its projects. The bonds and notes do not constitute a debt or pledge of the faith and credit of RIIFC or the State and, accordingly, have not been reported in the accompanying financial statements. Certain obligations of RIIFC are secured by mortgages which are insured by the Rhode Island Industrial-Recreational Building Authority for which the State's full faith and credit is pledged. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Industrial Facilities Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at www.commerceri.com.

Rhode Island Industrial-Recreational Building Authority (RIIRBA)

This authority is authorized to insure first mortgages and first security agreements granted by financial institutions and the Rhode Island Industrial Facilities Corporation for companies conducting business in the State. RIIRBA's insurance of first mortgages and first security agreements is backed by a pledge of the full faith and credit of the State. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Industrial-Recreational Building Authority, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at www.commerceri.com.

Rhode Island Resource Recovery Corporation (RIRRC)

This corporation was established in 1974 in order to provide and/or coordinate solid waste management services to municipalities and persons within the State. RIRRC has the power to issue negotiable bonds and notes to achieve its corporate purpose. RIRRC coordinates and administers a statewide recycling program and has periodically transferred amounts to the State's general fund as operating assistance. The State is one of several potentially responsible parties for the costs of remedial actions at RIRRC's superfund site. For more detailed information, a copy of the financial statements can be obtained by writing to R.I. Resource Recovery Corporation, 65 Shun Pike, Johnston, RI 02919, or at www.rirrc.org.

Quonset Development Corporation (QDC)

This corporation was established in 2004 as a real estate development and management company for the Quonset Point/Davisville Industrial Park. Its purpose is to promote the preservation, expansion, and development of new and existing industry and business, in order to stimulate and support diverse employment opportunities in the State. The State has provided funding for certain capital improvements required at the industrial park to aid in its expansion and development. For more detailed information, a copy of the financial statements can be obtained by writing to the Finance Director, Quonset Development Corporation, 95 Cripe Street, North Kingstown, RI 02852 or at www.quonset.com.

The Metropolitan Regional Career and Technical Center

The Metropolitan Regional Career and Technical Center (The Met) is a state funded, local education agency established by the R.I. Department of Education under the Rhode Island General Laws. The Met serves approximately 900 students statewide in grades 9-12. It is governed by a board of trustees that is appointed by the State's Board of Education. The Met is funded primarily through State appropriations and federal grant funds. In addition, it conducts its operations in facilities that are owned by the State. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, The Metropolitan Regional Career and Technical Center, 325 Public Street, Providence, RI 02905.

Rhode Island Infrastructure Bank (RIIB)

This agency was established in 1991 as the R.I. Clean Water Finance Agency for the purpose of providing financial assistance in the form of loans to municipalities, sewer commissions and waste water management districts in the State for the construction or upgrading of water pollution abatement projects. RIIB receives capital grants from the State and federal governments and is authorized to issue revenue bonds and notes. In conjunction with the creation of the Municipal Road and Bridge Revolving Fund (MRBRF) which was established to provide municipalities with low-cost financial assistance for road and bridge projects the name of the Rhode Island Clean Water Finance Agency was changed to the Rhode Island Infrastructure Bank. RIIB manages the MRBRF on behalf of the State. Therefore, it was determined to be a discretely presented component unit. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Infrastructure Bank, 235 Promenade Street, Suite 119, Providence, RI 02908 or at www.riinfrastructurebank.com.

Rhode Island Health and Educational Building Corporation (RIHEBC)

RIHEBC has two purposes 1) to aid eligible institutions in the educational and healthcare fields in Rhode Island gain access to capital, remain proactive in developing cost-effective programs, offer staff assistance, and provide technical resources that benefit these institutions and 2) administer the School Building Authority Capital Fund (SBACF) in order to address high priority projects in communities with limited financial resources. RIHEBC has administrative duties related to the management and custody of monetary assets of the SBACF, including establishing a trust to hold related monies, creating and maintaining SBACF's accounting records and the distribution and management of SBACF's award and loan programs. RIHEBC was determined to be a discretely presented component unit due the materiality of the SBACF.

For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, Rhode Island Health and Educational Building Corporation, 50 Dorrance Street, Suite 300, Providence, RI 02903 or at http://rihebc.com/financial-info/financial-statements/.

Related Organizations

The Rhode Island Student Loan Authority and Narragansett Bay Commission are "related organizations" of the State under GAAP as defined by GASB. The State is responsible for appointing a voting majority of the members of each entity's board, however, the State's accountability does not extend beyond the appointments. These entities do not meet the criteria for inclusion as component units of the State and therefore are not included in these financial statements.

C. Financial Statement Presentation

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Net Position presents the reporting entity's nonfiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. The net position is reported in three categories:

Net investment in capital assets – This category reflects the portion of net position associated with capital assets, net of accumulated depreciation and the amount of outstanding bonds and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted – This category represents the portion of net position whose use is subject to constraints that are either a) imposed externally by creditors, grantors or contributors, or b) imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This category represents the portion of net position that does not meet the definition of the two preceding categories. The use of the unrestricted net position is often subject to constraints imposed by management, but such constraints can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are specifically associated with a service, program, or department and, thus, are clearly identifiable to a particular function. The State includes certain centralized services charged through internal service funds as direct expenses by charging these amounts directly to departments and programs. The State does not allocate indirect costs amongst the functional expenditure categories.

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and enterprise funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column.

The State reports the following fund types:

Governmental Fund Types

Special Revenue Funds **-** These funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes and where a separate fund is legally mandated.

Capital Projects Funds **-** These funds reflect transactions related to resources received and used for the acquisition, construction, or improvement of capital facilities of the State and its component units.

Debt Service Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds are used to report resources if legally mandated or when financial resources are being accumulated for principal and interest maturing in future years.

Permanent Fund **-** The Permanent School Fund accounts for certain resources and the earnings thereon, which are used for the promotion and support of public education.

Proprietary Fund Types

Internal Service Funds **-** These funds account for, among other things, employee medical benefits, State fleet management, unemployment and workers' compensation for State employees, prison industry operations, surplus property, telecommunications and other utilities, and records maintenance.

Enterprise Funds **-** These funds may be used to report any activity for which a fee is charged to external users for goods and services.

Fiduciary Fund Types

Pension and Other Employee Benefit Trust Funds

Pension Trust Funds **-** These funds account for the activities of the Employees' Retirement System, Municipal Employees' Retirement System, State Police Retirement Benefit Trust, Judicial Retirement Benefit Trust, Rhode Island Judicial Retirement Fund Trust, Teachers' Survivors Benefit Plan, FICA Alternative Retirement Income Security Program, and the defined contribution retirement plan, which all accumulate resources for pension benefit payments to eligible retirees.

Other Employee Benefit Trust Funds - These funds account for the activities of the Rhode Island State Employees' and Electing Teachers OPEB System, which accumulates resources to provide post-employment health care benefits to eligible retirees.

Investment Trust Fund - This fund accounts for the share of the Ocean State Investment Pool that is owned by participants external to the reporting entity.

Private Purpose Trust Funds

The Rhode Island Higher Education Savings Trust (RIHEST) administers the CollegeBoundfund which was established as part of the Rhode Island Tuition Savings Program (Program) to enable residents of any state to save money on a tax-advantaged basis, to pay qualified higher education expenses of their designated beneficiaries. All assets of the Program are held for the benefit of Program participants.

The Touro Jewish Synagogue Fund accounts for the earnings on monies bequeathed to the State for the purpose of maintaining the Touro Jewish Synagogue.

Agency Funds **-** These funds account for assets held by the State pending distribution to others, assets pledged to the State as required by statute, and health insurance for certain employees and retirees of a component unit.

In accordance with GAAP for government as prescribed by the GASB, the focus in the fund financial statements is on major and nonmajor funds rather than on fund type. The general fund is a major fund. Other governmental funds and enterprise funds are evaluated on these criteria:

- Total assets and deferred outflows, liabilities and deferred inflows, resources/revenues, **or** expenditures/expenses of that fund are at least 10% of the respective total for all funds of that type, **and**
- Total assets and deferred outflows, liabilities and deferred inflows, resources/revenues, **or** expenditures/expenses of that fund are at least 5% of the **same** respective total for all funds being evaluated.

Major Funds

Governmental funds:

General Fund

This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Intermodal Surface Transportation Fund

This fund accounts for the collection of the gasoline tax, federal grants, bond proceeds, Rhode Island Capital Plan funds, and certain motor vehicle registration and licensing surcharges, that are used in maintenance, upgrading, and construction of the State's highway system. It also accounts for the proceeds from the Grant Anticipation Revenue Vehicle (GARVEE) bonds, the RI Motor Fuel Tax (RIMFT) revenue bonds, the I-195 Redevelopment District Commission bonds, the Mission 360 Loan Program and related expenditures. Management considers this a major fund regardless of the above criteria.

Proprietary funds:

Rhode Island Lottery

The R.I. Lottery, a division of the Department of Revenue, operates games of chance for the purpose of generating resources for the State's General Fund. For more detailed information, a copy of the financial statements can be obtained by writing to the Rhode Island Lottery, 1425 Pontiac Avenue, Cranston, RI 02920, or at www.rilot.com.

Rhode Island Convention Center Authority (RICCA)

The RICCA was established by State law as a single purpose building authority to finance the development of convention and other event facilities in Providence, RI. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veterans Memorial Auditorium Arts and Cultural Center located in Providence.

Employment Security Fund

This fund accounts for the State's unemployment compensation program. Revenues consist of taxes assessed on employers to pay benefits to qualified unemployed persons. Funds are also provided by the federal government and interest income. Management considers this a major fund regardless of the above criteria.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes, grants and donations are nonexchange transactions, in which the State receives value without directly giving equal value in exchange. Tax revenue is recognized in the fiscal year in which the related sales, wages, or activity being taxed occurred.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues and related receivables are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period (i.e., earned and collected within the next 12 months) or soon enough thereafter to pay liabilities of the current period. Significant sources of tax revenues susceptible to accrual are recorded as taxpayers earn income (personal income and business corporation taxes), as sales are made (sales and use taxes) and as other taxable events occur (miscellaneous taxes), net of estimated tax refunds. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures for principal and interest on long-term debt and compensated absences are recorded when payments come due. Expenditures and liabilities relating to other claims and judgments are recorded to the extent that such amounts are expected to be paid within the current period.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are charges to customers for sales and services. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The State’s enacted budget designates the source of funds for expenditures. When a type of expenditure is allocable to multiple funding sources, generally the State uses restricted resources first, then unrestricted resources as they are needed.

E. Cash and Cash Equivalents

Cash represents amounts in demand deposit accounts with financial institutions. Cash equivalents are highly liquid investments with a maturity of three months or less at the time of purchase. Cash equivalents are stated at cost, which approximates fair value except for those of the Ocean State Investment Pool and other money market mutual funds which are stated at amortized cost, which approximates fair value.

Except for certain internal service funds, the State does not pool its cash deposits. For those internal service funds that pool cash, each fund reports its share of the cash on the Statement of Net Position.

F. Funds on Deposit with Fiscal Agent

Funds on deposit with fiscal agent in the governmental activities and business-type activities represent the unexpended portion of debt instruments sold primarily for capital acquisitions and historic tax credit financing, as well as funds held by the United States Treasury for the payment of unemployment benefits.

G. Investments

Investments have a maturity of more than three months and are generally stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

H. Receivables

Receivables are stated net of estimated allowances for uncollectible amounts, which are determined based upon past collection experience. Within governmental funds, an allowance for unavailable amounts (amounts not expected to be collected in the next twelve months) is also reflected.

I. Due From Other Governments and Agencies

Due from other governments and agencies is primarily comprised of amounts due from the federal government for reimbursement-type grant programs.

J. Interfund Activity

In general, eliminations have been made to minimize the double counting of internal activity, including internal service fund type activity, on the government-wide financial statements. However, in order to avoid distorting the direct costs and program revenues of the applicable functions, interfund services provided and used between different functional categories have not been eliminated.

The Due From/To Other Funds are reported at the net amount on the fund financial statements. Transfers between governmental and business-type activities are reported at the net amount on the government-wide financial statements.

In the fund financial statements, transactions for services rendered by one fund to another are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund. Reimbursements of expenditures/expenses made by one fund for another are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the reimbursed fund. Transfers represent flows of assets between funds of the primary government without equivalent flows of assets in return and without a requirement for payment.

K. Inventories

Inventory type items acquired by governmental funds are accounted for as expenditures at the time of purchase. Inventories of the proprietary funds are stated at cost (first-in, first-out). Inventories of the University and Colleges are stated at the lower of cost (first-in, first-out and retail inventory method) or market, and consist primarily of bookstore and dining, health and residential life services items. Inventories of all other component units are stated at cost.

L. Capital Assets

Capital assets, which include land, intangible assets not being amortized, construction in progress, land improvements, buildings, building improvements, furniture and equipment (which also includes subcategories for vehicles and computer systems), depreciable intangibles (computer software), and infrastructure (e.g., roads, bridges, dams, piers) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. Intangible assets not being amortized consist mostly of perpetual land rights such as conservation, recreational, and agricultural easements.

Applicable capital assets are depreciated or amortized using the straight-line method (using a half-year convention). Capitalization thresholds and estimated useful lives for depreciable capital asset categories of the primary government are as follows:

Asset Category	Capitalization Thresholds	Estimated Useful Lives
Capital Assets (Depreciable)		
Land improvements	$1 million	20 years
Buildings	$1 million	20 - 50 years
Building Improvements	$1 million	10 - 20 years
Furniture and equipment	$5 thousand	3 - 10 years
Intangibles	$1 million	5 years
Infrastructure	$1 million	7 - 75 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Interest incurred during the construction of capital facilities is not capitalized, with the exception of the Convention Center Authority, an enterprise fund.

Capital assets acquired in the governmental funds are recorded as capital outlay expenditures in capital projects funds and current expenditures by function in other governmental fund financial statements. Depreciation and amortization are recorded in the government-wide financial statements, proprietary funds, fiduciary funds and component unit financial statements. Capital assets of the primary government are depreciated using the straight-line method over the assets' estimated useful life.

The State has recorded its investment in intangible assets, which includes certain land rights such as conservation and agricultural easements as well as certain rights of way obtained by the State. These easements tend to be of a perpetual nature and thus are not amortized. Intangible assets also include computer software, which is amortized over a 5-year period. The State has included its investment in intangible assets within Note 5, Capital Assets.

Discretely presented component units have adopted estimated useful lives for their capital assets as well as capitalization thresholds. These entities depreciate capital assets using the straight-line method.

M. Bonds Payable

In the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds, bond discounts, premiums, and issuance costs are recognized in the current period. In the government-wide financial statements bond discounts, premiums, and deferred gains and losses on refundings are deferred and amortized over the term of the bonds using the outstanding principal method.

For proprietary fund types and component units, bond discounts, premiums and deferred gains and losses on refundings are generally deferred and amortized over the term of the bonds using the interest method. Bond premiums and discounts are presented as adjustments to the face amount of the bonds payable. Deferred gains and losses on refundings are presented as either deferred inflows of resources or deferred outflows of resources.

N. Obligations Under Capital Leases

The construction and acquisition of certain office buildings, campus facilities and other public facilities, as well as certain equipment acquisitions, have been financed through bonds and notes issued by a trustee pursuant to a lease/purchase agreement with the State or similar financing arrangements (See Note 6E).

O. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System (ERS) cost-sharing plan and the single–employer plans administered by the Employees' Retirement System of Rhode Island (System) and the additions to and deductions from the plans' fiduciary net position have been recognized on the same basis as they are reported by the System. The primary government's proportionate share of pension amounts were further allocated to proprietary funds (the Lottery) based on the amount of employer contributions paid by each proprietary fund. For this purpose, benefit payments, (including refunds of employee contributions) are recognized when due and payable and in accordance with the benefit terms. Investments are recorded at fair value.

As more fully explained in Note 13, a special funding situation exists with respect to local teachers for which the State funds 40% of actuarially determined contributions to the ERS plan. Accordingly, the financial statements reflect the State's proportionate share of the net pension liability, pension expense and deferred inflows/outflows related to this special funding situation.

For the State's two non-contributory (pay-as-you-go) plans covering certain judges and state police, the provisions of GASB Statement No. 73 have been implemented which is largely consistent with the provisions of GASB Statement No. 68, regarding recognition of the pension liability, pension expense and deferred inflows/outflows except there is no fiduciary net position accumulated to offset the total pension liability and no employer contributions are made other than the amount needed to provide benefits on a pay-as you-go basis.

For certain employees participating in the LIUNA defined benefit pension plan (a non-governmental union sponsored plan), there is no required employer contribution and no pension expense is recorded in the financial statements. Consistent with the provisions of GASB Statement No. 78, which provides an exception for non-governmental sponsored plans, no determination of the proportionate net pension liability, pension expense, or deferred inflows or outflows, if any, is made for this cost-sharing defined benefit pension plan.

P. Compensated Absences

Vacation pay may be discharged, subject to limitations as to carry-over from year to year, by future paid leave or by cash payment upon termination of service. Sick pay may be discharged by payment for an employee's future absence caused by illness or, to the extent of vested rights, by cash payment upon death or retirement. Also, an additional category of leave obligation has been established as a result of pay reductions taken by certain classes of employees. For governmental fund types, such obligations are recognized when paid. For the government-wide financial statements and proprietary fund types, they are recorded as liabilities when earned.

Q. Other Assets and Liabilities

Other assets reported within the primary government mainly consist of deposits required by contract with the State's healthcare claims administrator. Other liabilities include 1) escrow deposits, accrued salary and fringe benefits for the governmental fund types; 2) accrued interest payable, accrued salaries, accrued vacation and sick leave for the proprietary fund types; and 3) escrow deposits, landfill closure costs, accrued expenses, and arbitrage and interest payable for the component units.

R. Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources represent a consumption of net position by the State that is applicable to a future reporting period. Deferred inflows of resources represent an acquisition of net position by the State that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets, and deferred inflows of resources decrease net position, similar to liabilities.

The components of the deferred outflows of resources and deferred inflows of resources related to the primary government and its discretely presented component units as of June 30, 2016 are as follows (expressed in thousands):

	Governmental Activities	Business-Type Activities	Primary Government	Component Units
Deferred outflows of resources:				
Deferred loss on refunding of debt	$ 77,642	$ 4,831	$ 82,473	$ 9,309
Deferred pension costs - ERS	232,694	1,399	234,093	21,871
Deferred pension costs - single employer plans and other	30,521		30,521	20,200
Derivatives				2,902
Total deferred outflows of resources	$ 340,857	$ 6,230	$ 347,087	$ 54,282
Deferred inflows of resources:				
Deferred pension credit - ERS	$ 75,928	$ 300	$ 76,228	$ 6,993
Deferred pension credit - single employer plans and other	6,363		6,363	3,953
Deferred gain on refunding of debt	32,909		32,909	1,134
Total deferred inflows of resources	$ 115,200	$ 300	$ 115,500	$ 12,080

The components of the deferred inflows of resources related to the governmental funds as of June 30, 2016 are as follows (expressed in thousands):

	General Fund	IST Fund	Total Governmental Funds
Deferred inflows of resources:			
Taxes	$ 6,019	$	$ 6,019
Other general revenue	7,143		7,143
Federal revenue	8,358	8,462	16,820
Total deferred inflows of resources	$ 21,520	$ 8,462	$ 29,982

S. Fund Balances

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the State is bound to honor constraints on how specific amounts can be spent. More information about each category is presented below:

- Nonspendable – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- Restricted – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by constitutional provisions, or (c) by law through enabling legislation enacted by the General Assembly.
- Committed – amounts that can only be used for specific purposes as established through the enactment of legislation by the General Assembly, and that remain binding unless modified or rescinded through subsequent legislative action. The underlying action that imposed the limitation must occur no later than the close of the fiscal year and must be binding unless repealed by the General Assembly.
- Assigned – amounts that are constrained by the State's intent that they be used for specific purposes. The intent is generally established by legislation enacted by the General Assembly and is implemented at the direction of the Governor.

- Unassigned – the residual classification for the State's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, followed by unrestricted resources. Unrestricted resources, when available for a particular use, are used in the following order: committed, assigned, and unassigned.

T. Recently Issued Accounting Standards

During the fiscal year ended June 30, 2016, the State adopted the following new accounting standards issued by GASB:

- GASB Statement No. 72, *Fair Value Measurement and Application*

- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*

The implementation of GASB Statement No. 72 required the State to address certain accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB Statement No. 72 provided guidance for determining a fair value measurement for financial reporting purposes, and for applying fair value to certain investments and disclosures related to all fair value measurements.

The implementation of GASB Statement No. 79 required additional note disclosures for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes, and for governments that participate in those pools, which includes the State of Rhode Island. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The State will adopt the following new accounting pronouncements in future years:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will be effective for financial statements for periods beginning after June 15, 2017. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

GASB Statement No. 77, *Tax Abatement Disclosures*, will be effective for financial statements for periods beginning after December 15, 2015. This statement requires disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments, which reduce the reporting government's tax revenues. The purpose of the disclosures are to better allow users to understand how tax abatements affect a government's future ability to raise resources and meet its financial obligations, and the impact those abatements have on a government's financial position and economic condition.

GASB Statement No. 80, *Blending Requirements for Certain Component Units—An Amendment of GASB Statement No. 14*, will be effective for periods beginning after June 15, 2016. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, will be effective for periods beginning after December 15, 2016. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

GASB Statement No. 82, *Pension Issues—An Amendment of GASB Statements No. 67, No. 68, and No. 73*, will be effective for reporting periods beginning after June 15, 2016. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Management has not yet determined the effect that the above GASB statements will have on the financial statements.

U. Changes in Reporting Entity

The Rhode Island Higher Education Savings Trust (the Trust), a private purpose trust, which had a beginning fiduciary net position of $7.4 billion, was previously a fiduciary component unit of the RI Higher Education Assistance Authority, but not included within the State reporting entity. Pursuant to legislation enacted by the General Assembly in the 2015 session, responsibility for oversight of the Trust was transferred to the General Treasurer effective July 1, 2015, and the Trust's financial statements are now included as a fiduciary (private purpose trust) fund.

The Rhode Island Higher Education Assistance Authority, previously a discretely presented component unit, was dissolved and its operations were assumed by the newly created Division of Higher Education Assistance (the Division) within the Office of the Commissioner of Post-Secondary Education. The State's fiscal year 2016 financial statements include the Division as a discretely presented component unit. Beginning net position was decreased for the net position of the RI Higher Education Assistance Authority which ceased operations on June 30, 2015. A fiscal 2016 special item reflects the transfer of net position to the new Division.

The classifications of the Rhode Island Infrastructure Bank (RIIB) and the Rhode Island Health and Educational Building Corporation (RIHEBC) were changed from related organizations to discretely presented component units of the State for fiscal year 2016. The change in classification for the RIIB was pursuant to the RIIB's management of the newly created Municipal Road and Bridge Revolving Fund for the State. The change in classification for RIHEBC was due to its management of the newly created School Building Authority Capital Fund's program for the State.

Note 2. Cash, Cash Equivalents, Investments, and Funds in Trust

A. Primary Government-Governmental and Business-Type Activities

Cash Deposits

Cash deposits include demand deposit accounts, interest-bearing deposit accounts, and certificates of deposit. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and the deposits are a) uncollateralized, b) collateralized with securities held by the pledging financial institution, or c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name.

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the primary government were required to be collateralized at June 30, 2016 pursuant to this statutory provision. However, the Office of the General Treasurer has instituted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the balance of uninsured deposits. Additionally, consistent with State Investment Commission guidelines, certain interest-bearing deposit accounts used as short-term investments are required to be collateralized at 102% of the outstanding balance. The lone exception to the full collateralization requirement is the Ocean State Investment Pool Trust (OSIP or the Trust), which follows the 60 day time deposit rule, but otherwise does not require full collateralization. The investment objective of the OSIP's Cash Portfolio is to seek to obtain as high a level of current income as is generally consistent with the preservation of principal and liquidity within the OSIP's investment guidelines which are consistent with GASB No. 79 – *Certain External Investment Pools and Pool Participants*. While investment in the pool is not guaranteed or fully collateralized, certain investments within the pool are collateralized. At June 30, 2016, of the $542.0 million invested, $23.4 million were Collateralized Repurchase Agreements.

With the exception of $1.2 million in bank balances of the R.I. Convention Center Authority, as of June 30, 2016 all of the bank balances of the primary government and its blended component units were either covered by federal depository insurance or collateralized by securities held by an independent third party in the State's or the blended component unit's name.

Cash Equivalent Investments and Investments

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

The Ocean State Investment Pool Cash Portfolio (the Cash Portfolio) is a portfolio of the Ocean State Investment Pool Trust, which is an investment pool established by the General Treasurer of the State of Rhode Island under Declaration of Trust, dated January 25, 2012, under the Rhode Island Local Government Investment Pool Act, G.L. 35-10.2, of the Rhode Island General Laws as amended, for the purpose of investing funds of, and funds under custody of agencies, authorities, commissions, boards, municipalities, political subdivisions, and other public units of the State of Rhode Island. The Cash Portfolio, which began operations on March 6, 2012, is not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with GASB 79 – *Certain External Investment Pools and Pool Participants*.

OSIP has met the criteria outlined in GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants* to permit election to report its investments at amortized cost which approximates fair value. The OSIP is not rated and the weighted average maturity of investments held in the pool is not to exceed 60 days. OSIP transacts with its participants at a stable net asset value ("NAV") per share. Investments reported at NAV are not subject to the fair value hierarchy. There are no participant withdrawal limitations.

A copy of the annual report for the Ocean State Investment Pool can be obtained by writing to the Office of the General Treasurer, 50 Service Avenue, Warwick, RI 02886.

Other short-term cash equivalent type investments are made by the General Treasurer in accordance with guidelines established by the Commission. Investments of certain blended component units are not made at the direction of the Commission, but are governed by specific statutes or policies established by their governing body.

Fair Value of Financial Instruments

GASB Statement No. 72—*Fair Value Measurement and Application*—establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available, of how the market would price the asset or liability. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Unadjusted quoted priced in active markets that are accessible at the measurement date for identical assets or liabilities.
Level 2 - Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability.
Level 3 - Unobservable inputs for the asset or liability (supported by little or no market activity). Level 3 inputs include management's own assumption about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the State's cash equivalents and investments (expressed in thousands) at June 30, 2016 are as follows:

Pooled cash equivalents (at amortized cost)	
Financial company commercial paper	$ 314,074
Other commercial paper	35,420
Asset backed commercial paper	51,620
Government agency repurchase agreement	15,417
Other repurchase agreements	8,000
Certificates of deposit	77,153
Other Municipal Debt	300
Other notes	31,000
Other Instruments	9,000
Total investments	541,984
Less: other liabilities in excess of other assets	(47)
Total investment pool	541,937
Less: funds held by fiduciary funds and discretely presented component units	
Amounts categorized as funds on deposit with fiscal agent	2
Amounts held by fiduciary trust funds:	
Pension trusts	5,426
OPEB trust	784
RIPTA health fund	36
Amounts held by discretely presented component units:	
URI	30,205
RIIB	13,928
RIIRBA	1,716
RIHEBC	2,260
Amounts held for external parties	1,869
Primary government pooled cash equivalents	$ 485,712
Add: other primary government cash equivalents and investments	
Repurchase agreements	4,213
Money Market Mutual Funds	55,267
Total primary government cash equivalents and investments	$ 545,192
Cash equivalents and investments	$ 545,192
Cash	539,388
Total cash, cash equivalents and investments	$ 1,084,580
Statement of Net Position	
Cash and cash equivalents	$ 1,030,104
Restricted cash and cash equivalents	54,476
Total cash, cash equivalents and investments	$ 1,084,580

Of the State's restricted cash and cash equivalents totaling $54.4 million, $52.2 million is held by the Tobacco Settlement Financing Corporation and $2.2 million is held by the R.I. Convention Center Authority. Both entities are blended component units.

Investments held within the OSIP pooled trust are valued and net asset value per unit (NAV) is calculated daily on the last calendar day of the period. The OSIP pooled trust categorizes the inputs to valuation techniques used to value its investments into a disclosure hierarchy consisting of three levels as described previously. The securities held within the OSIP pooled trust are valued at amortized cost, which approximates fair value. Securities held within the OSIP pooled trust are generally high quality and liquid; however, they are reflected as Level 2 in the hierarchy because the inputs used to determine fair value are not quoted prices in an active market.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the State will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either: a. the counterparty, or b. the counterparty's trust department or agent but not in the government's name. Pursuant to guidelines established by the SIC, securities purchased or underlying collateral are required to be delivered to an independent third party custodian for the investments of the primary government.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Based on SIC policy, the State's short-term investment portfolio is structured to minimize interest rate risk by matching the maturities of investments with the requirements for funds disbursement.

As of June 30, 2016, information about the State's exposure to interest rate risk for cash equivalents and investments (expressed in thousands) is as follows:

Pooled Cash Equivalents

		Investment Maturities (in days) (At Amortized Cost)			
Investment Type	At Fair Value	Total Amortized Cost	0-30	31-90	91-180
Financial Company Commercial Paper	$ 314,138	$ 314,074	$ 117,649	$ 117,064	$ 79,361
Other Commercial Paper	35,421	35,420	20,431	14,989	
Asset Backed Commercial Paper	51,620	51,620	47,232	4,388	
Gov't Agency Repurchase Agreements	15,417	15,417	15,417		
Other Repurchase Agreements	8,000	8,000	8,000		
Certificates of Deposit	77,153	77,153	77,153		
Other Municipal Debt	300	300			300
Other Notes	31,000	31,000	31,000		
Other Instruments	9,000	9,000	9,000		
	$ 542,049	$ 541,984	$ 325,882	$ 136,441	$ 79,661

Non-pooled Cash Equivalents and Investments

Investment Type	Fair Value
Money Market Mutual Funds	55,267
Repurchase agreements	4,213
Cash equivalents and investments	$ 59,480

All the non-pooled cash equivalents and investments have a maturity date of less than one year.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is mitigated by the State's minimum rating criteria policy, collateralization requirements, and the fact that maximum participation by any one issuer is limited to 35% of the total portfolio. Credit risk policies have been developed for investments in commercial paper.

As of June 30, 2016, information about the State's exposure to credit risk for cash equivalents and investments (expressed in thousands) is as follows:

Pooled Cash Equivalents

Investment Type	At Fair Value	Quality Ratings (1) (At Amortized Cost) Total Amortized Cost	A-1+	A-1
Financial Company Commercial Paper	$ 314,138	$ 314,074	$ 87,407	$ 226,667
Other Commercial Paper	35,421	35,421		35,421
Asset Backed Commercial Paper	51,620	51,619		51,619
Gov't Agency Repurchase Agreements	15,417	15,417	15,417	
Other Repurchase Agreements	8,000	8,000	2,000	6,000
Certificates of Deposit	77,153	77,153	27,053	50,100
Other Municipal Debt	300	300	300	
Other Notes	31,000	31,000		31,000
Other Instruments	9,000	9,000	9,000	
	$ 542,049	$ 541,984	$ 141,177	$ 400,807

The Ocean State Investment Pool has not been assigned credit quality ratings by rating agencies.

Non-pooled Cash Equivalents and Investments:

Issuer	Fair Value	Type of Investment	Moody's Rating	Average Maturities in Days
Money market mutual funds				
Fidelity Institutional Money Market Gvt. Port Class III	2,842	Money Market	Aaa-mf	45
Goldman Sachs Treasury Instruments Fund	52,425	Money Market	Aaa-mf	44
	$ 55,267			

All the non-pooled cash equivalents and investments have a maturity date of less than one year.

Money market mutual funds are used as temporary cash management investments. The fair value of these money market funds reflects the net asset value reported by the fund administrator which is a stable $1 per unit. The underlying investments, which are short-term cash equivalent type investments are generally carried at amortized cost which approximates fair value. There are no participant withdrawal limitations.

Funds on Deposit with Fiscal Agent

Investments within the category – Funds on deposit with fiscal agent – are governed by specific trust agreements entered into at the time of the issuance of the related debt. The trust agreements outline the specifically permitted investments, including any limitations on credit quality and concentrations of credit risk.

The State's funds on deposit with fiscal agent reported in the governmental funds (expressed in thousands) at June 30, 2016 and the breakdown by maturity are as follows:

Investment Type	Fair Value
Money Market Mutual Funds	$ 138,494
Investment Contracts	6,314
	$ 144,808

All of the investments have a maturity date of less than one year.

Money market mutual funds are used as temporary cash management investments. The fair value of these money market funds reflects the net asset value reported by the fund administrator which is a stable $1 per unit. The underlying investments, which are short-term cash equivalent type investments are generally carried at amortized cost which approximates fair value. There are no participant withdrawal limitations.

The investments with fiscal agent (expressed in thousands) consist of the following:

Issuer	Fair Value	Moody's Rating	Average Maturities in Days
Money Market Funds			
Dreyfus Treasury Prime Cash Management Fund	$ 20	Aaa-mf	24
Federated Govt. Obligation Tax Managed Fund	17,017	Aaa-mf	53
Fidelity Institutional Money Market Gvt. Port Class III	54,532	Aaa-mf	42
First American Government Obligations Fund	34,877	Aaa-mf	26
Goldman Sachs Financial Square Money Market Fund	23,334	Aaa-mf	17
Wells Fargo Advantage 100% Treasury Money Market Fund	83	Aaa-mf	47
Invesco STIT Liquid Asset Portfolio	8,374	Aaa-mf	32
Morgan Stanley Prime Portfolio	255	Aaa-mf	21
Ocean State Investment Pool	2	N/A	N/A
Investment Contracts			
FSA Capital Management GIC	6,314	N/A	N/A
	$ 144,808		

Funds on deposit with fiscal agent also include approximately $201.7 million held by the Federal Unemployment Insurance Trust Fund.

B. Concentration of Credit Risk

The State Investment Commission has adopted limitations as to the maximum percentages of the State's total short-term investment portfolio that may be invested in a specific investment type or with any one issuer of securities.

The combined portfolio concentrations for cash equivalents, investments and funds in trust by issuer (expressed in thousands) that are greater than 5% are as follows:

Type	Issuer	Amount	Percentage
Money Market Funds	Fidelity Institutional Money Market Funds Gvt. Port Class I	57,374	8.37%
Money Market Funds	First American Government Obligations Fund	34,877	5.09%
Money Market Funds	Goldman Sachs Treasury Instruments Fund	52,425	7.64%

C. Pension Trusts

Investments

Investment transactions are recorded on a trade date basis. Gains or losses on foreign currency exchange contracts are included in income consistent with changes in the underlying exchange rates. Dividend income is recorded on the ex-dividend date.

Methods Used to Value Investments

Investments are recorded in the financial statements at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Short-term investments are generally carried at cost or amortized cost, which approximates fair value.

The fair value of fixed income securities and domestic and international equity securities is generally based on published market prices and quotations from national security exchanges and securities pricing services. The fair value of mutual fund investments reflects the published closing net asset value as reported by the fund manager.

Commingled funds include institutional domestic equity index and international equity index funds. The fair value of these commingled funds is based on the reported net asset value (NAV) based upon the fair value of the underlying securities or assets held in the fund.

Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded.

The System also trades in foreign exchange contracts to manage exposure to foreign currency risks. Such contracts are used to purchase and sell foreign currency at a guaranteed future price. The change in the estimated fair value of these contracts, which reflects current foreign exchange rates, is included in the determination of the fair value of the System's investments.

Other investments that are not traded on a national security exchange (primarily private equity, real estate, hedge funds, and infrastructure investments) are valued based on the reported Net Asset Value (NAV) by the fund manager or general partner. Publicly traded investments held by the partnerships are valued based on quoted market prices. If not publicly traded, the fair value is determined by the general partner following U.S. generally accepted accounting principles. Financial Accounting Standards Board ASC Topic 820, *Fair Value Measurements and Disclosures,* requires hedge funds and private equity, real estate, and infrastructure investment limited partnership general partners to value non-publicly traded assets at current fair value, taking into consideration the financial performance of the issuer, cash flow analysis, recent sales prices, market comparable transactions, a new round of financing, a change in economic conditions, and other pertinent information.

Hedge funds, private equity, real estate, and infrastructure investments represented 14.4%, 7.1%, 6.8%, and 3.4% respectively of the total reported fair value of all pension pooled trusts investments at June 30, 2016.

Investment expenses

Certain investment management expenses are presented separately as a component of net investment income and include investment consultants, custodial fees, direct investment expenses allocated by managers, and allocated Office of the General Treasurer expenses associated with oversight of the portfolio. In some instances (hedge funds, private equity, real estate investments, and cash investments), investment related costs are not readily separable from investment income and consequently investment income is recorded net of related expenses.

Net investment income within the defined contribution plan is reported on a net-of-fees basis.

Cash Deposits and Cash Equivalents

At June 30, 2016, the carrying amounts of the System's cash deposits was approximately $5.9 million and the bank balance was approximately $1.2 million. The bank and book balances represent the plans' deposits in short-term trust accounts, which include demand deposit accounts and interest-bearing, collateralized bank deposit accounts. The bank balances include interest-bearing collateralized bank deposits and are either federally insured or collateralized (102%) with U.S. Treasury, agencies, and federal home loan bank letters of credit held by a third party custodian. The primary difference between book and bank balances are deposits in transit.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the System's deposits were required to be collateralized at June 30, 2016 (excluding the collateralized interest-bearing deposits). However, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the deposit amounts that are not insured by federal depository insurance.

The General Treasurer makes certain short-term investments on a daily basis. Rhode Island General Law Section 35-10-11 (b)(3) requires that all investments shall be made in securities as would be acquired by prudent persons of discretion and intelligence who are seeking a reasonable income and the preservation of capital.

Investments – Pooled Investment Trust

The custodian bank holds assets of the System in a Pooled Trust and each plan holds units in the trust. The number of units held by each plan is a function of each plans' respective contributions to, or withdrawals from, the trust.

Investment policy

The State Investment Commission (SIC) oversees all investments made by the State of Rhode Island, including those made for the System's Pooled Investment Trust. The SIC has established an asset allocation policy which may be amended by the SIC Board by a majority vote of its members. The SIC's asset allocation policy seeks to achieve the assumed rate of return adopted by the System over the long-term while reducing risk through the prudent diversification of the portfolio across various asset classes.

Consistent with a target asset allocation model adopted by the SIC, the System directs its separate-account investment managers to maintain, within the mandate specified by the SIC, diversified portfolios by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds.

Specific manager performance objectives are outlined and generally stated in relation to a benchmark or relevant index. These guidelines also include prohibited investments, limitations on maximum exposure to a single industry or single issuer, a minimum number of holdings within the manager's portfolio and, for fixed income managers, minimum credit quality ratings and duration/maturity targets.

Investment expense is allocated to each plan based on the plan's units in the Pooled Trust at the end of each month.

The following table presents the fair value of investments by type that are held within the Pooled Trust for the defined benefit plans at June 30, 2016:

Pooled Investment Trust Investment Type		**Fair Value** (in thousands)
Cash and Cash Equivalents	$	44,845
Money Market Mutual Funds		143,117
US Government Securities		641,616
US Government Agency Securities		322,825
Collateralized Mortgage Obligations		24,446
Corporate Bonds		430,489
Term Loans		322,446
Domestic Equity Securities		461,870
International Equity Securities		296,333
Commingled Funds - Domestic Equity		1,313,511
Commingled Funds - International Equity		1,201,749
Private Equity		533,980
Real Estate		507,980
Hedge Funds		1,081,506
Infrastructure Investments		254,615
Derivative Investments		18
Investments at Fair Value	$	**7,581,346**
Receivable for investments sold		55,385
Payable for investments purchased		(111,424)
Total	$	**7,525,307**

Fair value hierarchy

Investments and Derivative Instruments Measured at Fair Value

(in thousands) Investments at Fair Value	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity Securities				
Global Equity	$ 758,203	$ 758,132	$	$ 71
Infrastructure - publicly traded	171,211	171,211		
	$ 929,414	$ 929,343	$ -	$ 71
Debt Securities				
US Government Securities	$ 641,616	$ 641,616	$	$
US Government Agency Securities	322,825		322,825	
Corporate Bonds	430,488		430,488	
Collateralized Mortgage Obligations	24,446		24,446	
Term Loans	322,446			322,446
	$ 1,741,821	$ 641,616	$ 777,759	$ 322,446
Total investments by fair value level	$ 2,671,235	$ 1,570,959	$ 777,759	$ 322,517
Investments measured at the net asset value (NAV)				
Money Market Mutual Funds	$ 143,117			
Commingled Funds - Domestic Equity	1,313,511			
Commingled Funds - International Equity	1,201,750			
Hedge Funds	1,081,506			
Private Equity	533,979			
Real Estate	507,980			
Infrastructure Investments	83,405			
	$ 4,865,248			
Derivative investments				
Equity index futures	$ 179	$ 179		
Other derivatives (net)	(161)		$ (161)	
	$ 18			
Cash and cash equivalents	$ 44,845			
Net investment payable	$ (56,039)			
Total Pooled Investment Trust	**$ 7,525,307**			

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique.

The following table presents the investments by type that are measured at the net asset value (NAV) (expressed in thousands):

Investments measured at the net asset value (NAV)

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Money Market Mutual Funds (1)	$ 143,117	-	daily	none
Commingled Funds - Domestic Equity (2)	1,313,511	-	daily	none
Commingled Funds - International Equity (2)	1,201,749	-	bi-monthly	none
Hedge Funds (3)	1,081,506	-	see note	see note
Private Equity (4)	533,980	379,661	see note	see note
Real Estate (5)	507,980	93,731	see note	see note
Infrastructure Investments (6)	83,405	64,975	see note	see note
	$ 4,865,248	$ 538,367		

(1) ***Money market mutual funds*** - these investments are used as temporary cash management investments for amounts pending investment or for amounts liquidated from investments pending distribution for pension benefits. The fair value of these money market funds reflects the net asset value reported by the fund administrator which is a stable $1 per unit. The underlying investments which are short-term cash equivalent typed investments are generally carried at amortized cost which approximates fair value. There are no participant withdrawal limitations.

(2) ***Commingled funds*** – consist of one domestic and three international equity index funds which are intended to replicate the performance of a specific index; e.g., Russell 3000. The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the commingled fund manager which reflects the exchange pricing of the equity holdings within each fund. The international equity commingled funds may be only be redeemed at scheduled intervals twice per month. There are no withdrawal limitations for the domestic equity index fund.

(3) ***Hedge funds*** – this portfolio is comprised of 17 limited partnerships divided into two sub-categories: hedged equity and absolute return. Hedged equity funds are designed to benefit from the stock market with considerably less risk. They own stakes in companies they expect to outperform and also sell short stocks that they expect to underperform. Absolute return hedge funds employ strategies that seek to generate long-term returns and mitigate risk, regardless of broader market moves. The funds invest across asset classes, including government bonds, other fixed income securities, equity indexes, commodities, and currencies.

The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the general partner at June 30, 2016. Of the underlying holdings within the hedge funds, approximately 74% were valued based on Tier 1 inputs (unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted investments).

The system's investments in hedge funds are generally subject to "lock-up" provisions that limit (subject to certain exceptions) the ability to withdraw amounts previously invested for a period of one to three years after the initial investment. At June 30, 2016, investments totaling $102,040,478 are subject to these withdrawal limitation provisions. In addition, assets totaling $300,157 are held in Indus Asia Pacific Distribution Holding Company II, Ltd., a vehicle managing the liquidation of investments held in private securities. Cash will be distributed as investments are sold. The remainder of hedge fund assets is available for redemption on a month-end, quarter-end, semi-annual or annual basis, and is subject to notice periods which vary by fund and range from 2 days to 150 days.

(4) ***Private equity*** – these 80 limited partnership funds provide the portfolio exposure to private companies through equity and/or debt investments. Private equity fund managers invest in private companies with the goal of enhancing their value over the long-term.

The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the general partner at June 30, 2016.

Private equity – the investments cannot be redeemed. The nature of these investments provides for distributions through the liquidation of the underlying assets or net operating cash flows.

(5) ***Real Estate –*** these 14 limited partnerships investments are comprised of two different private real estate equity components, Core and Non-Core, which generally refer to the relative levels of risk in the underlying assets. Core investments include existing, substantially leased, income-producing properties located principally in economically diversified metropolitan areas. Non-Core investments represent those properties and/or investment strategies that require specialized acquisition and management expertise and skill to mitigate the business and leasing risks that may be associated with individual investments. Non-Core investments, which may be referred to as Value Added and Opportunistic investments, are expected to be held for shorter periods, have greater volatility compared to Core investments, and as such, are expected to provide yields higher than those associated with Core investments.

These funds acquire, manage and sell physical properties, including office, retail, apartment, and industrial buildings as well as more niche property types, such as student housing, self-storage and hotels. The primary goals of this asset class are to provide current income, risk-adjusted total returns, and diversification.

The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the general partner at June 30, 2016.

With the exception of five core open-end funds which allow for quarterly redemptions, the investments cannot be redeemed. The nature of these investments provides for distributions through the liquidation of the underlying assets or net operating cash flows.

(6) ***Infrastructure*** – These funds provide inflation-protection and current income to the portfolio through investments in facilities and services required for an economy to function including electricity production and distribution, pipelines, sewers and waste management, airports, roads, bridges, ports, railroads, telephone and cable networks, and hospitals.

The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the general partner at June 30, 2016.

With the exception of one open-end core fund which allows for quarterly liquidity, the investments cannot be redeemed. The nature of these investments provides for distributions through the liquidation of the underlying assets or net operating cash flows.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt security's sensitivity to fair value changes arising from changes in the level of interest rates. It is the weighted average maturity of a bond's cash flows. The System manages its exposure to interest rate risk by comparing each fixed income manager portfolio's effective duration against a predetermined benchmark index based on that manager's mandate. The fixed income indices currently used by the System are:

- Barclays US Aggregate Index
- Barclays US Treasury Inflation Notes - 1-10 Year Index
- Custom loan and high yield index – 30% Bank of America Merrill Lynch 1-3 Year BB-B High Yield, 35% JP Morgan BB/B Leveraged Loan Index and 35% Credit Suisse Institutional Leveraged Loan Index

At June 30, 2016, no fixed income manager was outside of the policy guidelines.

The following table shows the System's fixed income investments by type, fair value and the effective duration at June 30, 2016:

Investment Type:	**Fair Value** (in thousands)	**Effective Duration**
US Government Securities	$ 641,616	5.14
US Government Agency Securities	322,825	2.29
Collateralized Mortgage Obligations	24,446	0.42
Corporate Bonds	430,489	6.48
Term Loans	322,446	0.52
Total Fixed Income	$ 1,741,822	4.41

The System had money market mutual fund investments at June 30, 2016 totaling $143 million including $5 million in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The OSIP is not rated and the weighted average maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP transacts with its participants at a stable net asset value (NAV) per share. Other money market mutual funds totaling $138 million had a weighted average maturity of approximately 83 days at June 30, 2016.

The System invests in various mortgage-backed securities, such as collateralized mortgage obligations (CMO), interest-only and principal-only strips. They are reported in U.S. Government Agency Securities and Collateralized Mortgage Obligations in the table above. CMO's are bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes or tranches in accordance with the CMO's established payment order. Some CMO tranches have more stable cash flows relative to changes in interest rates while others are significantly sensitive to interest rate fluctuations.

The System may invest in interest-only and principal-only strips in part to hedge against a rise in interest rates. Interest-only strips are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to pre-payments by mortgagees, which may result from a decline in interest rates. Principal-only strips receive principal cash flows from the underlying mortgages. In periods of rising interest rates, homeowners tend to make fewer mortgage prepayments.

Credit Risk

The System manages exposure to credit risk generally by instructing fixed income managers to adhere to an overall target weighted average credit quality for their portfolios and by establishing limits on the percentage of the portfolios that are invested in non-investment grade securities. The System's exposure to credit risk as of June 30, 2016 is as follows (expressed in thousands):

Rating	Collateralized Mortgage Obligations	US Government Agency Securities	Corporate Bonds	Term Loans
Aaa	$ 11,117	$ 322,825	$ 16,080	$ 5,572
Aa	2,375		19,821	1,083
A	9,361		66,705	1,910
Baa	1,593		234,921	25,975
Ba			50,884	106,183
B			23,856	147,562
Caa			16,206	6,075
Ca			51	348
C			6	
D				501
Not Rated			1,959	27,237
Fair Value	$ 24,446	$ 322,825	$ 430,489	$ 322,446

Ratings for the above were provided by Moody's Investor Service.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer. There is no single issuer exposure within the System's pooled investment trust that comprises 5% of the overall portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2016, all securities were registered in the name of the System (or in the nominee name of its custodial agent) and were held in the possession of the System's custodial bank, Bank of New York Mellon.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. Portfolios are diversified to limit foreign currency and security risk. The System may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. The System's exposure to foreign currency risk at June 30, 2016, was as follows (expressed in thousands):

Foreign Currency	Commingled Funds	Equities	Private Equity	Derivatives	Total
Australian Dollar	$ 56,042	$ 21,197	$	$ 13	$ 77,252
Brazilian Real	20,490				20,490
Canadian Dollar	100,291	28,338	4,086	17	132,732
Chilean Peso	3,755				3,755
Colombian Peso	1,482				1,482
Czech Republic Koruna	542			214	756
Danish Krone	15,197	8,239			23,436
Egyptian Pound	689				689
Euro Currency	230,239	83,048	64,101		377,388
Great Britain Pound	152,251	47,284		567	200,102
Hong Kong Dollar	90,404	9,001			99,405
Hungarian Forint	853				853
Indian Rupee	25,941				25,941
Indonesia Rupiah	9,011				9,011
Israeli Shekel	4,655	1,897			6,552
Japanese Yen	184,913	59,198		(756)	243,355
Malaysian Ringgit	9,288				9,288
Mexican Peso	13,019				13,019
New Taiwan Dollar	37,653				37,653
New Zealand Dollar	1,483	518			2,001
Norwegian Krone	5,005	1,498			6,503
Peruvian Nouveau Sol	1				1
Philippine Peso	4,940				4,940
Polish Zloty	3,595				3,595
Qatari Riyal	2,851				2,851
Russian Ruble	3,122				3,122
Singapore Dollar	11,220	4,275			15,495
South African Rand	23,289				23,289
South Korean Won	46,021				46,021
Swedish Krona	21,554	7,991		38	29,583
Swiss Franc	69,645	23,848			93,493
Thailand Baht	6,776				6,776
Turkish Lira	4,383				4,383
United Arab Emirates Dirham	2,570				2,570
Total	**$ 1,163,170**	**$ 296,332**	**$ 68,187**	**$ 93**	**$ 1,527,782**
United States Dollar	38,579				
Grand Total	**$ 1,201,749**				

In addition to the foreign currency exposure highlighted in the foregoing table, certain hedge and private equity fund investments may have foreign currency exposure.

Derivatives and Other Similar Investments

Certain of the System's investment managers are allowed to invest in derivative type transactions consistent with the terms and limitations governing their investment objective and related contract specifications. Derivatives and other similar investments are financial contracts whose value depends on one or more underlying assets, reference rates, or financial indices.

The System's derivative investments include forward foreign currency transactions, futures contracts, options, rights, and warrants. The System enters into these transactions to enhance performance, rebalance the portfolio consistent with overall asset allocation targets, gain or reduce exposure to a specific market, or mitigate specific risks.

Forward foreign currency contracts

The System enters into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. A currency forward is a contractual agreement to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. If not offset by a corresponding position with the opposite currency exposure, these contracts involve risk in excess of the amount reflected in the System's Statements of Fiduciary Net Position. The face or contract amount in U.S. dollars reflects the total exposure the System has in currency contracts. The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

Futures contracts

The System uses futures to manage its exposure to the domestic and international equity, money market, and bond markets and the fluctuations in interest rates and currency values. Futures are also used to obtain target market exposures in a cost effective manner and to narrow the gap between the System's actual cash exposures and the target policy exposures. Using futures contracts in this fashion is designed to reduce (or hedge) the risk of the actual plan portfolio deviating from the policy portfolio more efficiently than by using cash securities. The program is only used to manage intended exposures and asset allocation rebalancing.

Buying futures tends to increase the System's exposure to the underlying instrument. Selling futures tends to decrease the System's exposure to the underlying instrument, or hedge other System investments. Losses may arise due to movements in the underlying or reference markets.

Through commingled funds, the System also indirectly holds derivative type instruments, primarily equity index futures.

The System invests in mortgage-backed securities, which are included in the categories described as collateralized mortgage obligations and U.S. Government Agency Securities. These securities are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which are likely in declining interest rate environments, thereby reducing the value of these securities.

The System may sell a security in anticipation of a decline in the fair value of that security or to lessen the portfolio allocation of an asset class. Short sales may increase the risk of loss to the System when the price of a security underlying the short sale increases and the System is obligated to deliver the security in order to cover the position.

The following summarize the System's exposure to specific derivative investments at June 30, 2016 (expressed in thousands):

Investment Derivative Instruments	Change in fair value included in investment income	Fair Value at June 30, 2016	Notional Amount
Fixed income futures - long	$ 39		$
Fixed income futures - short			
Equity index futures - long	320	179	81,775
Equity index futures - short	(1,036)		
Credit default swaps	21	101	2,074
Interest rate swaps	54	(262)	(4,093)
Total	$ (602)	$ 18	
Foreign currency forward contracts:			
Pending Payable (liability)		$ (1,073)	
Pending Receivable (asset)		505	
		$ (568)	

The System is exposed to counterparty risk on foreign currency contracts that are in asset positions. The aggregate fair value of derivative instruments in asset positions at June 30, 2016 was $505 thousand. This represents the maximum loss that would be recognized if all counterparties failed to perform as contracted. Risk is mitigated by using a continuous linked settlement process.

Credit default swaps can be used in the portfolio by the credit manager to either obtain exposure to the high yield market efficiently (i.e. by selling protection) at a similar or better price than what can be obtained in cash bonds, or to hedge the credit risk of the portfolio (i.e. buy protection).

Interest rate swaps can be used to manage interest rate risk and increase returns in the fixed income or term loan portion of the portfolio.

The System executes (through its investment managers) derivative instruments with various counterparties. The credit ratings of these counterparties were Baa2 (Moody's) or better, one counterparty was not rated by Moody's but is rated A+ by Standard and Poor's.

Other Investments – Defined Contribution Plan

The State Investment Commission selected various investment options for defined contribution plan participants with the overall objective of offering low-cost, strategic, and long-term oriented investment products. Plan participants can choose one or more of the various options and can change options at any time. Plan participants who do not elect a specific option default to a target date retirement fund consistent with their anticipated Social Security retirement eligibility date.

The majority of the defined contribution plan investment options are mutual funds that invest in diversified portfolios of securities including equity and fixed-income investments. Fixed income mutual funds and variable annuity accounts are subject to interest rate, inflation and credit risks. Target-date retirement mutual funds share the risks associated with the types of securities held by each of the underlying funds in which they invest including equity and fixed income funds. Mutual funds may have exposure to foreign currency risk through investment in non-US denominated securities.

Of the $514 million of investments held within the defined contribution plan, 91% are in target retirement date mutual funds. Additionally, 98% of plan investments are held in mutual funds that are classified as Level 1 investments within the fair value hierarchy.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2016, all assets and securities were registered in the name of TIAA-CREF as the Defined Contribution Plan's record keeper for the benefit of plan members and were held in the possession of TIAA-CREF's custodian, J.P. Morgan Bank.

D. OPEB Trust Funds

The Rhode Island State Employees' and Electing Teachers OPEB System (OPEB System), which accumulates resources for other post-employment benefit payments to qualified employees, consists of six plans: State employees, Teachers, Judges, State police, Legislators and Board of Education.

Cash Deposits and Cash Equivalents

At June 30, 2016, the carrying amount of the OPEB System's cash deposits was approximately $3.1 million and the bank balance was $3.1 million. The bank and book balances represent the OPEB System's deposits in short-term trust accounts, which include fully insured demand deposit accounts and interest-bearing, collateralized bank deposit accounts.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. In addition, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the uninsured deposit amounts. At June 30, 2016, the OPEB System's cash deposits were either federally insured or collateralized.

In addition, at June 30, 2016, the OPEB System also had cash equivalent investments consisting of approximately $.8 million in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The System's investment accounted for 0.1% of the total investment in OSIP at June 30, 2016. Funds of agencies, authorities, commissions, boards, municipalities, political subdivisions, and other public units of the State are eligible to invest in OSIP. OSIP operates in a manner consistent with GASB 79 – *Certain External Investment Pools and Pool Participants*, and thus reports all investments at amortized cost rather than fair value. The OSIP is not rated and the weighted average maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP transacts with its participants at a stable net asset value ("NAV") per share. Investments reported at the NAV are not subject to Fair Value Hierarchy. There are no participant withdrawal limitations. OSIP issues a publicly available financial report that can be obtained by writing to the Office of the General Treasurer, Finance Department, 50 Service Avenue - 2nd Floor, Warwick, RI 02886.

Investments

The State Investment Commission oversees all investments made by the State of Rhode Island, including those made for the OPEB System. The General Treasurer makes certain short-term investments on a daily basis. Rhode Island General Law Section 35-10-11 (b) (3) requires that all investments shall be made in securities as would be acquired by prudent persons of discretion and intelligence who are seeking a reasonable income and the preservation of capital.

The assets of each of the plans are pooled for investment purposes only, and units are assigned to the plans based on their respective share of market value. The custodian bank holds assets of the OPEB System in a Pooled Account and each plan holds units in the account. The number of units held by each plan is a function of each plan's respective contributions to, or withdrawals from, the account. Investment expense is allocated to each plan based on the plan's units in the pooled trust at the end of each month.

Consistent with a target asset allocation model adopted by the State Investment Commission, the OPEB System maintains a diversified portfolio by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds.

The following table presents the fair value of investments by type that are held within the pooled trust at June 30, 2016 (expressed in thousands):

Investments at Fair Value	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt Securities				
US Government Securities	$ 22,081	$ 22,081	$	$
US Government Agency Securities	18,202		18,202	
Corporate Bonds	20,010		20,010	
Total investments by fair value level	$ 60,293	$ 22,081	$ 38,212	$
Investments measured at the net asset value (NAV)				
Money Market Mutual Funds	$ 8,432			
Commingled Funds - Domestic Equity	115,128			
	123,560			
Net investment payable	$ (5,694)			
Total Pooled Investment Trust	**$ 178,159**			

Commingled funds – consist of one domestic equity index fund which is intended to replicate the performance of a specific index; e.g., S&P 500. The fair values of the investments have been determined using the NAV per share of the investments as reported by the commingled fund manager which reflects the exchange pricing of the equity holdings. There are no withdrawal limitations for the domestic equity index fund.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The following table shows the OPEB System's fixed income investments by type, fair value and the effective duration at June 30, 2016 (expressed in thousands):

Investment Type:	Fair Value	Effective Duration
US Government Securities	$ 22,081	7.44
US Government Agency Securities	18,202	2.00
Corporate Bonds	20,010	7.00
	$ 60,293	4.97

The OPEB System's investment in the Dreyfus Institutional Cash Advantage Fund, a money market mutual fund, had an average maturity of 24 days at June 30, 2016.

Credit Risk

The OPEB System generally manages exposure to credit risk by adhering to an overall target weighted average credit quality for the portfolio. The OPEB System's exposure to credit risk on corporate bonds as of June 30, 2016 is as follows (expressed in thousands):

Rating (1)	US Government Agency Securities	Corporate Bonds
Aaa	$ 18,202	$ 576
Aa		1,504
A		6,240
Baa		11,469
Ba		221
Fair Value	$ 18,202	$ 20,010

(1) Moody's Investor Service

The OPEB System's investment in a short-term money market mutual fund (Dreyfus Institutional Cash Advantage Fund) was rated AAAm by Standard & Poor's Investors Service.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the OPEB System's investments in a single issuer. There is no single issuer exposure within the OPEB System's portfolio that comprises more than 5% of the overall portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the OPEB System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2016, all securities were registered in the name of the OPEB System (or in the nominee name of its custodial agent) and were held in the possession of its custodial bank, Bank of New York Mellon.

Derivatives and Other Similar Investments

Through its commingled fund, the OPEB System indirectly holds derivative type instruments, primarily equity index futures.

E. Private Purpose Trusts

The Tuition Savings Program had investments of approximately $6.7 billion in a number of mutual funds and other investment vehicles as of June 30, 2016. These investments are categorized as Level 1 of the fair value hierarchy.

The Touro Jewish Synagogue Fund had investments of approximately $2.7 million in the Fidelity Balanced Fund as of June 30, 2016. These investments are categorized in Level 1 of the fair value hierarchy.

F. Agency Funds

As of June 30, 2016, all of the bank balances of Agency Funds were either covered by federal depository insurance or collateralized by securities held by an independent third party in the State's name.

Note 3. Receivables

Receivables at June 30, 2016 (expressed in thousands) consist of the following:

Primary Government	Taxes Receivable	Accounts Receivable	Notes and Loans Receivable	Total Receivables, Net	Due from Other Governments and Agencies	Due from Component Units
Governmental receivables	$ 488,064	$ 526,261	$ 11,054	$ 1,025,379	$ 154,894	$ 51,597
Less: Allowance for Uncollectibles	108,545	111,411	2,630	222,586		
Governmental receivables, net	379,519	414,850	8,424	802,793	154,894	51,597
Business-type receivables	81,486	28,261		109,747	1,362	
Less: Allowance for Uncollectibles	4,238	18,474		22,712		
Business-type receivables, net	77,248	9,787		87,035	1,362	
Receivables, Net of Allowance for Uncollectibles	456,767	424,637	8,424	889,828	156,256	51,597
Less: Current Portion						
Governmental receivables	373,500	399,350	4,952	777,802	143,868	4,222
Business-type receivables	77,248	9,787		87,035	1,362	
Noncurrent Receivables, Net	$ 6,019	$ 15,500	$ 3,472	$ 24,991	$ 11,026	$ 47,375

Note 4. Intra-Entity Receivables and Payables

Intra-entity receivables and payables as of June 30, 2016 are the result of ongoing operations and are expected to be reimbursed within the subsequent fiscal year. They are summarized below (expressed in thousands):

	Interfund Receivable	Interfund Payable	Description
Governmental Funds			
Major Funds			
General	$ 4,054	$	Operating expenses
Intermodal Surface Transportation	941		Transportation funding
Non-Major Funds			
RI Temporary Disability Insurance	84		Operating expenses
RI Historic Tax Credit	306		Tax credit fees owed to fund
Bond Capital		1,115	Project funding
RI Capital Plan		1,225	Primarily for transportation State match
Total Non-Major Funds	390	2,340	
Total Governmental Funds	5,385	2,340	
Proprietary Funds			
Enterprise			
RI Lottery	444	1,679	Net income owed to General Fund
RI Convention Center Authority	269	172	Project funding
Employment Security Trust		990	Benefit payments
Total Enterprise Funds	713	2,841	
Internal Service	1,023	1,940	Settlement of services rendered
Total primary government	$ 7,121	$ 7,121	

Note 5. Capital Assets

The capital asset activity of the reporting entity for the year ended June 30, 2016 consists of the following (expressed in thousands):

Primary Government

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land	$ 392,753	$ 3,157	$ (2,171)	$ 393,739
Works of Art	2,923	526		3,449
Intangibles	170,130	1,862		171,992
Construction in progress*	513,518	346,553	(211,792)	648,279
Total capital assets not being depreciated or amortized	1,079,324	352,098	(213,963)	1,217,459
Capital assets being depreciated or amortized:				
Land improvements	3,700	965		4,665
Buildings	721,971	3,294	(714)	724,551
Building Improvements	279,919	92,677		372,596
Furniture and equipment	294,897	21,340	(11,444)	304,793
Intangibles	14,040			14,040
Infrastructure	3,954,550	114,844		4,069,394
Total capital assets being depreciated or amortized	5,269,077	233,120	(12,158)	5,490,039
Less accumulated depreciation or amortization for:				
Land improvements	3,501	49		3,550
Buildings	250,883	22,280	(453)	272,710
Building Improvements	200,244	2,353		202,597
Furniture and equipment	234,744	18,957	(11,149)	242,552
Intangibles	14,042			14,042
Infrastructure	1,794,871	132,308		1,927,179
Total accumulated depreciation or amortization	2,498,285	175,947	(11,602)	2,662,630
Total capital assets being depreciated or amortized, net	2,770,792	57,173	(556)	2,827,409
Governmental activities capital assets, net	$ 3,850,116	$ 409,271	$ (214,519)	$ 4,044,868

* Beginning balances have been restated.

The current period depreciation or amortization was charged to the governmental functions on the Statement of Activities as follows:

General government	$ 9,165
Human services	7,183
Education	6,422
Public safety	15,422
Natural resources	5,645
Transportation	132,110
Total depreciation or amortization expense - governmental activities	$ 175,947

Business-type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 46,808	$	$	$ 46,808
Construction in progress	178	285	(170)	293
Total capital assets not being depreciated	46,986	285	(170)	47,101
Capital assets being depreciated:				
Buildings	234,384			234,384
Machinery and equipment	31,255	2,154	(2,305)	31,104
Intangibles	175			175
Total capital assets being depreciated	265,814	2,154	(2,305)	265,663
Less accumulated depreciation for:				
Buildings	133,836	8,182		142,018
Machinery and equipment	24,330	2,328	(2,306)	24,352
Intangibles	65	25		90
Total accumulated depreciation	158,231	10,535	(2,306)	166,460
Total capital assets being depreciated, net	107,583	(8,381)	1	99,203
Business-type activities capital assets, net	$ 154,569	$ (8,096)	$ (169)	$ 146,304

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land *	$ 117,441	$ 3,375	$ (233)	$ 120,583
Construction in progress	175,791	100,965	(178,556)	98,200
Other	250			250
Total capital assets not being depreciated or amortized	293,482	104,340	(178,789)	219,033
Capital assets being depreciated or amortized:				
Buildings *	2,075,187	176,533	(514)	2,251,206
Land improvements *	217,730	6,666	(22)	224,374
Machinery and equipment *	429,510	39,968	(8,030)	461,448
Infrastructure	229,924	32,364	(465)	261,823
Total capital assets being depreciated or amortized	2,952,351	255,531	(9,031)	3,198,851
Less accumulated depreciation or amortization for:				
Buildings *	802,436	71,045	(218)	873,263
Land improvements *	130,139	7,121		137,260
Machinery and equipment *	272,056	32,973	(7,218)	297,811
Infrastructure	70,475	10,625		81,100
Total accumulated depreciation or amortization	1,275,106	121,764	(7,436)	1,389,434
Total capital assets being depreciated or amortized, net	1,677,245	133,767	(1,595)	1,809,417
Total capital assets, net	$ 1,970,727	$ 238,107	$ (180,384)	$ 2,028,450

* Beginning balances have been restated.

Note 6. Long-Term Liabilities

A. Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2016 are presented in the following table:

Long-term Liabilities
(Expressed in Thousands)

	Beginning Balance*	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Governmental Activities						
Bonds Payable						
General obligation bonds (see section B)	$ 1,022,895	$ 300,955	$ (272,040)	$ 1,051,810	$ 47,930	$ 1,003,880
RICC Grant Anticipation Revenue Bonds	244,870	230,280	(244,870)	230,280		230,280
RICC Rhode Island Motor Fuel Tax Revenue Bonds	58,340		(4,375)	53,965	4,200	49,765
Tobacco Settlement Asset-Backed Bonds	716,201		(21,155)	695,046	11,335	683,711
Accreted interest on TSFC bonds	73,379	11,845		85,224		85,224
RICC Historic Tax Credit Bonds	132,390		(25,395)	106,995	26,770	80,225
Net unamortized premium/discount	139,869	73,516	(26,244)	187,141		187,141
Bonds Payable, net	2,387,944	616,596	(594,079)	2,410,461	90,235	2,320,226
Obligation under capital leases (see section E)	235,130	5,021	(25,830)	214,321	27,976	186,345
Net unamortized premium/discount	20,451		(3,682)	16,769		16,769
Obligation under capital leases, net	255,581	5,021	(29,512)	231,090	27,976	203,114
Net pension liability (see note 13)	1,917,169	195,936		2,113,105		2,113,105
Net pension liability-special funding situation (see note 13)	990,129	127,266		1,117,395		1,117,395
Net OPEB Obligation (see note 14 C)	8,520		(17)	8,503		8,503
Job Creation Guaranty Program Obligation (see section H)	64,097		(26,007)	38,090		38,090
Compensated absences (see section J)	77,900	78,524	(81,213)	75,211	68,579	6,632
Special obligation notes	3,075		(3,075)			
Pollution remediation (see section I)	5,499	2,148	(4,042)	3,605	2,148	1,457
Other (see section M)	8,395	13,555	(6,826)	15,124	878	14,246
Total Governmental Long-term Liabilities	$ 5,718,309	$ 1,039,046	$ (744,771)	$ 6,012,584	$ 189,816	$ 5,822,768
Business-type Activities						
Revenue bonds (see section B)	$ 215,210	$	$ (11,330)	$ 203,880	$ 11,440	$ 192,440
Net unamortized premium/discount	6,564		(1,817)	4,747		4,747
Revenue bonds, net	221,774		(13,147)	208,627	11,440	197,187
Net pension liability	13,315	1,759		15,074		15,074
Unearned Revenue	8,116	1,983	(913)	9,186	4,833	4,353
Compensated absences (see section J)	506	386	(327)	565	233	332
Total Business-type Long-term Liabilities	$ 243,711	$ 4,128	$ (14,387)	$ 233,452	$ 16,506	$ 216,946
Component Units						
Bonds payable (see section B)	$ 2,706,958	$ 614,662	$ (553,503)	$ 2,768,117	$ 117,478	$ 2,650,639
Net unamortized premium/discount	74,331	47,301	(19,397)	102,235	14,534	87,701
Bonds Payable, net	2,781,289	661,963	(572,900)	2,870,352	132,012	2,738,340
Notes payable (see section C)	141,950	338,083	(366,045)	113,988	79,384	34,604
Loans payable (see section D)	47,610	772	(1,563)	46,819	1,177	45,642
Obligations under capital leases	6,224	351	(1,321)	5,254	1,318	3,936
Net pension liability	238,714	32,720	(32)	271,402		271,402
Net OPEB obligation	61,627	6,710	(15)	68,322		68,322
Compensated absences (see section J)	31,336	1,750	(1,880)	31,206	10,171	21,035
Due to primary government (see section L)	56,481		(4,884)	51,597	4,222	47,375
Unearned Revenue	24,356	590	(4,373)	20,573	6,305	14,268
Due to Component Units	3,315	105	(1,599)	1,821	343	1,478
Other Long-term liabilities						
Arbitrage rebate (see section K)	2,413		(872)	1,541	600	941
Pollution remediation (see section I)	21,184	5,755		26,939	1,412	25,527
Other liabilities (see section M)	322,994	31,270	(8,085)	346,179	13,301	332,878
Total Component Units Long-term Liabilities	$ 3,739,493	$ 1,080,069	$ (963,569)	$ 3,855,993	$ 250,245	$ 3,605,748

Certain beginning balances have been reclassified to conform to the current financial statement presentation.

B. Bonds Payable

At June 30, 2016, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government – Governmental Activities Principal	Primary Government – Governmental Activities Interest	Primary Government – Business Type Activities Principal	Primary Government – Business Type Activities Interest	Component Units Principal	Component Units Interest
2017	$ 90,235	$ 92,588	$ 11,440	$ 11,025	$ 117,478	$ 106,345
2018	122,835	88,742	11,110	10,463	132,510	102,133
2019	138,375	83,051	11,660	9,906	141,497	97,315
2020	145,505	76,665	12,240	9,312	139,905	91,880
2021	144,835	70,059	14,350	8,693	141,298	86,080
2022 - 2026	633,500	249,518	80,980	31,993	652,390	349,534
2027 - 2031	292,120	135,165	38,200	12,413	568,470	222,548
2032 - 2036	137,550	83,892	23,900	3,727	420,930	118,394
2037 - 2041	105,405	62,159			281,465	53,924
2042 - 2046	85,820	45,730			109,204	23,552
2047 - 2051	121,130	24,226			56,150	6,715
2052 - 2056	120,786	1,608,984 *			5,785	718
2057 - 2061					1,035	21
	$ 2,138,096	$ 2,620,779	$ 203,880	$ 97,532	$ 2,768,117	$ 1,259,159

* Accreted interest on capital appreciation bonds of the Tobacco Settlement Financing Corporation.

Primary Government - *Governmental Activities*

General obligation bonds of the State are serial bonds with interest payable semi-annually.

In July 2015 the State issued $175.2 million of general obligation refunding bonds with interest rates ranging from 2.00% to 5.00%, maturing from 2017 through 2028. These bonds, combined with the premium of $23.8 million, were used to advance refund $190.1 million of bonds with interest rates from 4.00% to 6.00% and maturities from 2016 to 2028. The refunding resulted in a reduction of debt service of $7.4 million and an economic gain (difference between the present value of the debt service payments on the old and new debt) of $634 thousand. A deferred loss on the refunding of approximately $3.2 million was recorded.

In May 2016 the State issued $58.8 million of general obligation bonds with interest rates ranging from 2.00% to 5.00%, maturing from 2018 through 2036 and $13.1 million of taxable general obligation bonds with interest rates ranging from 0.750% to 1.750%, maturing from 2017 through 2021. The premium paid on these bonds was $4.8 million and $55 thousand, respectively. The State also issued $53.8 million of general obligation refunding bonds with an interest rate of 5.00%, maturing from 2018 through 2023, with a premium of $6.2 million. These bonds, combined with the premium, were used to advance refund $58.4 million of bonds with interest rates from 4.00% to 5.00% and maturities from 2017 to 2023. The refunding resulted in a reduction of debt service of $4.26 million and an economic gain (difference between the present value of the debt service payments on the old and new debt) of $4.25 million. A deferred loss on the refunding of approximately $42 thousand was recorded.

At June 30, 2016, general obligation bonds authorized by the voters and unissued amounted to approximately $319.6 million. In accordance with the General Laws, unissued bonds are subject to extinguishment seven years after the debt authorization was approved, unless extended by the General Assembly.

In addition to the debt authorized by the voters for which the full faith and credit is pledged, the General Assembly has authorized the issuance of other debt that is subject to annual appropriation. The following authorizations have been enacted and the State plans to issue the debt over the next several years: (1) Energy Conservation Certificates of Participation - $7.0 million and (2) Nursing Education Center Debt - $36 million.

Historic Tax Credit Bonds - In fiscal years 2009 and 2015 the R.I. Commerce Corporation (RICC), on behalf of the State, issued $150 million and $75 million, respectively, of revenue bonds under the Historic Structures Tax Credit Financing Program. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The State is obligated under a Payment Agreement to make payments to the trustee, subject to annual appropriation by the General Assembly. The proceeds of the bonds are being used to provide funds for redemption of Historic Structures Tax Credits. There is remaining authorization to issue up to $131.2 million of Historic Tax Credit Bonds.

RICC Grant Anticipation Bonds and Rhode Island Motor Fuel Tax Revenue Bonds - RICC, on behalf of the State, issues special obligation debt. Grant Anticipation Revenue Vehicle Bonds are payable solely from future federal aid revenues to be received by the State in reimbursement of federally eligible costs of specific transportation construction projects. Rhode Island Motor Fuel Tax Revenue Bonds are payable solely from certain pledged revenues derived from two cents ($.02) per gallon of the thirty-three cents ($.33) per gallon Motor Fuel Tax. The bonds provide the State matching funds for the Grant Anticipation Revenue Vehicle Bonds. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof.

In May 2016 RICC issued $230.3 million of general Grant Anticipation refunding bonds with interest rates ranging from 3.00% to 5.00%, maturing from 2019 through 2024. These bonds, combined with the premium of $38.6 million, were used to advance refund $244.9 million of bonds with interest rates from 3.75% to 5.25% and maturities from 2016 to 2021. The refunding resulted in a reduction of debt service of $11.3 million and an economic gain (difference between the present value of the debt service payments on the old and new debt) of $2.4 million. A deferred loss on the refunding of approximately $18.2 million was recorded. The obligation of the State to make payments to the trustee of future federal aid revenues and future pledged motor fuel taxes is subject to annual appropriation by the General Assembly. Pledged revenues were sufficient to fund fiscal 2016 debt service payments for Grant Anticipation and Motor Fuel Tax Revenue Bonds. These revenues have been pledged for the term of the Grant Anticipation and Motor Fuel Tax Revenue Bonds through fiscal 2024 and 2027, respectively.

Tobacco Settlement Asset-Back Bonds and Accreted Interest – The Tobacco Settlement Financing Corporation (TSFC) has issued $685.4 million (2002 Series), $197 million (2007 Series), and $620.9 million (2015 Series) of Tobacco Settlement Asset-Backed Bonds. The bond proceeds of the 2002 Series and the 2007 Series were used to purchase the State's future rights in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement and the Consent Decree and Final Judgment. The 2015 Series bond proceeds were used to fully redeem the remaining balance, $547.8 million, of the 2002 Series bonds, and to repurchase and retire a portion of the 2007 Series bonds, in the amount of $76.2 million.

All of the bonds are subject to a number of early redemption provisions, in whole or in part, at the redemption price of 100% of the principal amount plus accrued interest, without premium. Term Maturities represent the minimum amount of principal that the Corporation has to pay as of specific dates. Certain of the bonds are Capital Appreciation Bonds, on which no periodic interest payments are made, but which were issued at a deep discount from par and accrete to full value at maturity in the year 2052. The bond indenture contains "Turbo Maturity" provisions, whereby the Corporation is required to apply the funds collected that are in excess of the then current funding requirements of the indenture to the early redemption of certain of the Series 2015 B bonds (based upon a minimum turbo redemption schedule established for the bonds) and then to the Series 2007 bonds. The amount available for turbo redemptions on the Series 2015 B bonds are credited against the term maturities in ascending chronological order based on a schedule contained in the indenture. Excess turbo funds available, if any, will be used to retire Series 2007 bonds.

The bonds are payable both as to principal and interest solely out of the assets of the Corporation pledged for such purpose, and neither the faith and credit nor the taxing power of the State of Rhode Island or any political subdivision thereof is pledged to the payment of the principal of or the interest on the bonds. The bonds do not constitute an indebtedness of or a general, legal or "moral" obligation of the State or any political subdivision of the State.

Primary Government - *Business-Type Activities*

R.I. Convention Center Authority

The R.I. Convention Center Authority (RICCA) is limited to the issuance of bonds or notes in an aggregate principal amount of $305 million. At June 30, 2016, outstanding bond indebtedness totaled $203.9 million.

In June 2006, RICCA issued Civic Center Revenue Bonds, 2006 Series A (federally taxable), in an aggregate principal amount of $92.5 million for the purpose of (i) financing or refinancing the acquisition, renovation, equipping, improvement and redevelopment of the Dunkin' Donuts Center (DDC), (ii) redeeming the $33.0 million Civic Center Revenue Bonds, 2005 Series A, previously issued by RICCA, (iii) paying the costs of issuance, and (iv) paying capitalized interest on the 2006 Series A Bonds. The 2006 Series A bonds mature between 2008 and 2035 and bear interest at rates ranging from 5.59% to 6.06%.

In March 2009, RICCA issued Refunding Revenue Bonds, 2009 Series A, in an aggregate principal amount of approximately $70.7 million for the purpose of (i) redeeming $59.2 million of then outstanding 2001 Series A Bonds, (ii) financing the termination of a Swap Agreement, (iii) purchasing debt service reserve insurance and bond insurance under a financial guaranty policy, and (iv) paying the costs of issuance. The 2009 Series A bonds mature between 2011 and 2027 and bear interest at rates ranging from 3.00% to 5.50%.

Concurrent with the issuance of the 2009 Series A Bonds, a financial guaranty insurance policy was issued by Assured Guaranty Corp. (AGC). The policy provides maximum coverage for principal and interest payments on the 2009 Series A Bonds of approximately $127.5 million. Coverage under the policy expires on May 15, 2027. In August 2016, AGC was rated by Moody's as A2. In July 2016, AGC was rated by S&P as A. Fitch no longer provides ratings of AGC.

Also concurrent with the issuance of the 2009 Series A Bonds, a Debt Service Reserve Fund Facility (the Facility) was issued by Assured Guaranty Municipal Corp., formerly Financial Security Assurance, Inc. (FSA) to meet the Debt Service Reserve Fund requirement. The Facility provides maximum coverage of approximately $16.2 million. Coverage under the Facility expires at the earlier of May 15, 2027 or the date upon which the 2009 Series A Bonds are no longer outstanding. In August 2016, FSA was rated by Moody's as A2. In July 2016, FSA was rated by S&P as A. Fitch no longer provides ratings of FSA.

During March 2013, RICCA issued Refunding Revenue Bonds, 2013 Series A, in an aggregate principal amount of approximately $37.2 million for the purpose of refunding the Authority's then outstanding Refunding Revenue Bonds, 2003 Series A, refunding a portion of RICCA's Refunding Revenue Bonds, 1993 Series B, and to pay costs of issuance. The 2013 Series A bonds bear interest at rates ranging from 2% to 5.25% and mature in varying installments beginning May 15, 2015 through May 15, 2020.

During April 2015, RICCA issued Refunding Revenue Bonds 2015 Series A in an aggregate amount of $31.9 million for the purpose of refunding RICCA's then outstanding Refunding Revenue Bonds, 2005 Series A and refunding a portion of RICCA's then outstanding Refunding Revenue Bonds 1993 Series B and to pay costs of issuance. The final principal and interest payment for the 1993 Series B occurred on May 15, 2015. The 2015 Series A bonds mature between 2015 and 2023 and bear interest at rates ranging from 2.00% to 5.00%.

All outstanding indebtedness is subject to optional and mandatory redemption provisions. Mandatory redemption is required for certain bonds over various years through 2027 at the principal amount of the bonds. Certain bonds may be redeemed early, at the option of RICCA, at amounts ranging from 100% to 102% of the principal balance.

At June 30, 2016, RICCA had no outstanding in-substance defeased debt. Outstanding indebtedness is collateralized by all rents receivable (if any) under a lease and agreement between RICCA and the State covering all property purchased by RICCA for the site, all other revenues and receipts from the project, a mortgage on constructed facilities, land financed by proceeds of the bonds, and amounts held in various accounts into which bond proceeds were deposited. In addition, outstanding indebtedness is insured under certain financial guaranty insurance policies.

Each of the bond resolutions contains certain restrictive covenants. During the year ended June 30, 2016, RICCA was unable to fund the Operating Reserve requirement of the restrictive covenants for the R.I. Convention Center and the DDC pursuant to the indentures. During the year ended June 30, 2016, RICCA was unable to fund the Renewal and Replacement requirement of the restrictive covenant for the DDC pursuant to the indenture.

RICCA and the R.I. Department of Administration have entered into agreements that provide for total appropriations from the RI Capital Plan (RICAP) for various purposes, including funding the Renewal and

Replacement requirement of the restrictive covenant for the DDC. Detailed information regarding these agreements is in RICCA's financial statements for the fiscal year ended June 30, 2016.

RICCA maintains an agreement with AMBAC Indemnity Corporation (AMBAC) under which AMBAC provides RICCA with surety bond coverage to meet Debt Service Reserve Fund requirements for the R.I. Convention Center. The surety bond provides a maximum coverage of $15.2 million. Coverage under the surety bond expires on May 15, 2023. RICCA maintains additional agreements with AMBAC for the R.I. Convention Center under which AMBAC provides RICCA with separate surety bond coverages to meet Debt Service Reserve Fund and Operating Reserve Fund requirements, respectively. The surety bond relating to the Debt Service Reserve Fund requirements replaced mandated investments and provides a maximum coverage of approximately $8.8 million. The surety bond relating to the Operating Reserve Fund requirements also replaced mandated investments and provides a maximum coverage of approximately $3.9 million. Coverage under both surety bonds expires on May 15, 2027. The Debt Service and Operating Reserve Fund Facilities are required to have a credit rating in one of the three highest categories by Moody's and S&P. As of June 30, 2016, AMBAC's credit rating did not meet the aforementioned requirement, however, RICCA acquired from Assured Guaranty Corporation a surety bond that meets the Debt Service Reserve Fund requirement for the R.I. Convention Center.

RICCA is required by the Internal Revenue Service, as well as its various bond resolutions, to comply with certain tax code provisions and bond covenants. The most significant of these include the following: all debt payments must be current, annual reports and budgets must be filed with the trustee, and RICCA must comply with various restrictions on investment earnings from bond proceeds.

Discretely Presented Component Units

University of Rhode Island, Rhode Island College and the Community College of Rhode Island

The University of Rhode Island (URI), Rhode Island College (RIC), and the Community College of Rhode Island (CCRI) have issued a number of series of revenue bonds to finance housing, student union (including bookstores) and dining facilities. Under terms of the trust indentures, certain net revenues from these operations must be transferred to the trustees for payment of interest, retirement of bonds, and maintenance of facilities. The bonds are payable in annual or semi-annual installments to various maturity dates. Revenue bonds also include amounts borrowed under loan and trust agreements between the R.I. Health and Educational Building Corporation (RIHEBC) and the Board of Education acting for URI, RIC, and CCRI. The agreements provide for RIHEBC's issuance of the bonds with a loan of the proceeds to the University and Colleges and the payment by the University and Colleges to RIHEBC of loan payments that are at least equal to debt service on the bonds. The bonds are secured by a pledge of revenues of the respective institutions.

At June 30, 2016 revenue bonds outstanding were approximately as follows: URI - $210.6 million, RIC - $16.4 million, and CCRI - $2.3 million.

R.I. Airport Corporation

Revenue bonds are issued by RICC on behalf of RIAC. The proceeds from these bonds are used to finance construction and related costs of certain capital improvements. These bonds, except for the 2006 First Lien Special Facility Bonds, are secured by the net revenues derived from the operation of the airports. The 2006 First Lien Special Facility Bonds are secured solely by the net revenues derived from the InterLink facility.

Per its Master Indenture of Trust and Supplemental Indentures, RIAC has pledged net revenues derived from the operation by RIAC of the Airport and certain general aviation airports to repay approximately $224.6 million in airport revenue bonds. Proceeds from the bonds were used for various airport improvement projects. Amounts available to pay debt service per the Master Indenture, including pledged passenger facility charges, were approximately $40.7 million for the year ended June 30, 2016. Principal and interest payments for the year ended June 30, 2016 were approximately $19.0 million.

In January 2016, RIAC issued $27.7 million Series A Airport Revenue Refunding Bonds, $27.0 Series B Airport Revenue Refunding Bonds and $30.9 million Series C Airport Revenue Refunding Bonds, along with a cash paydown of $8.3 million, to enable the defeasance of $30.0 million in 2005 Series A General Airport Revenue Bonds, $27.2 million in 2005 Series B General Airport Revenue Bonds and $35.9 million in 2005

Series C General Airport Revenue Bonds. The 2016 Series A refunding issue matures monthly from 2016 through 2025 with interest coupons of 2.49%. The 2016 Series B refunding issue matures monthly from 2016 through 2030 with interest coupons of 3.69%. The series 2016 Series C refund issue matures monthly from 2016 through 2025 with interest coupons of 2.24 %. RIAC's defeasance of the 2005 Bonds resulted in economic present value savings of $12.2 million or 13.11% of refunded bonds. The cash savings of the difference was approximately $22.3 million. The refunding resulted in a deferred charge on refunding in the amount of approximately $122 thousand, which is included in Deferred Outflows of Resources in the Statement of Net Position.

I-195 Redevelopment District Commission

In April 2013, RICC issued Economic Development Revenue Bonds 2013 Series A, and Economic Development Bonds 2013 Series B (federally taxable) in the aggregate principal amounts of $38.4 million, for which the I-195 RDC is the obligor. The 2013 Series A Bonds mature in April 2033 and bear interest at the lesser of the 30-Day London InterBank Offered Rate (LIBOR) (0.466% at June 30, 2016) plus applicable margin, or 7.75%. Applicable margin is the rate that corresponds to the lesser of the two long-term bond ratings of the State from Moody's Investors Service (Moody's) and Standard & Poor's (S&P) in the following table:

State Bond Rating (S & P/Moody's):	AA/Aa2 or Higher	AA-/Aa3	A+/A1	A/A2	A-/A3
Applicable Margins, 2013 Series A	1.00%	1.17%	1.37%	1.57%	1.82%

At June 30, 2016, the State's general obligation bonds were rated AA and Aa2 by S&P and Moody's, respectively. As such, at June 30, 2016, the 2013 Series A Bonds bore interest at 1.466%.

Concurrently with the issuance of the 2013 Series A Bonds, RICC issued Economic Development Bonds, 2013 Series B (federally taxable), in the aggregate principal amount of $960 thousand, for which the I-195 RDC is the obligor. The 2013 Series B Bonds mature in April 2019 and bear interest at the lesser of the 30-Day LIBOR (0.466% at June 30, 2016) plus the lesser of the two long-term bond ratings of the State from Moody's and S&P in the following table:

State Bond Rating (S & P/Moody's):	AA/Aa2 or Higher	AA-/Aa3	A/A1	A/A2	A-/A3
Applicable Taxable Margins 2013 Series B	1.15%	1.32%	1.52%	1.72%	1.97%

Based on the State's most recent bond ratings, the 2013 Series B bonds bore interest at 1.616% at June 30, 2016.

Proceeds from the 2013 Series A and B bonds were transferred by the I-195 RDC to the State.

Simultaneously with the issuance of the 2013 Series A and B Bonds, the I-195 RDC, RICC, and a Bank entered into a bond purchase agreement under the terms of which the 2013 Series A and B Bonds were purchased by the Bank. The Bank holds a mandatory tender option to sell the bonds to RICC on either April 1, 2023 or April 1, 2028.

Concurrent with the issuance of the 2013 Series A and B Bonds, the State entered into separate rate cap transaction agreements with the Bank for each bond series (the 2013 Series A and B Rate Cap Agreements). Under the terms of the 2013 Series A Rate Cap Agreement, the State paid the Bank $658,500. In exchange, the Bank agreed to pay the State interest on a monthly basis at 30-Day LIBOR, to the extent 30-Day LIBOR exceeds the interest rate cap, on the notional amount, which mirrors the scheduled principal balance of the 2013 Series A Bonds, through April 1, 2023. The interest rate under the 2013 Series A Rate Cap Agreement is capped at 6.75%. Under the terms of the 2013 Series B Rate Cap Agreement, the Bank agreed to pay the State interest on a monthly basis at 30-Day LIBOR (0.46655% at June 30, 2016), to the extent 30-Day LIBOR exceeds the interest rate cap, on the notional amount, which mirrors the scheduled principal balance of the 2013 Series B Bonds, through April 1, 2019. The State made no payment to the Bank under the terms of that agreement. The interest rate under the 2013 Series B Rate Cap Agreement is capped at 6.85%. At June 30, 2016, the fair value of the 2013 Series A and B Rate Cap Agreements was $57,075, and is estimated as the amount the Bank would receive to terminate the Rate

Cap Agreements at the reporting dates, taking into account current interest rates and the current credit worthiness of the counterparties.

Repayment of the 2013 Series A and B Bonds shall be solely from i) appropriated funds, if any, made available and appropriated by the General Assembly of the State for bond payments, but not for payment of administrative expenses and ii) pledged receipts, which are the net proceeds derived from the sale, lease, transfer, conveyance, or other disposition of any interest in all or any portion of the I-195 land owned by the I-195 RDC.

The I-195 RDC has pledged and granted to RICC a security interest, which has been assigned to the bond trustee, in all pledged receipts and all deposits in the bond, project, expense and credit facility funds established with the bond trustee.

To the extent that the I-195 RDC has insufficient funds to meet its payment obligations under the bonds, it shall seek appropriations from the State; however, there are no assurances that the State will appropriate amounts to fund the I-195 RDC's payment obligations.

R.I. Turnpike and Bridge Authority

In 2016, with the approval of the State, the R.I. Turnpike and Bridge Authority (RITBA) issued 2016 Series A Motor Fuel Tax Revenue Bonds (2016 Bonds) in the amount of approximately $117.6 million. The 2016 Bonds were sold at a premium of approximately $16.3 million with total proceeds of approximately $134.2 million, of which $60 million was used to pay off a $60 million Bond Anticipation Note (BAN) entered into in 2014. The remaining proceeds are to be used to fund future capital renovations and repairs. The Series 2016 Bonds are fixed-rate bonds bearing interest rates ranging from 3% to 5% payable semiannually on October 1 and April 1. Principal payments are due annually, and interest payments semiannually commencing October 2016, until maturity in 2040.

At June 30, 2016, RITBA had revenue bonds outstanding with principal amounts totaling approximately $174 million.

Other Component Units

Nonmajor component units have various bonds outstanding. These revenue bonds were generally issued to fulfill the component unit's corporate purpose. Additional information on each nonmajor component unit's debt obligations is available in their audited financial statements.

C. Notes Payable

Discretely Presented Component Units

Notes payable (expressed in thousands) at June 30, 2016 are as follows:

Component Units -	
Rhode Island College note payable to the federal government with interest at 5.5% payable in semi-annual installments of principal and interest through 2024.	$ 1,128
R.I. Resource Recovery note payable to the host municipality with an interest rate of 1.4%, payable in equal installments over the next 13 years.	3,143
R.I. Housing and Mortgage Finance Corporation bank notes and lines of credit, 0.72% to 6.25% interest, payable through 2056.	109,717
	113,988
Less: current portion	(79,384)
	$ 34,604

D. Loans Payable

Discretely Presented Component Units

In June 2006, the R.I. Airport Corporation (RIAC), R.I. Commerce Corporation (RICC), and the R.I. Department of Transportation (RIDOT) executed a Secured Loan Agreement (Agreement) which provides for borrowings of up to $42 million with the United States Department of Transportation under the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA). The purpose of the Agreement was to reimburse RICC and RIDOT and to provide funding to RIAC for a portion of eligible project costs related to the InterLink Facility Project. RIAC was permitted under the Agreement to make requisition of funds for eligible project costs through fiscal year 2013. RIAC began making monthly payments of interest in fiscal year 2012, with interest at a rate of 5.26%. Payments are made on behalf of RICC (the borrower per the Agreement), and debt service payments commenced in fiscal year 2012 with a final maturity in fiscal year 2042. Such repayments are payable solely from the net revenues derived from the InterLink. As of June 30, 2016, RIAC had approximately $41.5 million in borrowings under this agreement.

The remaining balance consists of loans payable by the University of Rhode Island and the Quonset Development Corporation of approximately $706 thousand and $4.5 million, respectively.

E. Obligations Under Capital Leases

Primary Government

The State has entered into capital lease agreements, primarily Certificates of Participation (COPS), with financial institutions. These financing arrangements have been used by the State to acquire, construct or renovate facilities and acquire other capital assets. The State's obligation under capital leases at June 30, 2016 consists of the present value of future minimum lease payments less any funds available in debt service reserve funds. Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly.

The following is a summary of material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2016:

Fiscal Year Ending June 30	Total
2017	$ 36,298
2018	31,120
2019	31,232
2020	31,353
2021	29,104
2022 - 2026	86,146
2027 - 2031	10,751
Total future minimum lease payments	256,004
Amount representing interest	(46,704)
Present value of future minimum lease payments	$ 209,300

Each COPS transaction generally covers multiple capital projects supporting multiple functions of the primary government. In general, the amount of capital asset additions funded through COPS is equivalent to the amount of the issuance. The State reports the amortization charge on assets acquired through COPS with depreciation expense on the government-wide financial statements and discloses the amounts in Note 5, Capital Assets.

In May 2016, the State financed the acquisition of a voting equipment system in the amount of approximately $5 million under a capital lease agreement with a lender.

When issuances also fund component unit projects, the State records the full lease under the obligation and recognizes the related receivable from the component unit for their portion of debt service in the government-wide financial statements.

Assets purchased with capital leases as of June 30, 2016 (expressed in thousands) are as follows:

Category	Cost	Accumulated Depreciation	Net Book Value
Buildings	$ 220,235	$ 52,490	$ 167,744
Building Improvement	83,820	20,586	63,234
Computer Systems	3,641	3,641	
Infrastructure	26,754	6,688	20,066
Construction in Progress	61,533		61,533
	$ 395,983	$ 83,406	$ 312,577

F. Defeased Debt

The State and its component units have defeased certain general obligation bonds and revenue bonds by placing the proceeds of the new bonds or other sources in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the basic financial statements.

At June 30, 2016, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	$ 347,730
RI Refunding Bond Authority	13,518
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	69,135
R.I. Commerce Corporation	2,940
R.I. Turnpike and Bridge Authority	6,255

G. Conduit Debt

The R.I. Health and Educational Building Corporation has issued various series of revenue bonds, notes, and leases to finance capital expenditures for Rhode Island educational institutions, hospitals, and healthcare providers. The bonds, notes and leases are special obligations of the Corporation, payable from revenues derived solely from the institution for which the project was financed. The bonds, notes, and leases do not constitute a debt or pledge of the faith and credit of the corporation or the State, and accordingly are not reflected in the financial statements. The amount of conduit debt outstanding on June 30, 2016 was $3.1 billion.

The R.I. Industrial Facilities Corporation and the R.I. Commerce Corporation issue revenue bonds, equipment acquisition notes, and construction loan notes to finance various capital expenditures for Rhode Island business entities. The bonds and notes issued by the corporations are not general obligations of the corporations and are payable solely from the revenues derived from the related projects. They neither constitute nor give rise to a pecuniary liability for the corporations nor do they represent a charge against their general credit. Under the terms of the various indentures and related loan and lease agreements, the business entities make loan and lease payments directly to the trustees of the related bond and note issues in amounts equal to interest and principal payments due on the respective issues. The payments are not shown as receipts and disbursements of the corporations, nor are the related assets and obligations included in the financial statements. The amount of conduit debt outstanding on June 30, 2016 was $42 million and $991 million respectively, for these component units. Certain issues of conduit debt are moral obligations of the State, and the current amounts outstanding are disclosed in Note 12.

H. Job Creation Guaranty Program – Moral Obligations

The Job Creation Guaranty Program (JCGP) was established by the General Assembly in 2010 for the purpose of promoting economic development in the State and authorized the issuance of a maximum of $125 million of obligations by the RI Commerce Corporation (RICC), formerly known as the RI Economic Development Corporation.

In November 2010, RICC issued $75 million of taxable revenue bonds under the JCGP. The bond proceeds were loaned to 38 Studios, LLC (38 Studios) and provided funding for the relocation of the company's corporate headquarters to the State and establishment and operation of a video gaming software development studio in Providence. Proceeds also were used to fund a Capital Reserve Fund and Capitalized Interest Fund. Amounts in the Capital Reserve Fund were to be used in the event that 38 Studios failed to make any required loan payments. In accordance with the enabling legislation and the agreement between RICC, the trustee and 38 Studios, should amounts in the Capital Reserve Fund fall below minimum requirements, RICC has agreed to present the Governor with a certificate stating the amounts required to restore any shortfall and the Governor is required to include such amounts in his or her budget request for appropriation by the General Assembly. The General Assembly may, but is not required to, appropriate such amounts.

38 Studios filed for Chapter 7 bankruptcy protection on June 7, 2012. On August 8, 2012, a federal judge allowed the assets to be liquidated through the state court in Rhode Island.

The total remaining debt service on the bonds will be approximately $61.8 million. The maturity dates on the bonds range from 2016 to 2020 with maximum annual debt service of approximately $12.5 million. The General Assembly made appropriations for fiscal years 2015 and 2016 to restore the shortfall in the Capital Reserve Fund. The fiscal year 2017 enacted budget includes an appropriation of approximately $2.5 million which will be used to pay the principal and interest on the bonds due in fiscal year 2017.

In November 2012, RICC sued various individuals and entities involved with the loan to 38 Studios including principals of 38 Studios, former employees of RICC and various advisors to RICC alleging fraud, negligence, breach of fiduciary duty and other charges. The suit seeks repayment of compensatory and punitive damages associated with the various counts identified in the lawsuit. A settlement was reached with two of the defendants and, after expenses, a net recovery of approximately $3.2 million was received in August of 2014. The net amount of the settlement was paid to the trustee for the benefit of the bondholders and was used to pay a portion of the fiscal year 2015 debt service.

In addition, subsequent to June 30, 2016, a Rhode Island Superior Court ruling upheld a settlement entered into by RICC with four named defendants in connection with Rhode Island Economic Development Corporation v. Wells Fargo, et al., pending in Providence Superior Court. The settlement will result in the gross payment of $12.5 million. After payments of fees, costs and expenses, the net amount from the settlement is expected to be approximately $9.9 million and will be paid to Bank of New York Mellon Trust Company, N.A., for the benefit of the bondholders of the "Rhode Island Economic Development Corporation's Job Creation Guaranty Program series 2010 (38 Studios LLC Project)" bonds.

Also, on September 8, 2016, a Rhode Island Superior Court ruling upheld an initial settlement entered into by RICC with two named defendants in connection with Rhode Island Economic Development Corporation v. Wells Fargo, et al. pending in Providence Superior Court. The settlement will result in the gross payment of approximately $25.6 million. After payment of fees, costs and expenses, the net amount from the settlement is expected to be approximately $21.4 million and will be paid to Bank of New York Mellon Trust Company, N.A. for the benefit of the bondholders of the "Rhode Island Economic Development Corporation's Job Creation Guaranty Program Series 2010 (38 Studios LLC Project)" bonds.

In October 2016, RICC reached a settlement with the officers of 38 Studios for approximately $2,083,000. After related expenses, RICC netted $2,069,000 to be paid to Bank of New York Mellon Trust Company, N.A. for the benefit of the bondholders of the "Rhode Island Economic Development Corporation's Job Creation Guaranty Program Series 2010 (38 Studios LLC Project)" bonds.

The State has recorded a liability of $38.1 million relating to its moral obligation to the 38 Studios bondholders under the JCGP at June 30, 2016. This amount represents the current estimate of the amount of probable loss by the State and considers funds actually recovered as a result of the litigation discussed above. The $38.1 million, although recorded as a liability for financial statement purposes, is still subject to annual appropriation by the General Assembly. The estimated liability will be reduced in future years as the related debt is extinguished.

To the extent there are additional recoveries resulting from the lawsuit, such amounts, net of legal fees and other costs, would be available to reduce amounts, if any, appropriated by the State to fund the Capital Reserve Fund and pay debt service on the bonds.

The General Assembly repealed the authority for RICC to guarantee further loans under the JCGP during the 2013 legislative session.

I. Pollution Remediation Liabilities

GASB Statement No. 49 establishes guidance to estimate and report potential costs which may be incurred for pollution remediation liabilities. GASB 49 requires the reporting entity to reasonably estimate and report a remediation liability when one of the following obligating events has occurred:

- Pollution poses an imminent danger to the public and the reporting entity is compelled to take action.
- The reporting entity is in violation of a pollution related permit or license.
- The reporting entity is named or has evidence it will be named as a responsible party by a regulator.
- The reporting entity is named or has evidence it will be named in a lawsuit to enforce a cleanup.
- The reporting entity commences or legally obligates itself to conduct remediation activities.

The State and certain component units have remediation activities underway, and these are in stages including site investigation, planning and design, clean up and site monitoring. Several agencies within State government have as part of their mission the responsibility to investigate possible pollution sites and oversee the remediation of those sites. These agencies have the expertise to estimate the remediation obligations presented herein based on prior experience in identifying and funding similar remediation activities. The remediation liabilities reported have been calculated using the expected cash flow technique. Situations posing potential liabilities, for which a reasonable estimate could not be made, have not been included.

The remediation obligation estimates presented are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes in laws or regulations, and other factors that could result in revision to the estimates. Recoveries from responsible parties may reduce the State’s obligation. As of June 30, 2016, no reasonable estimates of those recoveries can be made. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

J. Compensated Absences

State employees and those of certain component units are granted vacation and sick leave in varying amounts based upon years of service. Additionally, the State has deferred payment of certain compensation to employees. A liability has been calculated for all earned vacation credits, subject to certain limitations, and vested sick leave credits that are payable at retirement, subject to certain limitations. Payment is calculated at the employees’ current rate of pay.

K. Arbitrage Rebate

A liability accrues for income on the investment of debt proceeds determined to be arbitrage earnings in accordance with federal regulations. These amounts are generally payable to the federal government five years after the issuance date of the bonds.

L. Due to the Primary Government

This consists of the repayment of general obligation debt that was issued by the State on behalf of certain component units.

M. Other Long-Term Liabilities

Governmental Activities - the liabilities consist primarily of:

- Retainage related to infrastructure construction projects - these amounts are considered long-term liabilities since the related construction projects are not expected to be completed in the subsequent fiscal period.

In addition, certain other long-term payables are included in this category. Historically, long-term liabilities, other than debt, will be paid through certain funds as follows:

- Compensated absences – Assessed Fringe Benefits Fund, an internal service fund and the respective fund to which the underlying employee's wages and benefits are charged.
- Pollution remediation – General, RI Capital Plan, and Intermodal Surface Transportation Funds.
- Other long-term liabilities – General and Intermodal Surface Transportation Funds.

Component Units – the liabilities consist primarily of landfill closure and post-closure costs and grants refundable.

Note 7. Net Position/Fund Balances

Governmental Activities

Restricted Net Position

The Statement of Net Position-Governmental Activities reflects $742.0 million of restricted net position, of which $438.2 million is restricted by enabling legislation, including $152.7 million of RI Capital Plan Funds. The remaining net position that is restricted by enabling legislation is included in the Employment Security Programs and Other categories on the Statement of Net Position. The principal component of the remaining balance of the restricted net position is unexpended bond proceeds.

Governmental Funds – Fund Balances

Governmental fund balance categories are detailed below (expressed in thousands):

Governmental Funds - Fund Balance

	Major Funds			
	General Fund	IST Fund	Other Funds	Total
Fund Balances:				
Nonspendable:				
Permanent Fund Principal	$	$	$ 174	$ 174
Restricted for:				
Purposes specified by enabling legislation	133,193			133,193
RI Capital Plan			152,727	152,727
Debt Service		24,206	76,407	100,613
Capital Projects			72,015	72,015
Temporary Disability Insurance			152,285	152,285
Historic Tax Credit Redemption			59,959	59,959
Transportation-Infrastructure		72,613		72,613
Mission 360 Loan Program		1,776		1,776
Education			2,035	2,035
Other			664	664
Committed to:				
Transportation-Maintenance		39,063		39,063
Other	3,975		112	4,087
Assigned to:				
Subsequent Years Expenditures	132,153			132,153
Other	4,961			4,961
Unassigned:				
Budget Reserve and Cash Stabilization	191,581			191,581
Other	43,515	(1,519)		41,996
Totals	$ 509,378	$ 136,139	$ 516,378	$ 1,161,895

Article IX of the State Constitution requires the maintenance of a State Budget Reserve and Cash Stabilization Account (the Reserve) within the State's General Fund. Section 35-3 of the General Laws specifically establishes the annual minimum balance requirements for the account. For fiscal year 2016, 3.0% of total general revenues and opening surplus are transferred to the Reserve. Amounts in the Reserve in excess of 5.0% of total general revenues and opening surplus are transferred to the RI Capital Plan Fund to be used for capital projects.

According to the State Constitution and related enabling laws the Reserve, or any portion thereof, may be appropriated by a majority of each chamber of the General Assembly, in the event of an emergency involving the health, safety or welfare of the citizens or to fund any unanticipated general revenue deficit caused by a general revenue shortfall in any given year.

Prior to fiscal year 2016 the Reserve was included in the Restricted category within fund balance. During fiscal year 2016 the State categorized the Reserve based on the guidance contained in GASB Statement No. 54 *Fund Balance Reporting and Government Fund Type Definitions* and the circumstances under which the Constitution and enabling laws allow the Reserve to be spent. The Reserve was reclassified to the Unassigned category of fund balance.

The State has not adopted any minimum fund balance requirements for any funds beyond the State Budget Reserve and Cash Stabilization Account within the General Fund.

See Note 1, Section S of these Notes for more information regarding the five categories of fund balance.

Note 8. Taxes

Tax revenue reported on the Statement of Activities is reported net of the allowance for uncollectible amounts and net of estimated refunds. Tax revenue on the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds is reported net of estimated refunds, uncollectible amounts and the amount that will not be collected within one year (unavailable). The unavailable amount is reported as deferred inflows of resources. The detail of the general revenue taxes as stated on the Statement of Activities and the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances is presented below (expressed in thousands):

	Governmental Funds	Statement of Activities
General Fund		
Personal Income	$ 1,211,678	$ 1,211,419
General Business Taxes:		
Business Corporations	134,478	134,041
Public Utilities Gross Earnings	103,062	103,040
Financial Institutions	21,096	21,125
Insurance Companies	124,145	124,407
Bank Deposits	2,556	2,556
Health Care Provider Assessment	43,236	43,249
Sub-total - General Business Taxes	428,573	428,418
Sales and Use Taxes:		
Sales and Use	971,873	972,106
Motor Vehicle	39,692	39,692
Motor Fuel	(208)	(195)
Cigarettes	142,783	142,672
Alcoholic Beverages	19,630	19,630
Sub-total - Sales and Use Taxes	1,173,770	1,173,905
Other Taxes:		
Inheritance and Gift	70,029	70,024
Racing and Athletics	1,059	1,059
Realty Transfer	10,431	10,446
Sub-total - Other Taxes	81,519	81,529
Total - General Fund	2,895,540	2,895,271
Intermodal Surface Transportation Fund		
Gasoline	152,122	152,122
RI Highway Maintenance	32,671	32,671
Other Governmental Funds	186,283	186,283
Total Taxes	$ 3,266,616	$ 3,266,347

Note 9. Transfers

Transfers for the fiscal year ended June 30, 2016 are presented below (expressed in thousands):

	Transfers	Description
Governmental Funds		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	$ 58,123	Debt service and operating assistance
Nonmajor Funds		
RI Temporary Disability Insurance	1,891	Administrative cost
Historic Tax Credit	12,615	Tax credits claimed
Bond Capital	305	Interest earnings transfer
RI Capital Plan	130	Capital expenditures
COPs	979	Current year excess income
Proprietary Funds		
Lottery	369,761	Net income transfer
Employment Security	167	Administrative cost
Total General	443,971	
Intermodal Surface Transportation		
Bond Capital	3,470	Infrastructure funding
RI Capital Plan	11,930	Infrastructure funding
Total Intermodal Surface Transportation	15,400	
Nonmajor Funds		
COPs		
General	1,135	Debt service
RI Capital Plan		
General	108,813	Transfer statutory excess in budget reserve
Bond Capital	1,717	Premium on new bonds
RI Public Rail Corporation		
Intermodal Surface Transportation	1,533	Operating assistance
Total nonmajor funds	113,198	
Total Governmental Funds	572,569	
Proprietary Funds		
Lottery Fund		
RI Capital Plan	444	Capital improvement
Convention Center		
General	22,968	Debt service
RI Capital Plan	1,241	Capital improvement
Total Convention Center	24,209	
Employment Security		
General	9,449	Residual surcharge transfer
Total Proprietary Funds	34,102	
Total transfers primary government	$ 606,671	

Note 10. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately $14 million for the fiscal year ended June 30, 2016. Most of the operating leases contain an option allowing the State, at the end of the initial lease term, to renew its lease at the then fair rental value. In most cases, it is expected that these leases will be renewed or replaced by other leases.

The following is a summary of material future minimum rental payments (expressed in thousands) required under operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2016:

Fiscal Year Ending June 30	
2017	$ 13,313
2018	10,994
2019	10,457
2020	7,675
2021	6,985
2022 - 2026	27,923
Total	$ 77,347

The minimum payments shown above have not been reduced by any sublease receipts.

Note 11. Commitments

Primary Government

The primary government is committed at June 30, 2016 under various contractual obligations for transportation infrastructure improvements, construction and renovation of buildings, software development and implementation, and other capital projects. A substantial portion of the cost of these projects will be reimbursed by federal grants, with the remainder principally financed with debt proceeds and Rhode Island Capital Plan Funds.

At June 30, 2016, the primary government had transportation infrastructure design, construction and other contract commitments of approximately $400 million, and contract commitments for the design, construction and renovation of buildings of approximately $154 million. At June 30, 2016, the primary government had software development and implementation contract commitments of approximately $50 million. These amounts include only purchase orders and related amendments generally processed through June 30, 2016. The State is also committed under multiple contracts for ongoing services which are not included in these commitment amounts.

The R. I. Public Rail Corporation (RIPRC), a special revenue fund, has obtained a letter of credit in the amount of $7.5 million in favor of AMTRAK to secure RIPRC's performance of its obligations arising under any South County Rail Service agreements. RIPRC has been designated as the entity responsible for securing and maintaining liability insurance coverage to provide funds to pay all or a portion of the liabilities of the State, the MBTA, and AMTRAK for property damage, personal injury, bodily injury or death arising out of the South County Commuter Rail Service with policy limits of $200 million subject to a self-insured retention of $7.5 million.

Performance-based Agreements

The R.I. Commerce Corporation (RICC), on behalf of the State, entered into several agreements with the developer of the Providence Place Mall. The agreements state the terms by which the State shall perform with regard to a shopping mall, parking garage and related offsite improvements. The authority to enter into these agreements was provided in legislation passed by the General Assembly and signed by the Governor. This legislation further provided for payments to the developer through fiscal year 2021 of an amount equal to the lesser of (a) two-thirds of the amount of sales tax generated from retail transactions occurring at or within the mall or (b) $3.7 million in the first five years and $3.6 million in years 6 through 20. In the year ended June 30, 2016, $2.9 million was paid to the developer.

RICC has issued economic development revenue bonds whereby the State will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the State paid $3.3 million of the debt on the related economic development revenue bonds in fiscal year 2016. The State has commitments relating to this debt through fiscal year 2027.

Rhode Island Lottery – Master Contract Agreements

Gaming Systems Provider – International Game Technology (IGT)

During May 2003, the Lottery entered into a 20-year master contract with its gaming systems provider granting them the right to be the exclusive provider of information technology hardware, software, and related services for all lottery games. This contract is effective from July 1, 2003 through June 30, 2023, and amends all previous agreements between the parties.

As consideration for this exclusive right, the gaming systems provider paid the Lottery $12.5 million. In the event that the contract term is not fulfilled, the Lottery will be obligated to refund a pro-rata share of this amount to the gaming systems provider ($4.4 million at June 30, 2016).

The contract mandates commission percentages ranging between 1.00% and 5.00% of lottery ticket sales and video lottery terminal income, depending on the amount of sales in each category.

On July 1, 2016, the Lottery entered into a Sixth Amendment to the Master Contract with IGT. Under this amendment, IGT will provide instant ticket printing services under the same terms and conditions as the Lottery's most recent contract, including pricing, through June 30, 2023. In addition, IGT will provide a redesigned, enhanced website. By mutual agreement, IGT will provide courier service for the delivery of instant ticket products, four licensed instant ticket games, and the new website at no cost to the Lottery (total value of $2,691,000); and the Lottery will waive IGT's obligations under Section 6.3 of the Master Contract (minimum employment mandates) through December 31, 2017.

Video Lottery Facility – UTGR, Inc. (Twin River)

On July 18, 2005, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with UTGR, Inc. (UTGR), the owners of Twin River, to manage one of the State's licensed video lottery facilities. The contract entitles UTGR to compensation ranging from 26% to 28.85% of video lottery net terminal income at the facility. UTGR and the Lottery extended the contract and signed the first five-year extension term commencing on July 18, 2010. The second term commenced on July 18, 2015. Certain extensions are contingent on UTGR's compliance with full-time employment mandates.

The Master Contract has been amended in recent years to reflect the statutory authorization of a promotional points program at Twin River. In fiscal 2016, Twin River was authorized and issued approximately $49 million in promotional points to facility patrons. The Master Contract has also been amended to reflect the statutory requirement that the Lottery reimburse UTGR for certain allowable marketing expenses.

Most recent statute and contract amendments require the Lottery to reimburse UTGR for allowable marketing expenses incurred between $4 million and $10 million, and between $14 million and $17 million, at the same percentage as the Lottery's share of net terminal income for the fiscal year (60.88% for 2016). The Lottery reimbursed UTGR for $5,479,200 in marketing expenses for fiscal 2016.

Video Lottery Facilities – Premier Entertainment II, LLC (Newport Grand)

On November 23, 2005, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with Newport Grand to continue to manage one of the State's licensed video lottery facilities. Newport Grand and the Lottery extended the contract and signed the first five-year extension term of the contract commencing on November 23, 2010. The second term, which commenced on November 23, 2015, is contingent on Newport Grand's compliance with full-time employment mandates specified in the 2010 law. The contract, as amended, entitles Newport Grand to compensation equal in percentage of net terminal income to that of Twin River. In addition, Newport Grand is entitled to an increased percentage of net terminal income of 1.9% to be used for approved marketing expenses of Newport Grand.

The Master Contract has been amended in recent years to reflect the statutory authorization of a promotional points program at Newport Grand. In fiscal year 2016, Newport Grand was authorized and issued approximately $5.3 million in promotional points to facility patrons.

The Master Contract has also been amended to reflect the statutory requirement that the Lottery reimburse Newport Grand for allowable marketing expenses incurred between $560,000 and $1.4 million, at the same percentage as the Lottery's share of net terminal income for the fiscal year (61.35% for 2016). The Lottery reimbursed Premier Entertainment II, LLC for $472,655 in marketing expenses for fiscal 2016.

Discretely Presented Component Units

R.I. Airport Corporation

As of June 30, 2016, RIAC is obligated for the completion of certain airport improvements under commitments of approximately $13.9 million, which are expected to be funded from current available resources and future operations.

R.I. Resource Recovery Corporation

Landfill closure and post-closure:

The EPA established closure and post-closure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. The landfill operated by RIRRC has been segregated into six distinct phases. Phases I, II and III were closed by RIRRC in prior years, while Phase IV reached capacity during fiscal year 2012, with final capping completed during fiscal year 2014. In 2005, RIRRC began landfilling in Phase V, which is near capacity and has temporarily stopped accepting waste. As of December 2015, RIRRC began accepting waste in Phase VI.

A liability for closure and post-closure care of $69.8 million as of June 30, 2016 has been recorded in the statement of net position, as summarized by Phases below:

	Year ended June 30, 2016	
Phase I	$	494,073
Phase II and III		8,178,942
Phase IV		10,088,063
Phase V		49,219,762
Phase VI		1,597,236
Other		215,274
	$	69,793,350

As of June 30, 2016, the remaining total estimated current cost to be recognized in the future as landfill closure and post-closure care expense, the estimated percent of landfill capacity used and the estimated remaining years for accepting waste are as follows:

	Estimated remaining costs to be recognized		Estimated capacity used	Estimated remaining years for accepting waste
Phase V	$	1,464,539	97.11%	3 months
Phase VI	$	81,742,801	1.96%	22.7 years

As of June 30, 2016 RIRRC revised its estimate for future pollution remediation and landfill closure and post-closure care costs. The revised estimate resulted in an $11.1 million increase of the corresponding liability from $85.4 million at June 30, 2015 to $96.5 million at June 30, 2016 and was primarily attributable to improved leachate flow data.

Amounts provided for closure and post-closure care are based on current costs. These costs may be adjusted each year due to changes in the closure and post-closure care plan, inflation or deflation, technology, or applicable laws or regulations. It is at least reasonably possible that these estimates and assumptions could change in the near term and that the change could be material.

Included in restricted position held in trust in the statement of net position as of June 30, 2016 is $47.0 million placed in trust to meet the financial requirements of closure and post-closure care related to Phases II, III, IV, V and VI. RIRRC plans to make additional trust fund contributions each year to enable it to satisfy these and future costs.

Pollution remediation obligations:

Amounts provided for pollution remediation obligations are based on current costs. These costs may be adjusted each year due to changes in the remediation plan, inflation or deflation, technology, or applicable laws or regulations. It is at least reasonably possible that these estimates and assumptions could change in the near term and that the change could be material.

The pollution remediation obligation for the year ended June 30, 2016 is as follows:

Balance, June 30, 2015	Additions	Reductions	Balance, June 30, 2016	Current Portion
$ 21,184,244	$ 5,754,900	$ 0	$ 26,939,144	$ 1,411,611

Superfund site:

In prior years, the EPA issued administrative orders requiring RIRRC to conduct environmental studies of the Central Landfill and undertake various plans of action. Additionally, in 1986, the Central Landfill was named to the EPA's Superfund National Priorities List.

During 1996, RIRRC entered into a Consent Decree with the EPA concerning remedial actions taken by RIRRC for groundwater contamination. The Consent Decree, which was approved by the U.S. District Court on October 2, 1996, required the establishment of a trust fund in the amount of $27 million for remedial purposes. The balance of the trust fund totaled $43.8 million as of June 30, 2016.

In 2004, RIRRC began the capping project for the Superfund site and continued to revise its estimates for leachate pretreatment costs and flows. RIRRC has recorded a liability for future remediation costs of approximately $26.9 million as of June 30, 2016.

R.I. Turnpike and Bridge Authority

During 2015, R.I. Turnpike and Bridge Authority entered into contracts totaling $26.8 million for steel repairs and the placement of the median barrier on the Claiborne Pell Bridge, which is expected to take over a year to complete. As of June 30, 2016, remaining commitments on these contracts total $8.6 million.

R.I. Public Transit Authority

The R.I. Public Transit Authority is committed under various contracts in the amount of $15.5 million at June 30, 2016.

University of Rhode Island, Rhode Island College, and the Community College of Rhode Island

At June 30, 2016, the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island had outstanding commitments for the construction and renovation of their buildings of approximately $27 million, $33 million, and $5 million, respectively.

Other Component Units

Other component units have various commitments arising from the normal course of their operations. These commitments are not significant, overall, to the State’s financial statements.

Note 12. Contingencies

Litigation - Primary Government

The State, its departments, agencies, officers and employees are defendants in numerous lawsuits. For those cases in which it is probable that a material loss has or will occur and the amount of the potential judgment can be reasonably estimated or a settlement or judgment has been reached but not paid, the State has recognized a liability within its financial statements. Significant specific litigation is discussed below.

Challenges to Pension Reforms

Various legal challenges to enacted pension reforms initiated in recent years were settled in 2015. To carry out the settlement, the Rhode Island General Assembly passed legislation amending the Rhode Island Retirement Security Act (RIRSA), which was enacted into law on June 30, 2015 and which became generally effective July 1, 2015 (New RIRSA). On July 8, 2015, the Court entered final judgment.

Eight appeals were filed with respect to the final judgement entered in Rhode Island Public Employees' Retiree Coalition v. Raimondo, and one appeal was filed with respect to the judgement in Clifford v. Chafee. Three of the nine appeals were dismissed by the Supreme Court. The State intends to vigorously defend the remaining six appeals. The appeals in the case do not affect the implementation of New RIRSA.

A lawsuit commenced by the Rhode Island Troopers Association challenging the constitutionality of the RIRSA (prior to the amendments) remains outstanding. The benefits at issue are those to be paid from the State Police Retirement Benefits Trust. There is no trial date set.

On March 16, 2016, the plaintiffs in Cranston Firefighters, IAFF Local 1363, AFL-CIO v. Chafee and International Brotherhood of Police Officers, Local 301, AFL-CIO v. Chafee filed a new suit in the United States District Court for the District of Rhode Island captioned Cranston Firefighters, IAFF Local 1363 AFL-CIO v. Raimondo. Through that action, the plaintiffs challenge the constitutionality of RIRSA and New RIRSA, not under the Rhode Island Constitution, as they had alleged in the Superior Court, but under the United States Constitution. Plaintiffs additionally seek a declaration concerning the effect of the class action on retirees. The State has moved to dismiss all counts in the Plaintiffs complaint. A hearing was held on that motion and the parties await a decision from the Court.

The State intends to vigorously defend these matters and cannot presently estimate the potential loss, if any.

United States v. RIDOC

The Department of Justice (DOJ) filed a federal civil rights action against the RI Department of Corrections (DOC or the State) on February 10, 2014 alleging a disparate impact in the selection process of entry level corrections officers for the time period of 2000 through 2014. The DOJ claims that the DOC has engaged in an unintentional pattern or practice of employment discrimination against African Americans and Hispanics through use of testing procedures used during the selection process for admission to the Training Academy for entry-level Correctional Officer positions. The DOJ is seeking injunctive relief, which would enjoin the DOC from using these examinations in the screening and selection process, and (among other measures) may seek "make whole" relief for individuals who were not hired as a result of the use of these examinations. This may involve relief in the form of back pay, seniority hiring, benefits, and retroactive hiring reaching back to 2000. The State's Motion to Dismiss the individual "make whole" relief sought by the United States and limit the State's potential liability was denied. The State's interlocutory appeal was denied by the District Court. The parties have had settlement/mediation discussions that, based upon the request of the United States, are expected to resume. Fact discovery has closed; and, the case is now nearing the end of expert discovery that is set to close in April 2017. Since the case involves disputed facts, it is anticipated that a trial on the claim may be required in 2017 to resolve the issue of the State's liability after the close of discovery.

Andrew C. (Previously Cassie M) v. Raimondo, EOHHS, and DCYF, USDC

Children's Rights Incorporated (CRI) brought suit against the Governor, Secretary of EOHHS, and the Director of DCYF in their official capacities (the State) in 2007. The then R.I. Child Advocate sought to put the State's foster care program administered by DCYF and EOHHS under federal court supervision through a class action seeking prospective relief. The State's second Motion to Dismiss was granted in part and denied in part in 2011. The U.S. District Court ordered mediation in the fall of 2011 and again in 2013 that was not successful. After mediation failed, the Court determined that, instead of considering dispositive motions, the Court would hold a trial on the claims of the named Plaintiffs before reaching the issue of whether the case should continue by certifying a class. The trial of the individual claims of two remaining named Plaintiffs began on November 12, 2013. On January 9, 2014, after a sixteen day trial, Plaintiffs rested and the State promptly moved the Court to enter judgment on the record for all claims in the case. On April 30, 2014, the Court issued a Decision granting the State's motion, and Judgment entered on the same day in favor of the State dismissing the case. The First Circuit Court of Appeals reversed the dismissal and returned the case to the Court.

Children's Rights Inc. has added new Plaintiff children and others have been dismissed from the case as their claims are moot. The named Plaintiffs have filed their Fourth Amended Complaint. Fact Discovery has commenced; however, the proceedings before the District Court have been stayed pending the outcome of an ongoing mediation. If mediation is unsuccessful, the State expects to resume fact and expert discovery leading to the issue of class certification.

The State of Rhode Island Department of Revenue and the Rhode Island Department of Administration v. Hewlett-Packard State & Local Enterprise Services, Inc.

On November 1, 2016, the State of Rhode Island Department of Revenue and the Rhode Island Department of Administration (the "State") commenced suit against Hewlett-Packard State & Local Enterprise Services, Inc. ("HPE") claiming, *inter alia,* that HPE had contracted to deliver to the State a fully functional computer system for the Rhode Island Division of Motor Vehicles on or before September 28, 2016 and that HPE breached the contract when it failed to deliver a fully functional computer system on time. The State also moved for a temporary restraining order, which the Court granted, enjoining HPE from ceasing work on the project. A preliminary injunction hearing is scheduled for January 5 – 12, 2017.

On December 5, 2016, HPE filed a counterclaim through which it alleges that the State owes it in excess of $14,000,000, plus interest and costs for work HPE performed in developing the computer system. HPE asserts claims for breach of contract, breach of the implied covenant of good faith and fair dealing, breach of implied contract, quantum meruit and promissory estoppel. The State has moved for judgement on the pleadings with respect to HPE's claims for breach of implied contract, quantum meruit and promissory estoppel and the State intends to vigorously defend against HPE's claims of breach of contract and breach of the implied covenant of good faith and fair dealing.

RI Department of Transportation (RIDOT) Consent Decree with the EPA

The RIDOT has entered into a Consent Decree with the EPA concerning violations of the Clean Water Act by failing to comply with the conditions in the General Permit – Rhode Island Pollutant Discharge Elimination System Storm Water Discharge from Small Municipal Separate Storm Sewer Systems. The Consent Decree was lodged with the U.S. District Court on October 15, 2015 and is was finalized on December 22, 2015. The Consent Decree requires RIDOT to implement remedial actions necessary in order to address discharges to impaired waters, illicit discharge detection and elimination, street sweeping pollution prevention and catch basin and other drainage system component inspection and maintenance. In addition to the remedial measures that must be implemented by RIDOT, RIDOT has paid a civil penalty in the amount of $315 thousand and complete two supplemental environmental projects that require the transfer of certain parcels of land for conservation purposes which have a value of $77 thousand and $158 thousand respectively. The Consent Decree also incorporates stipulated penalties for RIDOT's failure to meet specific compliance deadlines.

Tobacco Master Settlement Agreement Related Matters

The State is a party to an arbitration proceeding brought by tobacco companies concerning the diligent enforcement of the escrow statute enacted in connection with the Tobacco Master Settlement Agreement (the "MSA"). The MSA is an agreement entered into between a number of states, including Rhode Island, and major tobacco companies in settlement of certain litigation. Additional information about these proceedings and other matters related to the outstanding debt of the Tobacco Settlement Financing Corporation, a blended component unit, are discussed below under the heading **"Tobacco Settlement Financing Corporation".**

Other

The State is vigorously contesting all litigation matters including those detailed above. As of this date it is not possible to determine the outcome of certain proceedings and their overall impact on the State's financial statements. The State is currently of the opinion that current litigation matters are not likely to result either individually or in the aggregate in final judgments against the State that would materially affect its financial position.

Tobacco Settlement Financing Corporation

According to the Master Settlement Agreement (“MSA”), for any year in which the Participating Manufacturers (PMs) suffer a loss of market share of more than two percent as compared to their collective market share in 1997, there is the potential of a Non-Participating Manufacturer Adjustment (“NPM Adjustment”), which would permit the tobacco manufacturers to reduce their MSA payments for that year. Whether such an adjustment is applicable depends on whether (1) an economic firm jointly selected by the Settling States and the PMs determines that the disadvantages experienced by the PMs as a result of the provisions of the MSA were a “significant factor” contributing to the market share loss (“Significant Factor Proceeding”); and (2) the State is found to not have diligently enforced its statute. For calendar years 2003, 2004, 2005 and 2006, there have been four Significant Factor Proceedings in which the firm found in favor of the PMs. There will not be Significant Factor Proceedings for calendar years 2007 through 2014.

From April 2005 through April 2016, many of the tobacco manufacturers participating in the MSA either withheld all or portions of their payments due or remitted their payments to an escrow account, disputing the calculations of amounts due under the agreement. These manufacturers assert that the calculations of the amounts due failed to apply the NPM Adjustment. The total share of these disputed payments applicable to Rhode Island at June 30, 2016 (as calculated by the Independent Auditor) is approximately $50.7 million. This amount assumes the calculation by the Independent Auditor is correct. Thus, this calculation may be subject to recalculation and modification in the future.

In conjunction with its March 2015 bond issuance, the Corporation agreed with the Series 2007 Majority Interest Holder, on behalf of the Series 2007 bondholders, that to the extent that any funds on deposit in the disputed payments account on March 19, 2015 are received subsequently, the funds will be shared by the Corporation and the State in the following percentages: 70% to the Corporation and 30% to the State. It was further agreed that any such funds received by the Corporation will be used to retire Series 2007 bonds.

There has been a long-standing dispute between the PMs and the MSA Settling States relating to NPM Adjustment Disputes, and up until December 2012, all MSA Settling States and the PMs were engaged in an arbitration proceeding regarding the issue of Diligent Enforcement for calendar year 2003 (“2003 Dispute”). Rhode Island's diligence was ultimately not contested by the PMs after discovery closed during the arbitration related to the 2003 Dispute. As a result, Rhode Island received its share of DPA monies for the 2003 Dispute. In December 2012, the PMs reached a settlement agreement with certain MSA States & Territories (“Term Sheet States”) in connection with certain claims relating to NPM Adjustment Disputes, including the 2003 Dispute. The general terms thereof were memorialized in a Term Sheet (“Term Sheet”) with the PMs. In March of 2013, the Panel, which was convened for the 2003 Dispute, issued a Stipulated Partial Settlement and Award (“Award”) that incorporated certain provisions of the Term Sheet. Also, the Award included specific instructions to the Independent Auditor directing it to implement the provisions provided therein, which it did in preparing final calculations for the 2013 MSA payments.

Twenty-six (26) MSA States and Territories (“States and Territories”), including Rhode Island, have not accepted the terms of the Term Sheet or have not settled in some other fashion, so the NPM Adjustment disputes between these States and Territories and PMs remain unresolved. Future NPM Adjustments could be as large as or exceed the reported potential $1.2 billion calendar year 2003 NPM adjustment. The resolution of the substance of such disputes could take years. Moreover, there is no assurance that these funds will be collected by the Corporation in the future.

Due to these uncertainties regarding the ultimate realization of the remaining amount of these disputed payments, they have not been recognized as revenue in the accompanying financial statements. The Corporation and the other affected parties are taking actions prescribed in the MSA to arrive at a resolution of these matters.

An arbitration to resolve the issue of Diligent Enforcement to the 2004 NPM Adjustment Dispute has commenced. Although Rhode Island was ultimately not contested by the PM’s in the 2003 Dispute, there is no guarantee the 2004 Dispute will have the same result. If Rhode Island’s diligence is contested by the PMs and is found to be non-diligent by an arbitration panel, Rhode Island risks losing up to its entire MSA payment for 2004, which is roughly $45 million. Similar arbitrations will occur for each succeeding year, putting all MSA payments received by Rhode Island at risk. Any adverse judgement by an arbitration panel would be deducted from future MSA payments and would impair the Corporation's ability to cover annual debt service payments on outstanding bonds.

In addition to NPM Adjustment arbitration, litigation has been filed alleging, among other claims, that the MSA violates provisions of the U.S. Constitution, state constitutions, federal antitrust and civil rights laws, and state consumer protection laws. These actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. `The lawsuits seek to prevent the states from collecting any monies under the MSA, and/or a determination that prevents the tobacco manufacturers from collecting MSA payments through price increases to cigarette consumers. In addition, class action lawsuits have been filed in jurisdictions alleging violations of state Medicaid agreements. To date, no such lawsuits have been successful. The enforcement of the terms of the MSA may continue to be challenged in the future. In the event of an adverse court ruling, the Corporation may not have adequate financial resources to service its debt obligations.

Lottery

The Lottery's master contracts with its video lottery facility operators contain revenue protection provisions in the event that existing video lottery facility operators incur revenue losses caused by new gaming ventures within the State.

The Lottery's gaming operations currently compete with casinos in nearby Connecticut and Massachusetts. In addition, both neighboring States have already approved or are considering additional casino expansion likely to increase gaming competition in New England. The Lottery and the State continually monitor the risk to gaming operations resulting from competition in nearby states.

A statewide and local referendum included on the ballot on November 8, 2016 for the relocation of Newport Grand to Tiverton, RI was approved by the voters. This new gaming facility is widely considered to be better positioned to compete with future gaming competition expected in nearby Massachusetts.

The Narragansett Indian Tribe filed a complaint against the State of Rhode Island in the Rhode Island Superior Court on or about September 28, 2011, challenging, *inter alia*, the constitutionality of the Rhode Island Casino Gaming Act ("Act") on the grounds that it would not be "state-operated" and the Act "delegates unconstitutional authority to a private corporation." On or about June 29, 2012, the Rhode Island Superior Court found that the Narragansett Indian Tribe had not sustained their burden of proof beyond a reasonable doubt that the Act is facially unconstitutional. The Narragansett Indian Tribe filed a notice of appeal of that decision with the Rhode Island Supreme Court. On or about March 4, 2015, the Rhode Island Supreme Court issued a decision upholding the Superior Court. The remaining issues in the case relating to whether the State "operates" Twin River and Newport Grand facilities remain pending in the Superior Court.

In the event of default on an insurance annuity contract for a Rhode Island winner of the Lucky for Life® jackpot prize award, the Lottery may be contingently liable for any remaining prize amounts due the winner.

Federal Grants

The State receives significant amounts of federal financial assistance under grant agreements which specify the purpose of the grant and conditions under which the funds may be used. Generally, these grants are subject to audit. The Single Audit for the State of Rhode Island for the fiscal year ended June 30, 2015 was issued in March 2016. That report identified approximately $1.4 million in questioned costs relating to the primary government.

The State has recently implemented a new integrated eligibility and benefits administration system known as the Unified Health Infrastructure Project (UHIP) for social service programs (e.g., Medicaid, SNAP, TANF, and Child Care). System development has largely been funded with federal grants. Implementation issues have resulted in increased oversight from the federal grantor agencies and requests for corrective action plans to address these issues.

In addition, a number of findings had potentially significant but unknown or unquantifiable questioned costs. The ultimate disposition of these findings rests with the federal grantor agencies, and, in most cases, resolution is still in progress. Adjustments are made to the financial statements when costs have been specifically disallowed by the federal government or sanctions have been imposed upon the State and the issue is not being appealed or the right of appeal has been exhausted. The fiscal 2016 Single Audit is in progress. It is anticipated that there will be additional questioned costs identified in that audit. The State's management believes that any disallowances of federal funding received by the State will not have a material impact on the State's financial statements.

Moral Obligation Bonds

Some component units issue bonds with bond indentures requiring capital reserve funds. Monies in a capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bondholders. These bonds are considered "moral obligations" of the State when the General Laws require the executive director of the issuing agency to submit to the Governor the amount needed to restore each capital reserve fund to its minimum funding requirement and the Governor is required to include the amount in the annual budget.

R.I. Housing and Mortgage Finance Corporation (RIHMFC)

The R.I. Housing and Mortgage Finance Corporation (RIHMFC) had $65.7 million outstanding in bonds, which are secured in part by capital reserve funds which have aggregated to $24.4 million on June 30, 2016. Under the moral obligation provisions detailed in the preceding paragraph, upon request by the Governor, the General Assembly may, but is not obligated to, provide appropriations for any deficiency in such reserve funds. RIHMFC has never been required to request such appropriations. Such reserve funds relate solely to select multi-family issues of RIHMFC.

R.I. Commerce Corporation (RICC)

At June 30, 2016 in addition to the State's moral obligation under the Job Creation Guaranty Program (JCGP) for the bonds discussed in Note 6 H, certain bonds secured by RICC's capital reserve fund carry a moral obligation of the State. If at any time, certain reserve funds of RICC pledged fall below their funding requirements, a request will be made to the General Assembly to appropriate the amount of the deficiency. Additional outstanding moral obligations relating to these bonds total $24.1 million at June 30, 2016.

Component Units

R.I. Commerce Corporation (RICC)

On March 7, 2016, the Securities and Exchange Commission (SEC) filed a Complaint in the United States District Court of Rhode Island against RI Commerce Corporation and four other named defendants. The SEC is alleging that RI Commerce Corporation made materially misleading disclosures in connection with the issuance of bonds issued under the JCGP, in violation of Section 17(a)(2) and 17(a)(3) of the Securities Act. The SEC is seeking injunctive and monetary relief. RI Commerce Corporation is contesting the case vigorously. The likelihood of an unfavorable outcome and the amount or range of potential loss to RI Commerce Corporation, if any, is unknown.

R.I. Industrial-Recreational Building Authority (RIIRBA)

The R.I. Industrial-Recreational Building Authority (RIIRBA) is authorized to insure contractual principal and interest payments required under first mortgages and first security agreements issued to private sector entities by financial institutions and the Rhode Island Industrial Facilities Corporation (RIIFC), a component unit of the State, on industrial or recreational projects in the State up to a maximum of $60 million of outstanding principal balances under such insured mortgages and security agreements.

Losses, if any, are first payable from RIIRBA's available resources. RIIRBA must then request appropriations of the General Assembly for any losses in excess of insured amounts. RIIRBA's insurance guarantee is backed by the full faith and credit of the State.

At June 30, 2016, RIIRBA has insured contractual principal and interest payments required under first mortgages and first security agreements principally for land and buildings of manufacturing and distribution entities located throughout Rhode Island. Principal balances outstanding under first mortgages and first security agreements insured by RIIRBA at June 30, 2016 are $9.3 million.

RIIRBA insures a bond issued by RIIFC on behalf of a private sector entity. During the year ended June 30, 2012 the private sector entity defaulted on its payments to the bond holder and RIIRBA assumed responsibility for making the debt payments. The payments are being made by first exhausting RIIRBA's available financial resources. At June 30, 2016, RIIRBA has determined that it is likely that it will incur a loss under the insured commitment. RIIRBA has accrued an insured commitment payable of $1.9 million equal to the estimated loss at June 30, 2016. No request has been made to the General Assembly at June 30, 2016 for appropriations to satisfy any liability under the insurance guarantee.

R.I. Housing and Mortgage Finance Corporation (RIHMFC)

As of June 30, 2016, RIHMFC may borrow up to a maximum of $90 million under various revolving loan agreements expiring between August 2016 and January 2017. Borrowings under the lines of credit are payable on demand and are unsecured.

RIHMFC is a party to financial instruments with off-balance sheet risk in connection with its commitments to provide financing. Such commitments expose RIHMFC to credit risk in excess of the amounts recognized in the statements of net position. RIHMFC's exposure to credit loss in the event of nonperformance by the borrowers is represented by the contractual amount of such instruments. Total credit exposure as a result of loan commitments at June 30, 2016 is $103.9 million.

Other Component Units

Other component units have various contingent liabilities that have arisen in the normal course of their operations. These contingencies are not significant to the State's financial statements.

Note 13. Employer Pension Plans

A. Summary of Employer Plans

The State provides pension benefits for its employees through multiple retirement benefit plans as outlined below:

	Plan	Plan type	Covered employees	FY 2016 pension expense	Net pension liability at June 30, 2015 measurement date
A	**Employees' Retirement System (*ERS*)**	Cost-sharing multiple-employer defined benefit plan – advance funded through a trust	State employees excluding state police and judges		
			Governmental activities	$216,904,000	$1,767,094,000
			Business-type activities	$1,896,000	$15,074,000
			Special funding – teachers - state share (see Note Section 13-E)	$132,183,000	$1,117,395,000
B	**State Police Retirement Benefits Trust *(SPRBT)***	Single-employer defined benefit plan – advance funded through a trust	State Police hired after July 1,1987	$3,305,000	$6,001,000
C	**Judicial Retirement Benefits Trust *(JRBT)***	Single-employer defined benefit plan -– advance funded through a trust	Judges appointed after December 31, 1989	$1,740,000	$3,575,000
D	**RI Judicial Retirement Fund Trust *(RIJRFT)***	Single-employer defined benefit plan - – advance funded through a trust	Covers 7 judges appointed prior to January 1, 1990	$1,286,000	$18,326,000
E	**State Police Non-Contributory Retirement Plan *(SPNCRP)***	Single employer defined benefit – non trusteed – pay-as-you-go plan	State Police hired before July 1, 1987	$30,024,000	$266,091,000
F	**Judicial Non-Contributory Retirement Plan *(JNCRP)***	Single employer defined benefit – non trusteed – pay-as-you-go plan	Judges appointed before January 1, 1990 who retired before July 1, 2012	$4,385,000	$52,018,000
	Totals			$391,723,000	$3,245,574,000
G	**LIUNA – union plan for members of the LIUNA bargaining units**	Cost-sharing multiple employer defined benefit plan – "Taft-Hartley" non-governmental plan	Members of the LIUNA bargaining unit	Not applicable (see note below)	Not applicable (see note below)
H	**ERS – Defined Contribution Plan**	Multiple employer defined contribution plan	State employees subject to the "hybrid" defined benefit/defined contribution plan provisions	$4,418,000	Not applicable
I	**FICA Alternative Retirement Income Security Program**	Single employer defined contribution plan	State employees not eligible to participate in the State's other defined benefit plans	Not applicable	Not applicable

Employer pension expense and related liabilities and deferred inflows or resources/deferred outflows of resources for defined benefit plans A-D as identified above are recognized in the financial statements based on the provisions of GASB Statement No. 68.

Employer pension expense and related liabilities and deferred inflows/outflows for defined benefit plans E and F as identified above are recognized in the financial statements consistent with the provisions of GASB Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The State provides these benefits on a pay-as-you-go basis rather than through an advance funding arrangement and a qualifying trust.

The LIUNA sponsored, cost-sharing, multiple-employer pension plan (plan G) is not a state or local government pension plan. As there is no required employer contribution for covered employees, no employer pension expense is reflected in these financial statements. Consistent with the requirements of GASB Statement No. 78, there is no recognition of an employer proportionate net pension liability, if any.

Pension expense recognized for the defined contribution plans (H and I) – is recognized based on actual employer contributions required and made during the fiscal year consistent with the requirements of GASB Statement No. 68 regarding defined contribution plans. There is no required employer contribution to the FICA Alternative Income Security Program.

Plan membership, based on the June 30, 2014 actuarial valuations, is summarized in the table below:

	Retirees and beneficiaries	Terminated plan members entitled to but not yet receiving benefits	Active Vested	Active Non-vested	Total by Plan
ERS-State Employees	11,103	2,898	8,652	2,649	25,302
JRBT	13		18	38	69
RIJRFT			7		7
SPRBT	26	25	42	208	301
JNCRP	57				57
SPNCRP	274				274

B. Defined Benefit Plan Descriptions – Advance Funded Plans

EMPLOYEES' RETIREMENT SYSTEM (ERS) - The ERS was established and placed under the management of the Retirement Board for the purpose of providing retirement allowances for employees of the State of Rhode Island under the provisions of chapters 8 to 10, inclusive, of Title 36, and public school teachers under the provisions of chapters 15 to 17, inclusive, of Title 16 of the Rhode Island General Laws.

Plan members - The plan covers most State employees other than certain personnel at the State colleges and university (principally faculty and administrative personnel). The plan also covers teachers, including superintendents, principals, school nurses, and certain other school officials in the public schools in the cities and towns as well as in certain charter schools. Membership in the plan is mandatory for all covered state employees and teachers. General officers may become members on an optional basis and legislators may participate if elected to office prior to January 1, 1995.

Certain employees of the Rhode Island Airport Corporation (hired before July 1, 1993), the Rhode Island Commerce Corporation (active contributing members and employees of the Department of Economic Development before October 31, 1995 who elected to continue membership) and the Narragansett Bay Commission (members of a collective bargaining unit) are also covered and have the same benefits as State employees.

Plan vesting provisions – *after five years of service.*

Retirement eligibility and plan benefits – are summarized in the following table:

Schedule	Schedule Criteria	Retirement eligibility	Benefit accrual rates	Maximum benefit
(A)	Completed 10 years of service on or before July, 1, 2005 and eligible to retire as of September 30, 2009	Age 60 with 10 years of service or after 28 years of service at any age	Effective until June 30, 2012: 1.7% for each of first ten years 1.9% for each of next ten years 3.0% for each of next fourteen years 2% for the 35th year Effective July 1, 2012: 1.0% per year Effective July 1, 2015: for members with 20 years or more of service as of July 1, 2012: 2% per year	80% of final average (3 consecutive highest years) earnings and 35 years of service
(AB)	Completed 10 years of service on or before July, 1, 2005 but ineligible to retire as of September 30, 2009	Minimum retirement age of 62 and ten years of service with a downward adjustment of the minimum retirement age based on the years of service credit as of September 30, 2009	Effective until June 30, 2012: Same accrual rates as (A) above to September 30, 2009 and then Schedule B rates (below) thereafter Effective July 1, 2012: 1.0% per year	80% of final average (5 consecutive highest years) earnings
(B)	Less than 10 years of service before July 1, 2005 and eligible to retire as of September 30, 2009	Age 65 with 10 years of service or after 29 years of service and age 59	Effective until June 30, 2012: 1.6% for each of first ten years 1.8% for each of next ten years 2.0% for each of next five years 2.25% for each of next five years 2.5% for each of next seven years 2.25% for the 38th year Effective July 1, 2012: 1.0% per year	75% of final average earnings (3 consecutive highest years) and 38 years of service
(B1)	Less than 10 years of service before July 1, 2005 and ineligible to retire as of September 30, 2009	Age 65 with ten years of service, or age 62 with at least 29 years of service with a downward adjustment of the minimum retirement age based on the years of service credit as of September 30, 2009	Same as Schedule B	75% of final average earnings (5 consecutive highest years) and 38 years of service
(B2)	Less than 5 years of service as of July 1, 2012	Social Security Normal Retirement Age not to exceed age 67 and 5 years of contributory service	1.6% for each of first ten years Effective July 1, 2012: 1.0% per year	75% of final average earnings (5 consecutive highest years) and 38 years of service

State correctional officers may retire at age 50 with 20 years of service. However, if not eligible to retire as of September 30, 2009, the minimum retirement age was modified to 55 with 25 years of service credit for correctional officers and registered nurses at the Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals.

The plan provides for survivor's benefits for service-connected death and certain lump sum death benefits.

Joint and survivor options are available to members. Vested members who have 10 or more years of contributing service credit on June 30, 2012, may choose to retire at a retirement eligibility date that was calculated as of September 30, 2009, if the member continues to work and make retirement contributions until that date. If the member chooses this option, their retirement benefits will be calculated using the benefit that they have accrued as of June 30, 2012 - members will accumulate no additional defined benefits after this date, but the benefit will be paid without any actuarial reduction.

State employees and public school teachers may retire with a reduced pension benefit if they have 20 years of service credit and they are within five years of their retirement date as prescribed in the Rhode Island Retirement Security Act (RIRSA). The actuarially reduced benefit will be calculated based on how close the member is to their RIRSA eligibility date.

Cost of Living Adjustments – The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT, and JRBT plans reach a funded status of 80%. The COLA provision can be reviewed in a four-year interval. When the collective funding level of the plans exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA calculation is represented by the following formula: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5.5% (5yr Return – 5.5%, with a max of 4%) and 50% calculated using previous year's CPI-U (max of 3%) for a total maximum COLA of 3.5%. This COLA is calculated on the first $25,855, effective January 1, 2016, and indexed as of that date as well. (The indexing formula is run annually regardless of funding level each year.) COLA will be delayed until the later of the Social Security Normal Retirement Age or three years after retirement.

Disability retirement provisions - The plan also provides nonservice-connected disability benefits after five years of service and service-connected disability pensions with no minimum service requirement. Effective for applications filed after September 30, 2009, accidental disability will be available at 66 2/3% for members who are permanently and totally disabled as determined by the Retirement Board. If the disability is determined to be partial and the member is able to work in other jobs, the benefit will be limited to 50%. Disability benefits are subject to annual review by the Retirement Board.

Other plan provisions - Service credit purchases, excluding contribution refund paybacks and military service, requested after June 16, 2009 are calculated at full actuarial cost.

JUDICIAL RETIREMENT BENEFITS TRUST (JRBT) - The Judicial Retirement Benefits Trust was established under Rhode Island General Laws 8-8.2-7; 8-3-16; 8-8-10.1; 28-30-18.1; and was placed under the management of the Retirement Board for the purpose of providing retirement allowances to Justices of the Traffic Tribunal, Supreme, Superior, Family, District and Workers Compensation courts.

Plan members – The plan covers all Judges appointed after December 31, 1989.

Retirement eligibility and plan benefits – are summarized in the following table:

	Retirement benefit
Judges appointed after December 31, 1989 but before July 2, 1997	75% of the final salary at the time of retirement after 20 years of service, or 10 years of service and attainment of age 65. Judges retiring after 20 years of service after age 65 or 15 years of service after age 70 receive full retirement benefits, which is the final salary at time of retirement.
Judges appointed after July 2, 1997 but before January 1, 2009	Same as above, except salary is the average highest three (3) consecutive years of compensation rather than final salary.
Judges appointed after January 1, 2009 but before July 1, 2009	Judges with 20 years of service after age 65 or judges with 15 years of service after age 70 will receive 90% of the average of the highest three consecutive years of compensation. Judges appointed on or after January 1, 2009 with 10 years of service and age 65 or 20 years of service at any age are entitled to a reduced benefit of 70% of the average highest three consecutive years of compensation. Judges designating a survivor benefit with 20 years of service and age 65 or 15 years of service and age 70 receive a reduced benefit equal to 80% of the average highest three consecutive years of compensation. Judges designating a survivor benefit with 10 years of service after age 65 or 20 years of service at any age receive a reduced benefit equal to 60% of the average highest three consecutive years of compensation.
Judges appointed after July 1, 2009	Judges with 20 years of service after age 65 or with 15 years of service after age 70 will receive 80% of the average of the highest five consecutive years of compensation. Judges with 10 years of service and age 65 or 20 years of service at any age are entitled to a reduced benefit of 65% of the average highest five consecutive years of compensation. Judges designating a survivor benefit with 20 years of service and age 65 or 15 years of service and age 70 receive a reduced benefit equal to 70% of the average highest five consecutive years of compensation. Judges designating a survivor benefit with 10 years of service after age 65 or 20 years of service at any age receive a reduced benefit equal to 55% of the average highest five consecutive years of compensation.

Certain survivor benefits are also provided to judges who are plan members, which is 50% of the benefit amount payable to the judicial member.

Cost of Living Adjustments – The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT, and JRBT plans reach a funded status of 80%. The COLA provision can be reviewed in a four-year interval. When the collective funding level of the plans exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA calculation is represented by the following formula: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5.5% (5yr Return – 5.5%, with a max of 4%) and 50% calculated using previous year's CPI-U (max of 3%) for a total maximum COLA of 3.5%. This COLA is calculated on the first $25,855, effective January 1, 2016, and indexed as of that date as well. (The indexing formula is run annually regardless of funding level each year.) COLA will be delayed until the later of the Social Security Normal Retirement Age or three years after retirement.

STATE OF RHODE ISLAND JUDICIAL RETIREMENT FUND TRUST (RIJRFT) - Effective July 1, 2012, under the direction of Rhode Island General Law 8-3-16, the retirement board established a trust to collect proceeds for the purpose of paying retirement benefits to participating judges or their beneficiaries.

Plan members – The plan covers seven (7) judges appointed prior to January 1, 1990. These members are active judges (as of June 30, 2012) appointed prior to January 1, 1990 who do not participate in the Judicial Retirement Benefit Trust. Prior to creating the trust, benefits for these members were intended to be funded on a pay-as-you-go basis. To the extent assets in the trust are insufficient to fund member benefits, the State would also fund retirement benefits on a pay-as-you-go basis as it does for sixty-five (65) retired judges and surviving beneficiaries who were not members of either judicial plan. The employee contribution rate is 12% of salary (except for members of the Supreme Court who contribute 8.75%).

Retirement eligibility and plan benefits – The plan generally provides retirement benefits for members who have served as a justice of the Supreme Court, the Superior Court, the Family Court, the District Court, or any combination of them for 20 years and have reached the age of 65 years, or have served 15 years, and reached the age of 70 years may retire from regular service and receive a benefit equal to the annual salary the justice was receiving at the time of their retirement. Members of the Traffic Tribunal who served as a justice for 20 years, or have served for 10 years and reached age 65 years may retire from regular service and receive a benefit equal to the 75% of the annual salary at the time of retirement. However, any Traffic Tribunal judge who has served 20 years and has reached age 65 years, or has served for 15 years and has reached age 70 years may retire from active service and receive a benefit equal to the annual salary the justice was receiving at the time of their retirement.

Cost of Living Adjustments – The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT, and JRBT plans reach a funded status of 80%. The COLA provision can be reviewed in a four-year interval. When the collective funding level of the plans exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA calculation is represented by the following formula: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5.5% (5yr Return – 5.5%, with a max of 4%) and 50% calculated using previous year's CPI-U (max of 3%) for a total maximum COLA of 3.5%. This COLA is calculated on the first $25,855, effective January 1, 2016, and indexed as of that date as well. (The indexing formula is run annually regardless of funding level each year.) COLA will be delayed until the later of the Social Security Normal Retirement Age or three years after retirement.

STATE POLICE RETIREMENT BENEFITS TRUST (SPRBT) - The State Police Retirement Benefits Trust was established under Rhode Island General Law Section 42-28-22.1 and was placed under the management of the Retirement Board for the purpose of providing retirement allowances to State Police.

Plan members – The plan covers all State Police and Superintendents hired after July 1, 1987.

Retirement eligibility and plan benefits – Prior to June 30, 2012 the plan generally provides retirement benefits equal to 50% of final salary after 20 years of service, plus 3.0% of final salary times service in excess of 20 years through 25 years to a maximum of 65% of final salary. Such benefits are available to members after 20 years of service regardless of age. The Superintendent of the State Police will receive 50% of his/her final salary and may retire after attainment of age 60 and 10 years of service.

The General Laws were amended such that any member of the State Police, other than the Superintendent, who is hired on or after July 1, 2007 and who has served for twenty-five (25) years shall be entitled to a retirement allowance of 50% of the final salary. In addition, any member may serve up to a maximum of 30 years and shall be allowed an additional amount equal to 3.0% for each completed year served after 25 years to a maximum retirement allowance not to exceed 65% of the final salary.

Benefits are based on the final base salary earned at retirement including longevity increment, holiday pay, clothing allowance and up to 400 overtime hours.

Effective July 1, 2012 State Police officers are eligible to retire once they have accrued a retirement benefit equal to 50% of their whole salary, with mandatory retirement once they have accrued a retirement benefit equal to 65% of their whole salary. State Police officers will earn a 2% accrual rate for each year of contributing service. Benefits will be calculated on the average of the highest five consecutive years of salary, including up to 400 hours of mandatory overtime service. Benefits accrued as of June 30, 2012 will be protected under the Rhode Island Retirement Security Act.

Cost of Living Adjustments – The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT, and JRBT plans reach a funded status of 80%. The COLA provision can be reviewed in a four-year interval. When the collective funding level of the plans exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA calculation is represented by the following formula: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5.5% (5yr Return – 5.5%, with a max of 4%) and 50% calculated using previous year's CPI-U (max of 3%) for a total maximum COLA of 3.5%. This COLA is calculated on the first $25,855, effective January 1, 2016, and indexed as of that date as well. (The indexing formula is run annually regardless of funding level each year.) COLA will be delayed until the later of the Social Security Normal Retirement Age or three years after retirement.

Disability retirement provisions - The plan provides nonservice-connected disability benefits after 10 years of service and service-connected disability pensions with no minimum service requirement.

C. Defined Benefit Advance Funded Plans - Summary of Significant Accounting Policies

The Fiduciary Net Position presented for defined benefit plans which are advance funded and accounted for in a trust has been determined on a basis consistent with that used by the respective plans in preparing their financial statements. ERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained at http://www.ersri.org. The plans' basis of accounting and accounting policies, including those related to benefit payments and valuation of plan investments is summarized below.

Basis of Accounting

The financial statements of the ERS are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the wages, subject to required contributions, are earned for the performance of duties for covered employment. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Disclosures regarding methods used to value investments and investment expenses are included in Note 2C, Pension Trusts.

D. Defined Benefit Plan Descriptions – Non-Contributory (pay-as-you-go) Pension Plans

In addition to the defined benefit plans administered by the ERS, the State also administers two other non-trusteed single employer defined benefit pension plans that are closed to new members. The Judicial Non-Contributory Retirement Plan (JNCRP) provides retirement benefits to judges appointed before January 1, 1990 and who retired before July 1, 2012. The State Police Non-Contributory Retirement Plan (SPNCRP) provides retirement benefits to members of the State Police hired before July 1, 1987. Both plans were created by statute and have historically been funded by the State on a pay-as-you-go basis. Accordingly, no assets have been accumulated to pay benefits under these two non-trusteed plans.

Pension benefits paid under the JNCRP and SPNCRP are generally determined based on years of service at retirement and are payable to the retiree or their beneficiary. JNCRP members, in general, are eligible for full retirement benefits equal to their final annual compensation at age 65, if the member has served for 20 years, or at age 70 with 15 years of service. For SPNCRP members, in general, benefits are equal to 50% of salary after 20 years of service; for those who retired after July 1, 1972 an additional 3% annual increment is added until attaining a maximum benefit of 65% of salary after 25 years of service. Both plans have provisions that allow survivors, upon the death of the participant, to continue to receive a portion of the participant's benefit.

E. Special Funding Situation – ERS Plan – Teachers

The State is required by law to contribute 40% of the cost of providing retirement benefits for teachers covered by the Employees' Retirement System. Under GASB Statement No. 68, for teachers, the State is considered to be a non-employer contributing entity under a special funding situation. The total net pension liability for teachers covered by the Employees' Retirement System measured as of June 30, 2015 is approximately $2.8 billion and the State' share of the net pension liability is approximately $1.1 billion. The State's share of the net pension liability for teachers has been allocated based upon the statutory contribution percentage and is reflected in the Statement of Net Position as of June 30, 2016 as Net Pension Liability-Special Funding Situation. The State's proportion for the special funding situation for the teachers covered in the ERS Plan was 40.59 percent, a decrease of 0.09 percent since the prior reporting period. Benefit provisions, contribution requirements, and other information related to the measurement and proportionate share of the net pension liability under a special funding situation for teachers are described in other sections of this Note relating to the ERS plan.

F. Contributions and Funding Policy

Contribution requirements for plan members and participating employers are established pursuant to the Rhode Island General Laws. With the exception of the RIJRFT, employers are required by statute to contribute at an actuarially determined rate for the respective defined benefit plans.

The fiscal year 2016 contribution rates for the Employees' Retirement System, the State Police Retirement Benefits Trust, and the Judicial Retirement Benefits Trust were based on the actuarial valuation of those plans performed as of June 30, 2013. The fiscal year 2016 actuarially determined contribution for the Judicial Retirement Fund Trust was also based on the actuarial valuation of that plan performed as of June 30, 2013. However, while members contribute to the RIJRFT, the State as employer, has not opted to make contributions. The non-contributory judges (JNCRP) and State Police (SPNCRP) plans are financed on a pay-as-you-go- basis.

A summary of the contribution rates by both the participating employers and members and the State's annual pension plan contributions (expressed in thousands) for the fiscal year ended June 30, 2016 is provided in the table below:

	ERS	JRBT	RIJRFT*	SPRBT	JNCRP	SPNCRP
Contribution rate:						
State	23.64%	26.80%	$1,512	17.22%		
Plan members	3.75% and 11.00%	8.75% and 12.00%	8.75% and 12.00%	8.75%		
State contribution for teachers	8.98% to 9.41%					
Contributions made for state employees	$144,696		$140	$4,005	$5,967	$17,501
Contribution made for teachers	$87,998					

*- Actuarially determined contribution not expressed as a rate.

ERS Plan Supplemental Contributions - The General Laws (Section 36-10-2(a) 1 and 2) also require, in addition to the contributions provided for by the funding policy, for each fiscal year in which the actuarially determined state contribution rate for state employees and teachers is lower than that for the prior fiscal year, the governor shall include an appropriation to that system equivalent to twenty percent (20%) of the rate reduction to be applied to the actuarial accrued liability. The amounts to be appropriated shall be included in the annual appropriation bill and shall be paid by the general treasurer into the retirement system. The retirement system's actuary shall not adjust the computation of the annual required contribution for the year in which supplemental contributions are received; such contributions once made may be treated as reducing the actuarial liability remaining for amortization in the next following actuarial valuation to be performed. For fiscal year 2016, no contribution to the System was required in accordance with this provision of the General Laws.

The Retirement Security Act provides for additional contributions to the System based on 5.5% of the value of contracts where the services performed by the contractor were previously performed by state employees. A supplemental contribution of $408 thousand was paid to the System pursuant to Section 42-149-3.1 of the General Laws.

Employer contributions to the defined contribution plan are also prescribed by statute. In addition, plan member contributions for both the defined benefit and defined contribution plans are set by statute. Member and employer contribution rates can be changed by the General Assembly.

ERS Plan Special funding situation for local teachers - the State is required by law to contribute 40% of the cost of providing retirement benefits for teachers covered by the Employees' Retirement System. Because the State deferred certain payments to the System in 1990/1991 and 1991/1992 the State's actual share of the total annual contributions is approximately 40.7%. Under GASB Statement No. 68, for teachers, the State is considered to be a non-employer contributing entity under a special funding situation.

G. Net Pension Liability

The net pension liability of the State and other participating employers in the Employees' Retirement System – a multiple employer cost-sharing plan, has been apportioned based on the percentage share of total contributions made by each employer in fiscal year 2015. The State's proportion for the ERS Plan for State employees was 88.96 percent, a decrease of 0.03 percent since the prior reporting period.

Following is a summary of the net pension liability of the State and other employers participating in the Employees' Retirement System as well as the State's liability related to the five single employer defined benefit plans it sponsors, all measured as of June 30, 2015 (expressed in thousands and excluding amounts related to teachers under the special funding arrangement discussed above):

Total Net Pension Liability - Employees' Retirement System (ERS) - State Employees		$ 1,986,428
Less portion attributable to other entities:		
Enterprise Fund - Rhode Island Lottery		$ (15,074)
Discretely Presented Component Units		
University of Rhode Island	$ 113,016	
Rhode Island College	39,783	
Community College of RI	29,073	
RI Division of Higher Education Assistance	2,954	
RI Commerce Corporation	271	
RI Airport Corporation	2,226	
		(187,323)
Related organization - Narragansett Bay Commission		(16,937)
ERS - Net Pension Liability - Governmental Activities		$ 1,767,094
Net Pension Liability - Single Employer Defined Benefit Pension Plans		
JRBT		3,575
RIJRFT		18,326
SPRBT		6,001
JNCRP		52,018
SPNCRP		266,091
Total Net Pension Liability		$ 2,113,105

Further details regarding the State's total pension liability and net pension liability for the single employer trusteed defined benefit pension plans (expressed in thousands) which was measured as of June 30, 2015 is presented below:

	JRBT	RIJRFT	SPRBT
Total pension liability	$ 63,085	$ 18,812	$ 120,907
Plan fiduciary net position	59,510	486	114,906
Net pension liability	$ 3,575	$ 18,326	$ 6,001
Plan fiduciary net position as a percentage of total pension liability	94.3%	2.6%	95.0%

a. Actuarial assumptions used in determining total pension liability

The total pension liability was determined by actuarial valuations performed as of June 30, 2014 and rolled forward to June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement.

	ERS						
	State Employees	Teachers	JRBT	RIJRFT	SPRBT	JNCRP	SPNCRP
Valuation Date	6/30/2014 rolled forward to 6/30/2015	6/30/2014 rolled forward to 6/30/2015	6/30/2014 rolled forward to 6/30/2015	6/30/2014 rolled forward to 6/30/2015	6/30/2014 rolled forward to 6/30/2015	6/30/2015	6/30/2015
Actuarial Cost Method	Entry Age Normal-the Individual Entry Age Actuarial Cost methodology is used						
Assumptions							
Investment Rate of Return	7.50%	7.50%	7.50%	3.80%	7.50%	3.80%	3.80%
Projected Salary Increases	3.50% to 6.50%	3.50% to 13.50%	3.50%	3.50%	3.75% to 11.75%	N/A	N/A
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
Mortality	Male employees: 115% of RP-2000 Combined Healthy For Males w ith White Collar adjustments, projected w ith Scale AA from 2000. Female employees: 95% of RP-2000 Combined Healthy For Females w ith White Collar adjustments, projected w ith Scale AA from 2000. Male and Female Teachers: 97% and 92%, respectively of rates in a GRS table based on male and female teacher experience, projected w ith Scale AA from 2000.						
Cost of Living Adjustments	The COLA calculation has tw o components: 1) 50% of the COLA is calculated by taking the previous 5 year average investment return, less 5.5% w ith a maximun of 4% and 2) 50% is calculated based on previous year's CPI-U(maximum of 3%) for a total maximum COLA of 3.5%. The COLA is to be applied to the first $25,000 of benefits, indexed over time. The COLA is delayed until the later of Social Security eligibility age or 3 years after retirement, except for State Police for w hich the COLA is delayed until the later of age 55 or three years after retirement. A COLA of 2% is assumed once every four years unitl the plan achieve 80% collective funded status, in accordance w ith the law . It is assumed the plan w ill not achieve the targeted 80% funded status for 15 years.						

The actuarial assumptions used in the June 30, 2014 valuations rolled forward to June 30, 2015 and the calculation of the total pension liability at June 30, 2015 were consistent with the results of an actuarial experience study performed as of June 30, 2013.

Factors affecting trends for amounts related to the net pension liability

There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability as of the June 30, 2015 measurement date compared to the June 30, 2014 measurement date except for the changes in assumption for the RIJRFT plan due to use of the municipal bond index rate of 3.8% compared to 4.29% used in the June 30, 2014 valuation.

Benefit changes, which resulted from the settlement of the pension litigation and the subsequent enactment of those settlement provisions by the General Assembly, are reflected in the calculation of the net pension liability at the June 30, 2015 measurement date. Significant benefit changes are summarized below:

- Employees with more than 20 years of service at July 1, 2012 will increase their employee contribution rates to 11% for state employees and participate solely in the defined benefit plan effective July 1, 2015 – service credit accruals will increase from 1% to 2% per year.

- Members are eligible to retire upon the attainment of: age 65 with 30 years of service, 64 with 31 years of service, or 62 with 33 years of service. Members may retire earlier if their RI Retirement Security Act date is earlier or are eligible under a transition rule.

- The COLA formula was adjusted to 50% of the COLA is calculated by taking the previous 5-year average investment return, less the discount rate (5 year return – 7.5%, with a max of 4%) and 50% calculated using the previous year's CPI-U (max of 3%) for a total max COLA of 3.5%. The COLA is calculated on the first $25,855, effective, 01/01/2016, and indexed as of that date as well.

- Other changes included providing interim cost of living increases at four rather than five year intervals, providing a one-time cost of living adjustment of 2% (applied to first $25,000), two $500 stipends, and minor adjustments

The long-term expected rate of return best-estimate on pension plan investments was determined by the actuary using a building-block method. The actuary started by calculating best-estimate future expected real rates of return (expected returns net of pension plan investment expense and inflation) for each major asset class, based on a collective summary of capital market expectations from 23 sources. The June 30, 2015 expected arithmetic returns over the long term (20 years) by asset class are summarized in the following table:

Asset Class	Target allocation	Long-term expected real rate of return
Global Equity:	38%	
U.S. Equity		6.93%
International Developed		7.32%
International Emerging Markets		9.52%
Equity Hedge funds	8%	3.98%
Private Equity	7%	9.99%
Core Fixed Income	15%	2.18%
Absolute Return Hedge Funds	7%	3.98%
Infrastructure	3%	5.70%
Real Estate	8%	4.85%
Other Real Return Assets:	11%	
Master Limited Partnerships		4.51%
Credit		4.51%
Inflation Linked Bonds		1.24%
Cash, Overlay and Money Market	3%	0.78%
	100%	

These return assumptions are then weighted by the target asset allocation percentage, factoring in correlation effects, to develop the overall long-term expected rate of return best-estimate on an arithmetic basis.

b. Discount rate

The discount rate used to measure the total pension liability of the plans was 7.5 percent for all plans except the RIJRFT, JNCRP and SPNCRP plans. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

For the RIJRFT, JNCRP and SPNCRP plans, the State has not opted to make actuarially determined employer contributions and based on those assumptions, the pension plans' fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. Consequently, for those plans, the municipal bond index rate, based on the 20-year Bond Buyer GO Index, (3.8% at June 30, 2015) was applied to all periods of projected benefit payments to determine the total pension liability.

c. Sensitivity of the net pension liability (asset) to changes in the discount rate

The following presents the net pension liability (asset) of the employers calculated using the discount rate of 7.5% (for all plans except the RIJRFT, JNCRP and SPNCRP), as well as what the employers' net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate. The RIJRFT, JNCRP and SPNCRP plans' fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members and consequently the municipal bond index rate of 3.8% at June 30, 2015 was used in the determination of the net pension liability for those plans with a similar +1/-1 % sensitivity analysis (expressed in thousands):

	1.00% Decrease (6.50%)	Current Discount Rate (7.5%)	1.00% Increase (8.50%)
ERS - State employees	$ 2,190,813	$ 1,767,095	$ 1,420,222
ERS - Teachers (State share)	$ 1,401,205	$ 1,117,395	$ 885,057
JRBT	$ 10,075	$ 3,575	$ (1,743)
SPRBT	$ 18,345	$ 6,001	$ (4,098)

	1.00% Decrease (2.80%)	Municipal Bond Index Discount Rate (3.80%)	1.00% Increase (4.80%)
RIJRFT	$ 20,197	$ 18,326	$ 16,796
JNCRP	$ 56,089	$ 52,018	$ 48,475
SPNCRP	$ 300,153	$ 266,091	$ 238,200

H. Changes in the Net Pension Liability

Information on the State's net pension liability for single employer plans is as follows (expressed in thousands):

	JRBT	RIJRFT	SPRBT	JNCRP*	SPNCRP*
Total Pension Liability					
Service Cost	$ 3,024	$ 416	$ 4,198	$ -	$ -
Interest	4,540	673	8,540	2,172	10,503
Benefit changes	253	-	1,170	-	
Differences between expected and actual experience	(2,857)	(642)	(3,522)	328	3,565
Changes of assumptions	-	859	-	1,885	15,955
Benefit payments	(1,809)		(2,497)	(6,020)	(17,512)
Net change in Total Pension Liability	3,151	1,306	7,889	(1,635)	12,511
Total pension liability - beginning	59,934	17,506	113,018	53,653	253,580
Total pension liability - ending	$ 63,085	$ 18,812	$ 120,907	$ 52,018	$ 266,091
Plan Fiduciary Net Position					
Employer contributions	$ 2,709	$ -	$ 3,433	$ -	$ -
Employee contributions	1,121	159	1,732	-	-
Net investment income	1,368	9	2,656	-	-
Benefit payments	(1,809)	-	(2,497)	-	-
Administrative expenses	(51)	-	(100)	-	-
Other	-	-	4	-	-
Net change in fiduciary net position	$ 3,338	$ 168	$ 5,228	$ -	$ -
Plan Fiduciary net position - beginning	$ 56,172	318	109,678	-	-
Plan Fiduciary net position - ending	$ 59,510	$ 486	$ 114,906	$ -	$ -
Net Pension Liability	$ 3,575	$ 18,326	$ 6,001	$ 52,018	$ 266,091

*These two plans are non-trusteed plans which historically have been funded on a pay-as-you-go basis; therefore no assets have been accumulated and total pension liability and net pension liability are the same.

I. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

Employees' Retirement System of Rhode Island

For the fiscal year ended June 30, 2016 the State recognized pension expense of $216.9 million related to State employees who are covered by ERS. In addition, it recognized an Education expense of $132.2 million in the Statement of Activities relating to the State's share of the pension expense for teachers who are covered by the ERS.

At June 30, 2016 the State reported deferred outflows of resources and deferred inflows of resources related to its participation in the ERS from the following sources (expressed in thousands):

	State Employees	Teachers	Totals
Deferred Outflows of Resources			
State contributions subsequent to the measurement date	$ 144,696	$ 87,998	$ 232,694
Totals	$ 144,696	$ 87,998	$ 232,694
Deferred Inflows of Resources			
Differences between expected and actual experience	$ 20,444	$ 7,276	$ 27,720
Changes of assumptions	13,295	30,039	43,334
Net difference between projected and actual earnings on pension plan investments	1,455	843	2,298
Changes in proportion and differences between employer contributions and proportionate share of contributions	428	2,148	2,576
Totals	$ 35,622	$ 40,306	$ 75,928

The $144.7 million reported as deferred outflows of resources related to pensions resulting from State contributions to ERS subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2017. In addition, the $88.0 million reported as deferred outflows of resources related to pensions resulting from State contributions to ERS for the teachers plan subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in the determination of pension expense as follows (expressed in thousands):

Year ended June 30:	State Employees	Teachers
2017	$ (17,106)	$ (11,939)
2018	(17,106)	(11,939)
2019	(17,106)	(11,939)
2020	15,696	9,329
2021	-	(6,411)
Thereafter	-	(7,407)
	$ (35,622)	$ (40,306)

Other Single Employer Pension Plans

For the fiscal year ended June 30, 2016 the table below provides information about pension expense recognized for each of the State's five single employer plans (expressed in thousands):

Plan	Annual Pension Expense
JRBT	$ 1,740
RIJRFT	1,286
SPRBT	3,305
JNCRP	4,385
SPNCRP	30,024

At June 30, 2016 the State reported deferred outflows of resources and deferred inflows of resources related to its participation in the single employer plans from the following sources (expressed in thousands):

	JRBT	RIJRFT	SPRBT	JNCRP	SPNCRP	Totals
Deferred Outflows of Resources						
Employer contributions subsequent to the measurement date	$ 2,410	$ 140	$ 4,005	$ 5,967	$ 17,501	$ 30,023
Change of assumptions	-	53	-	-	-	53
Net difference between projected and actual earnings on pension plan investments	162	4	279	-	-	445
Totals	$ 2,572	$ 197	$ 4,284	$ 5,967	$ 17,501	$ 30,521
Deferred Inflows of Resources						
Differences between expected and actual experience	$ 2,390	$ 40	$ 3,196	$ -	$ -	$ 5,626
Change of assumptions	443		294	-	-	737
Totals	$ 2,833	$ 40	$ 3,490	$ -	$ -	$ 6,363

The amount of $30.0 million reported as deferred outflows of resources, related to pensions resulting from State contributions to the single employer plans subsequent to the measurement date, will be recognized as a reduction in the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows/(inflows) of resources related to pensions will be recognized in the determination of pension expense as follows (expressed in thousands):

Year ending June 30,	JRBT	RIJRFT	SPRBT	JNCRP	SPNCRP
2017	$ (722)	$ 14	$ (645)	$	$
2018	(722)	1	(645)		
2019	(722)	1	(645)		
2020	16	1	772		
2021	(465)		(361)		
Thereafter	(56)		(1,687)		
	$ (2,671)	$ 17	$ (3,211)	$ -	$ -

J. Defined Benefit Plan - LIUNA

All State employees who are members of the Laborers' International Union of North America (LIUNA), in addition to participating in ERSRI, also participate in the LIUNA National Pension Fund (the Plan), a cost sharing multi-employer defined benefit plan subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended. The Plan is administered by the Fund's Board of Trustees. Eligibility and benefit provisions are defined in the Plan document adopted by the Board of Trustees. As of June 30, 2016, 843 employees of the State were members of the Plan.

All employees who are members of LIUNA are eligible to participate in the Plan. An employee is eligible for a regular pension if they have attained age 62, have five or more years of pension credits and have had at least one pension credit in a year after contributions paid to the Plan by an employer on their behalf began. Vesting of benefits is attained for participants who have five or more years of vesting service, at least one year of which was earned during the period in which the employer paid contributions to the Plan on behalf of the participant. Participants who pay their own contributions are immediately and fully vested in their accrued benefits, plus interest credited to their account. Benefit amounts for employees of the same age with the same years of service may be different because their employers' contribution to the Pension Fund may have been at different levels. The Plan allows for an optional immediate 25% partial lump sum for all surviving spouses of participants who died pre-retirement with an actuarially reduced monthly benefit to be paid at age 55. Information regarding the Plan can be obtained from the Fund Office maintained by the Board of Trustees at the following address: Laborers' International Union of North America National (Industrial) Pension Fund, 905 16th Street, N.W., Washington, DC 20006-1765, or at www.lnipf.org.

The contribution requirements of the State and employees are established by contract and may be amended by union negotiation. Employees are required to contribute $0.57 to $1.29 per hour up to a maximum of 1,820 hours per year to the Plan for calendar year 2016. The State is not required to contribute to the Plan.

The Multiemployer Pension Plan Amendments Act of 1980 imposes certain liabilities upon employees associated with multiemployer pension plans who withdraw from such a plan or upon termination of said plan. The State has no plans to withdraw or partially withdraw from the plan.

K. Defined Contribution Plan - ERS

Plan Description - Employees participating in the Employees Retirement System (ERS) defined benefit plan with less than 20 years of service as of June 30, 2012, as described above, also participate in a defined contribution plan of the Employees' Retirement System as authorized by General Law Chapter 36-10.3. The defined contribution plan is established under IRS section 401(a) and is administered by TIAA-CREF. The Retirement Board is the plan administrator and plan trustee. The employees ("members") may choose among various investment options available to plan participants. The State Investment Commission is responsible for implementing the investment policy of the plan and selecting the investment options available to members.

Plan contributions - Members contribute 5% of their annual covered salary and employers contribute 1% to 1.5% of annual covered salary, depending on years of service as of June 30, 2012. Member contributions are immediately vested while employer contributions are vested after three years of contributory service. Contributions required under the plan by both the members and employers are established by the General Laws, which are subject to amendment by the General Assembly.

The State contributed and recognized as pension expense $4.4 million for the fiscal year ended June 30, 2016, equal to 100% of the required contributions for the fiscal year.

Plan vesting and contribution forfeiture provisions – The total amount contributed by the member, including associated investment gains and losses, shall immediately vest in the member's account and is non-forfeitable. The total amount contributed by the employer, including associated investment gains and losses, vests with the employee and is non-forfeitable upon completion of three (3) years of contributory service. Non-vested employer contributions are forfeited upon termination of employment. Such forfeitures can be used by employers to offset future remittances to the plan.

Retirement benefits – Benefits may be paid to a member after severance from employment, death, plan termination, or upon a deemed severance from employment for participants performing qualified military service. At a minimum, retirement benefits must begin no later than April 1 of the calendar year following the year in which the member attains age 70 ½ or terminates employment, if later.

The System issues a publicly available financial report that includes financial statements and required supplementary information for plans administered by the system. The report may be obtained at http://www.ersri.org.

L. Defined Contribution Plan - FICA Alternative Retirement Income Security Program

The State of Rhode Island FICA Alternative Retirement Income Security Program (the FARP) is a defined contribution (money purchase) plan that operates under Section 401(a) of the Internal Revenue Code. The FARP was established under Rhode Island General Law section 36-7-33.1 and was placed under the management of the State's Department of Administration (DOA), which also serves as the FARP plan sponsor. The FARP took effect on December 15, 2013. TIAA-CREF serves as record keeper for the FARP, and FARP assets are held by J.P. Morgan as investment custodian.

Plan members – Eligible members of the FARP are any part-time, seasonal, or temporary employees of the State of Rhode Island, hired after July 1, 2013, who are ineligible for participation in the Employees' Retirement System of Rhode Island (ERSRI). With the exception of the One-Time Opt-Out Provision described below, participation in the FARP is mandatory for these employees. Part-time, seasonal, or temporary employees hired prior to July 1, 2013, who do not participate in the ERSRI may opt to continue contributing to Social Security for the duration of their continuous employment.

One-time opt-out provision – The FARP contains a provision which allows a FARP-eligible employee, hired after July 1, 2013, to opt-out or elect to not participate in the FARP. An employee who opts to not participate will continue to make FICA contributions and the State will continue to make FICA contributions on behalf of the employee. An employee who opts to not participate in the FARP may subsequently, without penalty, choose to participate in the FARP; this election is irrevocable as long as the employee is a FARP-eligible employee.

Plan vesting provisions – The total amount contributed by the member, including associated investment gains and losses, shall immediately vest in the member's account and is non-forfeitable. The State does not make matching contributions to the FARP.

Member accounts – Each member's account is credited with the member's contribution and an allocation of the plan's earnings. Allocations are based on a relationship of the member's account balance in each investment fund to the total of all account balances in that fund. The retirement benefit to which a member is entitled is the benefit that can be provided from the member's account.

Contributions – FARP benefits are funded by contributions from the participants as specified in RI General Law section 36-7-33.1. FARP participants make mandatory payroll deduction contributions to the FARP equal to 7.5% of the employee's gross wages for each pay period.

Investment options – Member and employer contributions must be invested in one of the Vanguard Target Retirement Trusts, which are age-appropriate.

Retirement benefits – Benefits may be paid to a member after termination from employment, death, total disability, or upon attaining age 59 ½. In the case of termination, a 10% IRS penalty upon withdrawal will apply if the member is younger than 55 years of age. At a minimum, retirement benefits must begin no later than April 1 of the calendar year following the year in which the member attains age 70 ½ or terminates employment, if later.

M. Other Pension Plans – Component Units

Certain employees of the University of Rhode Island, Rhode Island College and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts under a defined contribution retirement plan. Eligible employees who have reached the age of 30, and who have two years of service are required to participate in either the Teachers Insurance and Annuity Association, the Metropolitan Life Insurance Company, or Variable Annuity Life Insurance Company retirement plan. Eligible employees must contribute at least 5% of their gross biweekly earnings. The University and Colleges contribute 9% of the employees' gross biweekly earnings. Total expenses by the institutions for such annuity contracts amounted to approximately $17.4 million during the year ended June 30, 2016.

The Rhode Island Public Transit Authority has two single employer defined benefit pension plans that cover eligible employees. The first plan covers those in Amalgamated Transit Union (ATU) Division 618, ATU Division 618A, and Laborers' International Union (LIU) Local 808. The second plan covers all other employees who work more than 1,000 hours per year. The plans provides retirement, disability and death benefits to plan members and beneficiaries. Benefits vest upon completion of ten years of service. Authority employees are eligible to retire upon attainment of normal retirement age (62, or if later, upon completion of 5 years of service). Retired employees are entitled to a monthly benefit for life as stipulated in the plan provisions. Employees are required to contribute 3% of their base salary to their respective plan each year until the earlier of the participant's normal retirement date or termination of service. The remaining contributions to the plan are made by the Authority. At June 30, 2016 the plans' total pension liabilities exceeded the plans' fiduciary net position by an aggregate amount of $52 million. Accordingly, a net pension liability of that amount has been recorded as of June 30, 2016. For the fiscal year ended June 30, 2016 pension expense of $6.9 million was recorded related to the plans. Other information about the plans can be found in the audited financial statements of RIPTA which are available at www.ripta.com.

The Rhode Island Commerce Corporation (RICC) sponsors a cost sharing multiple employer pension plan for all employees, who were hired before January 1, 2006 who meet eligibility requirements. Eligible employees of Quonset Development Corporation, another component unit, who were hired before January 1, 2006 also participate in the plan. The plan provides retirement, disability and death benefits to plan members and beneficiaries. Benefits vest upon completion of five years of service. The plan assigns to RICC the authority to amend benefit provisions. At June 30, 2016, the plan's total pension liability exceeded the plan's fiduciary net position by $2 thousand. Accordingly, a net pension liability in that amount has been recorded as of that date. For the fiscal year ended June 30, 2016 pension expense of $117 thousand was recorded related to this plan. Other information about the plan can be found in the audited financial statements of RICC which are available at www.commerceri.com.

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

Note 14. Other Post-Employment Benefits

A. Plan Descriptions

The Rhode Island State Employees' and Electing Teachers OPEB System (the System) acts as a common investment and administrative agent for post-employment health care benefits provided for the six groups/plans listed below:

- Certain state employees and employees of the following component units or related organizations: Narragansett Bay Commission, RI Airport Corporation and RI Commerce Corporation
- Certain certified public school teachers
- Judges
- State police officers
- Legislators
- Certain employees of the Board of Education (BOE)

Members of the System must meet the eligibility and service requirements set forth in RI General Laws or other governing documents. Although the assets of the six plans are commingled for investment purposes, each plan's assets are accounted for separately and may be used only for the payment of benefits to the members of that plan, in accordance with the terms of that plan.

The System's financial statements are included as Trust Funds within the Fiduciary Funds.

The OPEB Trust Funds are reported using the economic resources measurement focus and the accrual basis of accounting under which expenses, including benefits and refunds, are recorded when the liability is incurred. Employer contributions are recorded in the accounting period in which they are earned or become measureable.

Additional disclosure regarding the methods used to value investments and investment expenses are included in Note 2D, OPEB Trust Funds.

The System is administered by the State of Rhode Island OPEB Board and was authorized, created and established under Chapter 36-12.1 of RI General Laws. The Board was established under Chapter 36-12.1 as an independent board to hold and administer, in trust, the funds of the OPEB system. The Board began operations and the Trust was established effective July 1, 2010.

The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans and a description of the benefit structures. The report may be obtained by writing to the State Controller's Office, 1 Capitol Hill, Providence, RI 02908.

A summary of the principal provisions of the plans follows:

	State Employees and Teachers	Judicial	State Police	Legislators	BOE Plan
Plan type	Cost Sharing Multiple Employer	Single employer	Single employer	Single employer	Cost Sharing Multiple Employer
Eligibility	Members of ERS meeting eligibility criteria.	Retired judges.	Retired members of the State Police.	Retired legislators.	Members of the BOE Alternative Retirement Plan as defined in RI G.L. 16-17.1-1 and 2 meeting eligibility criteria.
Plan benefits	Retiree plan for members and dependents until Medicare eligible; subsequently eligible retirees access their benefits through a Health Reimbursement Account that the OPEB Trust makes a monthly deposit to based on years of service.	May purchase active employee plan for member and dependents until age 65.	Active employee plan for member and dependents until age 65; at that age coverage ceases if Medicare eligible.	May purchase active employee plan for member and dependents until age 65.	For employees retiring after June 21, 1998 the Board pays a portion of the post 65 Tier II benefits depending on the years of service and the retiree's age. Those employees who retired previously have different benefits.
Other	Retired teachers can purchase coverage for themselves and dependents at active or early retirement rate, as applicable until they are Medicare eligible.				

RIGL Sections 16-17.1-1 and 2, 36-10-2, 36-12.1, 36-12-2.2 and 36-12-4 govern the provisions of the System, and they may be amended in the future by action of the General Assembly.

B. Funding Policy, Funding Status and Funding Progress

The contribution requirements of plan members, the State, and other participating employers are established and may be amended by the General Assembly. The State and other participating employers are required by law to fund the plans on an actuarially determined basis. For the fiscal year ended June 30, 2016, the State and other participating employers paid $53.4 million into the plans.

C. Annual OPEB Cost and Net OPEB Obligation

The participating employers recognized an expense equal to a) the annual required contribution of the employer (ARC), which was actuarially determined, plus b) interest on the net OPEB obligation at the beginning of the fiscal year, where applicable, less c) the ARC adjustment, where applicable (discounted present value of the OPEB liability at the beginning of the fiscal year). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The annual OPEB cost for the year, the amount actually paid on behalf of the plans and the changes in the net OPEB obligation are as follows (dollar amounts expressed in thousands):

	State Employee	Teachers	Judicial	State Police	Legislators	BOE
Date of Actuarial Valuation	06/30/13	06/30/13	06/30/13	06/30/13	06/30/13	06/30/13
Annual required contribution as a percent of payroll	5.97%	N/A	0.00%	33.39%	1.53%	3.11%
Annual required contribution	$ 40,709	$ 2,321	$ 0	$ 6,823	$ 27	$ 3,558
Plus: Interest on net OPEB obligation at beginning of year	0	N/A	0	426	0	0
Less: Adjustment to ARC	0	N/A	0	443	0	0
Annual OPEB cost	40,709	2,321	0	6,806	27	3,558
Participating State and/or other employer contributions	40,709	2,321	0	6,823	27	3,558
Decrease in OPEB obligation	0	0	0	(17)	0	0
Net OPEB obligation at beginning of year	0	0	0	8,520	0	0
Net OPEB obligation at end of year	$ 0	$ 0	$ 0	$ 8,503	$ 0	$ 0

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation were as follows (dollar amounts expressed in thousands):

Plan	Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
State Employees	2014	$ 49,072	100.00%	-
	2015	47,768	100.00%	-
	2016	40,709	100.00%	-
Teachers	2014	2,799	100.00%	-
	2015	2,799	100.00%	-
	2016	2,321	100.00%	-
Judicial	2014	13	100.00%	-
	2015	13	100.00%	-
	2016	-	100.00%	-
State Police	2014	7,874	99.56%	8,485
	2015	8,170	99.57%	8,520
	2016	6,806	99.99%	8,503
Legislators	2014	-	N/A	-
	2015	-	N/A	-
	2016	27	N/A	-
BOE	2014	3,095	100.00%	-
	2015	3,011	100.00%	-
	2016	3,558	100.00%	-

The table below displays the funded status of each plan at June 30, 2015, the most recent actuarial valuation date (dollar amounts expressed in thousands):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded (Overfunded) AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
State Employees	$ 92,125	$ 622,826	$ 530,701	14.8%	$ 682,965	77.7%
Teachers	6,648	13,050	6,402	50.9%	n/a	n/a
Judicial	2,826	756	(2,070)	373.8%	10,281	-20.1%
State Police	22,920	78,857	55,937	29.1%	18,119	308.7%
Legislators	2,469	1,317	(1,152)	187.5%	1,742	-66.1%
BOE	14,608	69,106	54,498	21.1%	113,947	47.8%

Covered payroll and the UAAL as a percentage of covered payroll are not presented for teachers since the required contribution by the State is for the Tier I subsidy for teachers who have elected to participate in the State's Retiree Health Care Benefit Plan.

D. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in the actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, show whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plans by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not exceeding thirty years.

The Annual Required Contributions for fiscal year 2016 were determined based on the June 30, 2013 valuations for all plans.

The following table summarizes the actuarial methods and assumptions used in the 2013 valuation:

Summary of Actuarial Methods and Assumptions as of June 30, 2013 valuation

	Plan					
	State Employees	Teachers	Judicial	State Police	Legislators	Board of Education
Plan Type	Cost sharing multiple employer	Single Employer	Single Employer	Single Employer	Single Employer	Cost sharing multiple employer
Actuarial Cost Method	Individual Entry Age					
Amortization Method	Level Percent of Payroll	Level Dollar	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Equivalent Single Remaining Amortization Period	23 years closed	Determined by statutory contribution	30 years open	23 years closed	30 years open	23 years closed
Asset Valuation Method	Four year smoothed market					
Actuarial Assumptions						
Investment Rate of Return	5.00%					
Projected Salary Increases	3.50% to 6.50%	NA	3.50%	3.50% to 11.5%	3.75% to 8.00%	3.50% to 6.50%
Valuation Health Care Cost Trend Rate	9% in 2014, grading to 3.5% in 2023					
Excise Tax Under the Patient Protection and Affordable Care Act	11.00%					

Note: The actuarial assumptions do not include a separate general inflation rate assumption.

As of the June 30, 2013 actuarial valuation, the UAAL was amortized over the remainder of a closed 30-year (or shorter) period from June 30, 2006. The remaining amortization period at June 30, 2013 was 23 years. The UAAL for teachers is being amortized is based on the statutory contribution, subject to statutory restriction. The remaining amortization period at June 30, 2013 for teachers was three years. Due to the current funding status of the Judges and Legislators plans, the amortization period is set to 30-year open.

The most recent actuarial valuations of the plans were performed as of June 30, 2015.

There have been changes in actuarial assumptions since the June 30, 2013 valuation. Certain actuarial assumptions for State Employees, Legislators, and Board of Education were updated to match the assumptions used for State Employees in the most recent pension valuation for the Employees' Retirement System of Rhode Island (ERSRI). Changes were made to the following assumptions:

- Merit and longevity portion of the salary increase assumption
- Rates of separation from active membership
- Rates of retirement
- Rates of disability

In addition, the wage inflation was changed to 3.75% for State Police in order to match the most recent actuarial valuation of the State Police Retirement Benefits Trust.

The excise tax load on pre-65 liabilities was changed from 11.0% to 13.8%

The Patient Protection and Affordable Care Act includes an excise tax on high cost health plans beginning in 2020. The excise tax is 40% of costs above a threshold. The actual actuarial assumptions used in the most recent valuations assume that the plans will be subject to the excise tax in 2020.

The General Laws were amended in the 2013 session of the General Assembly to modify the manner in which health insurance is provided to Medicare eligible retirees covered under the System's plan covering state employees. Effective October 1, 2014 the State established health reimbursement accounts (HRA) for each Medicare eligible retiree who elects to receive health insurance coverage through the state sponsored program. In addition, certain changes in benefits offered under the program are effective in July 2014 and January 2015. The effect on the Actuarial Accrued Liability resulting from these changes is reflected in the valuation table on the preceding page.

The table on the following page summarizes the actuarial methods and assumptions used in the most recent actuarial valuation.

Summary of Actuarial Methods and Assumptions as of June 30, 2015 valuation						
	Plan					
	State Employees	Teachers	Judicial	State Police	Legislators	Board of Education
Plan Type	Cost sharing multiple employer	Single Employer	Single Employer	Single Employer	Single Employer	Cost sharing multiple employer
Actuarial Cost Method	Individual Entry Age					
Amortization Method	Level Percent of Payroll	Level Dollar	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Equivalent Single Remaining Amortization Period	21 years closed	Determined by statutory contribution	30 years open	21 years closed	30 years open	21 years closed
Asset Valuation Method	Four year smoothed market					
Actuarial Assumptions						
Investment Rate of Return	5.00%					
Projected Salary Increases	3.50% to 6.50%	NA	3.50%	3.75% to 11.75%	3.50% to 6.50%	3.50% to 6.50%
Valuation Health Care Cost Trend Rate	9% in 2016, grading to 3.5% in 2025					
Excise Tax Under the Patient Protection and Affordable Care Act	13.8%					
Note: The actuarial assumptions do not include a separate general inflation rate assumption.						

Certain other component units have other post-employment benefit plans. For information regarding these plans, please refer to the component units' separately issued financial reports.

Note 15. Deferred Compensation

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Department of Administration, pursuant to Chapter 36-13 of the General Laws, administers the plan. The Department of Administration contracts with private corporations to provide investment products related to the management of the deferred compensation plan. Plan distributions are normally available to employees at the later of age 59 or retirement and mandatory distributions must commence once the individual reaches age 70½. The plan also allows for distributions for qualifying events such as termination, death or “unforeseeable emergency.”

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

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

Note 16. Risk Management

The State is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; employee injury; and natural disasters.

The State has entered into agreements with commercial insurance companies for comprehensive insurance coverage, subject to certain deductibles, on State property to protect the State against loss from fire and other risks. Furthermore, the State is required by the General Laws to provide insurance coverage on all motor vehicles owned by the State and operated by State employees in the sum of $100 thousand per person and $300 thousand per accident for personal injury and $20 thousand for property damage. During fiscal year 2016, and the two preceding fiscal years, no settlements exceeded insured coverage limits.

The State also has a contract with an insurance carrier/administrator to provide health care benefits to active and certain retired employees. For coverage provided to active employees and retirees who are not eligible for Medicare, the State retains the full risk of loss. The State reimburses the administrator for the costs of all claims paid plus administrative fees.

The estimated liability for incurred but not reported (IBNR) claims at June 30, 2016 and June 30, 2015 was calculated based on historical claims data. The change in claims liability (expressed in thousands) is as follows:

	Liability at July 1, 2015	Current Year Claims and IBNR Estimate	Claim Payments	Liability at June 30, 2016
Health Insurance Internal Service Fund				
Unpaid claims	$ 18,632	$ 230,129	$ 229,719	$ 19,042

	Liability at July 1, 2014	Current Year Claims and IBNR Estimate	Claim Payments	Liability at June 30, 2015
Health Insurance Internal Service Fund				
Unpaid claims	$ 16,328	$ 221,513	$ 219,209	$ 18,632

The State is self-insured for risks of loss related to torts. Tort claims are defended by the State's Attorney General and, when necessary, appropriations are provided to pay claims.

The State is self-insured for various risks of loss related to work-related injuries of State employees. The State maintains the Assessed Fringe Benefits Fund, an internal service fund that services, among other things, workers' compensation claims. Funding is provided through a fringe benefit rate applied to State payrolls on a pay-as-you-go basis.

The State has entered into contracts with managed care health plans to share in either the aggregate risk (loss) or gain (profit) incurred by the plans over the course of the contract year. Managed care expenditures represent a relatively large portion of the State's medical assistance expenditures.

Note 17. Other Information

A. Elimination Entries

When the governmental fund statements and the internal service fund statements are combined into one column for governmental activity on the government-wide financial statements, interfund balances and activity should be eliminated. The following are the eliminations (expressed in thousands) that were made:

	Total Governmental Funds	Internal Service Funds	Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 5,385	$ 1,023	$ 6,408	$ (4,280)	$ 2,128
Loans to other funds	114,731		114,731	(114,731)	
Total assets	$ 120,116	$ 1,023	$ 121,139	$ (119,011)	$ 2,128
Liabilities					
Due to other funds	$ 2,340	$ 1,940	$ 4,280	$ (4,280)	$
Loans from other funds	108,821	5,910	114,731	(114,731)	
Total liabilities	$ 111,161	$ 7,850	$ 119,011	$ (119,011)	$
Program revenue					
General government	$	$ 302,392	$ 302,392	$ (302,392)	
Public safety		12,502	12,502	(12,502)	
Expenses					
General government		(301,322)	(301,322)	301,322	
Public safety		(13,572)	(13,572)	13,572	
Net revenue (expenses)	$	$	$	$	$
Transfers					
Transfers in	$ 572,569	$	$ 572,569	$ (236,804)	$ 335,765
Transfers out	(236,804)		(236,804)	236,804	
Net transfers	$ 335,765	$	$ 335,765	$	$ 335,765

	Total Business-type Activities		Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 713	$	$ 713	$ (2,841)	$ (2,128)
Total assets	$ 713	$	$ 713	$ (2,841)	$ (2,128)
Liabilities					
Due to other funds	$ 2,841	$	$ 2,841	$ (2,841)	$
Total liabilities	$ 2,841	$	$ 2,841	$ (2,841)	$
Transfers					
Transfers in	$ 34,102	$	$ 34,102	$ (34,102)	$
Transfers out	(369,867)		(369,867)	34,102	(335,765)
Net transfers	$ (335,765)	$	$ (335,765)	$	$ (335,765)

B. Related Party Transactions

The State has transferred custody, control and supervision of the Jamestown and the Sakonnet River Bridges and related land and improvements from the Department of Transportation to the R.I. Turnpike and Bridge Authority (RITBA). While maintenance responsibilities for the two bridges rest with RITBA, ownership and title remains with the State.

The R.I. Industrial-Recreational Building Authority is authorized to insure mortgages and first security agreements granted by financial institutions and the R.I. Industrial Facilities Corporation for companies conducting business in the State.

The State entered into a lease and operating agreement (the agreement) with the R.I. Airport Corporation (RIAC) whereby the State has agreed to lease various assets to RIAC. The agreement requires RIAC to reimburse the State for principal and interest payments for certain airport-related General Obligation Bonds. The term of the agreement is 30 years beginning July 1, 1993, with annual rent of $1.00. In the event RIAC does not have sufficient funds to make the required lease payments when due, the amount is payable in the next succeeding fiscal year and remains an obligation of RIAC until paid in full. The State has no rights to terminate the agreement as long as there are bonds and subordinate indebtedness outstanding.

The State has transferred land reclaimed from the Interstate 195 relocation project and the Washington Bridge project to the I-195 Redevelopment District Commission (I-195 RDC). The value of the land was reported in the State's financial statements as a capital contribution at the historical cost of $343 per acre, for a total of $7,203. Significant improvements to the land are being funded by the State to complete redevelopment of the land for sale. In April 2013, the R.I. Commerce Corporation (RICC) issued conduit debt obligations on behalf of the I-195 RDC totaling $38.4 million.

During fiscal 2016, the General Assembly appropriated $25 million to the I-195 RDC to fund various economic development initiatives associated with the sale of the I-195 RDC land.

The voters of Rhode Island authorized the issuance of $30 million in general obligation debt for the construction of a new residence hall at Rhode Island College (RIC). Of this amount, $20 million will be repaid to the State. The residence hall was finished and in service by September 2007, at which time RIC began collecting revenues to pay for its share of the debt service. Debt service obligation is to be split two-thirds to RIC and one-third to the State for all payments after September 2007. RIC will repay the State for the debt service paid on its behalf on a straight-line basis, amortized over the remaining life of the bonds, which carry rates ranging from 3% to 5% and a life of nineteen years beginning in fiscal year 2009.

Under an agreement with AllianceBernstein, the administrator of the CollegeBoundfund operated by the R.I. Higher Education Savings Trust, the State received asset-based fees from AllianceBernstein and direct purchase commissions from direct purchases by certain non-Rhode Island residents. The total amount received during fiscal year 2016 was $8,446,261. In addition, the State accrued a receivable of $1,446,270 from AllianceBernstein at June 30, 2016 for amounts earned in fiscal year 2016.

During fiscal 2016, the State created the School Building Authority Fund program to address high priority school building projects in communities with limited resources. Certain administrative duties related to the management and custody of monetary assets of the program were assigned to the Rhode Island Health and Educational Building Corporation (RIHEBC), including establishing a trust to hold related monies, creating and maintaining program accounting records, and the distribution and management of awards. Approved awards can be loans, grants or a combination of both. An appropriation of $20 million was made to RIHEBC to fund the program. Funding is expected to continue through annual appropriations from the legislature, loan repayments, bond refinance interest savings and other payments received by RIHEBC pursuant to finance agreements with cities, towns and local education agencies.

The Municipal Road and Bridge Revolving Fund was created within the Rhode Island Infrastructure Bank (RIIB) to provide municipalities with low-cost financial assistance for road and bridge projects. State statute requires RIIB to administer the financial components of the fund and requires the RI Department of Transportation to receive, review and rank municipal road and bridge projects submitted for funding consideration on an annual basis.

R. I. Commerce Corporation received various state appropriations totaling approximately $27 million during fiscal 2016 to fund various economic development initiatives on behalf of the State.

C. Budgeting, Budgetary Control, and Legal Compliance

Budget Preparation

An annual budget is adopted on a basis consistent with generally accepted accounting principles. The budget encompasses the General, Intermodal Surface Transportation and Temporary Disability Insurance Funds as well as selective portions of certain other funds. Preparation and submission of the budget is governed by the State Constitution and the Rhode Island General Laws. The budget, as enacted, contains a complete plan of proposed expenditures from all sources of funds (general, federal, restricted, and transfers in). Revenues upon which the budget plan is based are determined as part of the State's Revenue Estimating Conference.

The Conference, held twice each year, results in a consensus estimate of revenues for the next fiscal year and an update of prior revenue estimates for the current fiscal year.

As required by the Constitution and the Rhode Island General Laws, annual appropriations are limited to 97.0 percent of estimated general revenues. The remaining 3.0 percent is contributed to the Budget Reserve Account until such account equals 5.0 percent of total general revenues and opening surplus. Excess contributions to the Budget Reserve Account are transferred to the Rhode Island Capital Plan Fund to be used for capital projects.

The annual budget is adopted on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the “actual” column that have no corresponding budget amount. These amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

The State’s budget documents may be accessed at the following website: http://www.omb.ri.gov/budget.

Budgetary Controls

The legal level of budgetary control, i.e., the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch), is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch.

Budgetary controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations, accounting system controls to limit expenditures in excess of authorized amounts, and budgetary monitoring controls.

D. Significant Transactions with Component Units

The significant transactions with the discretely presented component units are presented (expressed in thousands) below:

Significant transactions between primary government and component units

	Expense	Description
Governmental activities		
General		
University of Rhode Island	$ 72,359	Operating assistance
Rhode Island College	44,861	Operating assistance
Community College of Rhode Island	47,809	Operating assistance
Central Falls School District	46,371	Operating assistance
The Met	11,234	Operating assistance
I-195 District Commission	25,845	Operating assistance
R.I. Commerce Corporation	40,324	Operating and capital assistance
R.I. Division of Higher Education Assistance	8,028	Operating assistance
R.I. Health and Education Building Corporation	63,864	School Building Authority Capital Fund/debt service
IST		
R.I. Public Transit Authority	46,792	Operating assistance
R.I. Turnpike and Bridge Authority	15,677	Infrastructure improvements
Bond Capital		
University of Rhode Island	15,605	Construction, improvement or purchase of assets
Rhode Island College	11,092	Construction, improvement or purchase of assets
R.I. Infrastructure Bank	9,930	Infrastructure improvements and bond proceeds
R. I. Capital Plan		
University of Rhode Island	18,190	Construction, improvement or purchase of assets
Rhode Island College	8,165	Construction, improvement or purchase of assets
Total Governmental Activities	$ 486,146	

E. Individual Fund Deficits

The following Internal Service Funds had cumulative fund deficits at June 30, 2016:

- Central Utilities ($11 thousand)
- State Telecommunications ($563 thousand)
- Records Center ($215 thousand)
- Capitol Police ($48 thousand)

The deficits will be eliminated through charges for services in fiscal year 2017.

F. Restatements – Net Position

Restatements of beginning net position (expressed in thousands) are in the following table:

	Governmental Activities	Proprietary and Business-type Activities	Discretely Presented Component Units	Fiduciary Private Purpose Trusts
Balances previously reported at June 30, 2015				
Net position	$ (596,579)	$ 72,414	$ 1,744,190	$ 2,655
Restatement due to:				
1) Transfer of the functions of the previous RI Higher Education Authority to the newly created Division of Higher Education Assistance			(38,348)	
2) Inclusion of the RI Higher Education Savings Trust as private purpose trust fund of the State				7,417,315
3) Changes in the reporting entity			553,698	
4) Correction of errors (net)	(365)		261	
5) Adjustments to capital assets	(7,689)			
July 1, 2015 net position, as restated	$ (604,633)	$ 72,414	$ 2,259,801	$ 7,419,970

1) Effective July 1, 2015, the RI Higher Education Assistance Authority, previously a discretely presented component unit, was dissolved and its operations were assumed by the newly created Division of Higher Education Assistance (the Division) within the Office of the Commissioner of Post-Secondary Education. The State's fiscal 2016 financial statements include the Division as a discretely presented component unit. Beginning net position was decreased for the net position of the RI Higher Education Assistance Authority which ceased operations on June 30, 2015. A fiscal 2016 special item reflects the transfer of net position to the new Division.

2) The Rhode Island Higher Education Savings Trust (the Trust) , a private purpose trust, which had a beginning fiduciary net position of $7.4 billion, was previously a fiduciary component unit of the RI Higher Education Assistance Authority but not included within the State reporting entity. Pursuant to legislation enacted by the General Assembly in the 2015 session, responsibility for oversight of the Trust was transferred to the General Treasurer effective July 1, 2015 and the Trust's financial statements are now included as a fiduciary (private purpose trust) fund.

3) Implementation of new State programs administered by quasi-public entities, which were previously considered related State organizations, resulted in reconsideration of those entities as component units for fiscal 2016 consistent with generally accepted accounting principles. The RI Infrastructure Bank and RI Health and Education Building Corporation with beginning net position of $541.7 million and $12.0 million, respectively, have been included as discretely presented component units for fiscal 2016.

4) The governmental activities had a correction of an error, related primarily to the carrying value of certain assets. In addition, the correction of an error in the discretely presented component units relates primarily to the adjustment of the carrying value of certain assets and liabilities of two component units – the Met School (opening net position decreased $92 thousand) and the Central Falls School District (opening net position increased $353 thousand).

5) A net decrease of $7.7 million was recorded to opening net position within the governmental activities related to capital assets. Of this net amount, a decrease of $8.9 million was attributable to the adjustment of the carrying value of cancelled projects, remediation and donated property costs that were included in construction in progress in prior fiscal years. In addition, an increase of $1.2 million was attributable to costs that should have been included in construction in progress in prior years for a software development project.

G. Pledged Revenue

The State's debt supported by pledged revenue is as follows (expressed in thousands):

Revenue Bonds-Tobacco Settlement Financing Corporation			
Revenue:			
Tobacco settlement revenue-cash basis	$	47,432	
Investment income		50	
Total revenue		47,482	
Operating expenses		141	
Net revenue available for debt service	$	47,341	
Required debt service payments	$	38,139	
Covered ratio before turbo principal payments (b)			124.13%
Annual debt service (principal) turbo redemption (a)		10,005	
Total annual debt service	$	48,144	
Covered ratio after turbo principal payments			98.33%
Term of commitment - through June 2052			
Revenue Bonds-GARVEE (Federal Highway)			
Revenue - FHWA participation	$	6,254	
Less: operating expenses		-	
Net available revenue	$	6,254	
Debt service (d)			
Principal	$	-	
Interest		6,254	
Total debt service	$	6,254	
Coverage (b)			100.00%
Term of commitment - through June 2021			
Revenue Bonds-GARVEE (Gas Tax)			
Revenue - 2 cents per gallon of the gasoline tax	$	8,981	
Less: operating expenses		-	
Net available revenue	$	8,981	
Debt service			
Principal	$	4,375	
Interest		2,839	
Total debt service	$	7,214	
Coverage (b)			124.49%
Term of commitment - through June 2027			
Division of Motor Vehicles Capital Lease (c)			

(a) Debt service principal includes "Turbo Maturity" redemptions, whereby TSFC is required to apply 100% of all collections that are in excess of current funding requirements to the early redemption of the bonds. Annual revenues have been sufficient to meet scheduled debt service requirements.

(b) Coverage equals net available revenue divided by debt service.

(c) Paid in full in fiscal year 2016. Accordingly, coverage information not presented.

(d) These bonds were refunded during the year.

H. Special Items

Discretely Presented Component Units

RI Division of Higher Education Assistance

Effective July 1, 2015, the R.I. Higher Education Assistance Authority (RIHEAA), previously a discretely presented component unit, was dissolved and its operations were assumed by the newly created Division of Higher Education Assistance (RIDHEA) within the Office of the Commissioner of Post-Secondary Education. The State's fiscal year 2016 financial statements include the RIDHEA as a discretely presented component unit. Beginning net position was decreased for the net position of the RIHEAA which ceased operations on June 30, 2015.

Pursuant to a law enacted by the General Assembly, the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the RIHEAA were transferred to the RIDHEA on July 1, 2015. In accordance with generally accepted accounting principles, a special item is reflected within the discretely presented component units to reflect the transfer of operations to RIDHEA.

The following table shows the net position transferred to the RIDHEA (expressed in thousands):

Current assets	$	42,552
Capital assets, net		1,566
Other assets		630
Total assets		44,748
Deferred outflow s of resources		232
Current liabilites		1,828
Noncurrent liablities		4,543
Total liabilities		6,371
Deferred inflow s of resources		261
Net investment in capital assets		1,566
Restricted net position		36,782
Total net position	$	38,348

Note 18. Subsequent Events

Primary Government

In September 2016, pursuant to a law enacted by the General Assembly, the State made the initial deposit of $15 million to a trust to fund and pay benefits that were earned under the provisions of the State Police Non-Contributory Retirement Plan discussed in Note 13. These funds were received by the State as a result of an asset forfeiture that stemmed from a multi-law enforcement agency investigation of Google, Inc. The legislation also calls for the State to make payments into the Trust to amortize the remaining unfunded liability over a period of 18 years.

In October 2016, the Rhode Island Commerce Corporation, on behalf of the RI Department of Transportation, issued $245.925 million of Grant Anticipation Bonds. The bonds mature in 2025 to 2031 and have yields ranging from 1.92% to 2.60%. The bonds were issued to provide funding for reconstruction and/or replacement of certain of the State's bridges, highways and roads, and will be repaid with federal funds.

In November 2016, the voters of the State approved a referendum to allow the opening of a new casino/hotel in Tiverton near the Massachusetts border. This facility, which will replace the Newport Grand Casino, will be operated by the same company that operates the Twin River Casino in Lincoln.

Discretely Presented Component Units

On July 1, 2016, the Rhode Island Airport Corporation issued $36,885,000 2016 Series D General Airport Revenue Bonds and $3,445,000 2016 Series E General Airport Revenue Bonds. The 2016 Series D issue matures annually from 2026 through 2046 with interest coupons of 5%. The 2016 Series E issue matures annually from 2017 through 2021 with interest coupons from 1.95% to 2.75%.

In October 2016, the R.I. Housing & Mortgage Finance Corporation (RIHMFC) issued Homeownership Opportunity Bonds Series 68 in the amount of $193,105,000. On October 1, 2016, $7,715,000 in Home Funding Bonds were redeemed prior to maturity and on October 14, 2016, $157,560,000 in Homeownership Opportunity Bonds were redeemed prior to maturity. In addition, on December 1, 2016, $10,770,000 in Multi-Family Development Bonds, and $4,615,000 in General Housing Bond Program Bonds were redeemed prior to maturity. All redemptions were made under provisions in the bond resolutions that allow mortgage prepayments, excess revenues and refunded amounts to be used for such purposes. Additionally, in October 2016, RIHMFC issued a total of $13,820,000 in Federal Financing Bank debt to refinance multi-family developments.

On October 18, 2016, the University of Rhode Island issued Higher Education Facility Revenue Bonds, Council on Postsecondary Education, University of Rhode Island Education and General Revenue Issue 2016 Series A bonds with a par amount of $35,155,000. On the same day, the University issued Higher Education Facility Revenue Bonds, Council on Postsecondary Education, University of Rhode Island Auxiliary Enterprise Revenue Issue Refunding 2016 Series B bonds with a par amount of $53,355,000.

A portion of the proceeds of the 2016 Series A Bonds will be used to finance and refinance the design, construction, renovation, improvement and equipping of certain utility systems and other infrastructure, including, without limitation, wastewater, electrical, telecommunications, natural gas connections and storm water management systems, as well as roadways, walkways and parking facilities.

In addition, a portion of the proceeds of the 2016 Series A Bonds and the 2016 Series B Refunding Bonds will be applied to redeem the 2005 Series A Bonds, the 2005 Series B Bonds, the 2005 Series C Bonds, the 2005 Series D Bonds, the 2005 Series F Bonds, and the 2005 Series G Bonds. The redemptions occurred within 60 days following the date of issuance of the 2016 Series bonds.

The I-195 Redevelopment District Commission has entered into a Purchase and Sale Agreement with SSL Partner, LLC and CV Properties, LLC dated January 14, 2016, in which the District has agreed to sell in three phases District Parcels 22 and 25. The District received an application for financial assistance from SSL Partner, LLC an affiliate of Wexford Science & Technology, LLC, under the Project Fund Act in relation to an office, research and development project to be located partially on a portion of District Parcel 22 and partially on other land of the applicant, located on Dyer and Dorrance Streets in Providence. On December 12, 2016 the District approved the application and committed to provide disbursements from the Project Fund to develop the Project in an aggregate amount not to exceed $18,500,000. The District is authorized to advance up to $1,000,000 from the Project Fund for the purpose of equipping space in the building located at One Ship Street and adjacent to District Parcel 22, owned by the applicant or its affiliate, for the purpose of preparing and equipping space in that building for one or more tenants.

Note 19. Restatement of Components of Net Position

Aggregate Discretely Presented Component Units

Management of the Rhode Island Turnpike and Bridge Authority, a discretely presented component unit, has determined that the components of the Authority's net position at June 30, 2016 were incorrectly reported. The originally reported amount of net position, net investment in capital assets, was not reduced by the amount of outstanding bond obligations, net of unused debt proceeds and reserves funded by debt proceeds, and certain other amounts. Also, the originally reported amount of restricted net position included reserves funded by debt proceeds which should have been considered in the determination of the amount of net position, net investment in capital assets. The correction of this error had no effect on the Authority's total net position at June 30, 2016 or the change in net position for the year ended June 30, 2016 as originally reported. At June 30, 2016, the components of the Authority's net position are as follows:

Components of Net Position – Rhode Island Turnpike and Bridge Authority	As Originally Reported (in thousands)	As Restated (in thousands)
Net investment in capital assets	$ 195,424	$ 68,667
Restricted	41,944	35,353
Unrestricted (deficit)	(120,611)	12,737
Total net position	$ 116,757	$ 116,757

Amounts included for the aggregate discretely presented component units of the State of Rhode Island have been similarly restated to reflect the corrected net position components at June 30, 2016. The correction of this error had no effect on the State's aggregate discretely presented component units' total net position at June 30, 2016 or the change in net position for the year ended June 30, 2016 as originally reported. At June 30, 2016, the components of net position of the aggregate discretely presented component units of the State of Rhode Island are as follows:

Components of Net Position – Aggregate Discretely Presented Component Units	As Originally Reported (in thousands)	As Restated (in thousands)
Net investment in capital assets	$ 1,439,854	$ 1,313,097
Restricted for:		
Debt	252,100	245,509
Other	737,779	737,779
Nonexpendable	127,710	127,710
Unrestricted (deficit)	(104,115)	29,233
Total net position	$ 2,453,328	$ 2,453,328

Required Supplementary Information

State of Rhode Island
Fiscal Year Ended
June 30, 2016

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
General Revenues:				
Personal Income Tax	$ 1,215,737	$ 1,224,900	$ 1,217,430	$ (7,470)
General Business Taxes:				
Business Corporations	136,380	153,500	134,909	(18,591)
Public Utilities Gross Earnings	104,700	99,500	103,062	3,562
Financial Institutions	16,500	20,400	21,096	696
Insurance Companies	125,228	121,400	130,344	8,944
Bank Deposits	2,000	2,400	2,556	156
Health Care Provider Assessment	44,937	44,000	43,236	(764)
Sales and Use Taxes:				
Sales and Use	969,532	981,000	971,873	(9,127)
Motor Vehicle	36,538	39,200	39,692	492
Motor Fuel	500		(208)	(208)
Cigarettes	140,780	143,000	142,783	(217)
Alcohol	18,840	19,300	19,630	330
Other Taxes:				
Inheritance and Gift	20,400	25,100	70,029	44,929
Racing and Athletics	1,100	1,100	1,059	(41)
Realty Transfer Tax	10,211	10,400	10,432	32
Total Taxes *(1)*	2,843,383	2,885,200	2,907,923	22,723
Departmental Revenue	357,236	363,800	367,641	3,841
Total Taxes and Departmental Revenue	3,200,619	3,249,000	3,275,564	26,564
Other Sources:				
Lottery	331,740	370,100	369,761	(339)
Unclaimed Property	10,000	12,100	14,167	2,067
Other Miscellaneous	1,397	3,829	4,102	273
Total Other Sources	343,137	386,029	388,030	2,001
Total General Revenues	3,543,756	3,635,029	3,663,594	28,565
Federal Revenues	2,672,784	2,799,789	2,610,735	(189,054)
Restricted Revenues	243,843	308,238	241,872	(66,366)
Other Revenues	78,568	79,370	84,348	4,978
Non-budgeted Capital Lease Proceeds			5,021	5,021
Total Revenues *(2)*	6,538,951	6,822,426	6,605,571	(216,856)
Expenditures *(4)*:				
General government	712,217	797,329	724,862	72,467
General government - non-budgeted capital lease expenditures			5,021	(5,021)
Total general government	712,217	797,329	729,883	67,446
Human services	3,712,320	3,816,384	3,694,123	122,261
Education	1,515,660	1,507,643	1,482,774	24,869
Public safety	513,958	540,374	504,217	36,157
Natural resources	93,030	98,249	78,270	19,979
Total Expenditures *(2)*	6,547,185	6,759,979	6,489,267	$ 270,712
Transfer of Excess Budget Reserve to RI Capital Fund			108,813	
Total Expenditures and Transfers	$ 6,547,185	$ 6,759,979	6,598,080	
Change in Fund Balance			7,491	
Fund balance - beginning			501,887	
Fund balance - ending			$ 509,378	

(continued)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Expenditures by Source:				
General Revenues	$ 3,551,989	$ 3,572,582	$ 3,547,905	$ 24,677
Federal Funds	2,672,784	2,799,789	2,612,621	187,168
Restricted Receipts	243,844	308,238	242,189	66,049
Other Funds	78,568	79,370	81,531	(2,161)
Non-budgeted Capital Lease Expenditures			5,021	(5,021)
	$ 6,547,185	$ 6,759,979	$ 6,489,267	$ 270,712

General Fund - Reconciliation of Budget Results to Changes in Fund Balance:

Budgeted Surplus:

Total Revenue - Final Budget	$ 6,822,426	
Total Expenditures - Final Budget	6,759,979	
Final Budget - Projected Surplus (3)		$ 62,447
Final Budget and Actual - Results		
Total Revenues - Variance (Actual Revenue less than Budget)	$ (216,856)	
Total Expenditures - Variance (Actual Expenditures less than Budget)	270,712	
Surplus resulting from operations compared to final budget		$ 53,856
Total General Fund Surplus - Fiscal Year Ended June 30, 2016		$ 116,303
Transfer of Excess Budget Reserve to RICAP Fund		(108,813)
Net Change in General Fund - Fund Balance		$ 7,491
Fund Balance, Beginning		501,887
Fund Balance, Ending		$ 509,378

Notes:
Due to rounding, numbers presented may not add up precisely to the totals provided.

(1) Transfers from the Historic Tax Credit Special Revenue Fund reported as "Other Financing Sources" on the General Fund have been allocated to General Revenue Tax Categories on this schedule to align with the State's legally adopted budget format.

(2) Certain revenue and expenditure amounts classified as "Other Financing Sources (Uses)" have been reclassified within the budgetary comparison schedule to align with the State's legally adopted budgetary format.

(3) RI General Law section 35-3-20.1, titled "Limitation on state spending", mandates that expenditure appropriations shall not be greater than 97.0% of estimated general revenue for the fiscal year ending June 30, 2016.

(4) Debt service expenditures are included in the above respective categories:

General government	$ 118,872
Education	15,538
	$ 134,410

(continued)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

Reconciliation of Fund Balance - Financial Reporting Perspective to Budgetary Perspective

	Fund Balance Reported in the Financial Statements	Budgetary Perspective: Fund Balance Not Available for Appropriation in Fiscal 2017		Budgetary Perspective: Fund Balance Available for Appropriation in Fiscal 2017	
Restricted	$ 133,193	$ 133,193		$	
Committed	3,975	3,975			
Assigned	137,114	12,811	*(a)*	124,303	*(b)*
Unassigned	235,096	191,581	*(c)*	43,515	*(d)*
Total Fund Balance	$ 509,378	$ 341,560		$ 167,818	

(a) Assigned fund balance not available for appropriation in fiscal 2017 includes (1) centralized cost allocation surplus that requires offset through fiscal 2017centralized charges and (2) general revenue appropriations carried forward by the Governor, Judiciary, and Legislature.

(b) Assigned fund balance available for appropriation in fiscal 2017 includes fiscal 2016 ending surplus amounts of $123.3 million appropriated as resources in the 2017 enacted budget, and fund balance amounts encumbered at June 30, 2016.

(c) Budget Reserve and Cash Stabilization Account - for financial statement purposes, this account is classified as unassigned, yet, it is not considered available for recurring operational appropriations.

(d) Remaining fund balance available for appropriation.

(concluded)

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Intermodal Surface Transportation Fund
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	$ 141,711	$ 141,711	$ 184,793	$ 43,082
Licenses, fines, sales, and services		59,067	22,444	(36,623)
Departmental restricted revenue	1,000	160	2,882	2,722
Federal grants	263,615	274,256	254,271	(19,985)
Other revenues	10,910	2,610	2,798	188
Total revenues	417,236	477,804	467,188	(10,616)
Revenues and other Financing Sources (unbudgeted):				
Miscellaneous revenue			(612)	
Total revenues			466,576	
Other Financing Sources:				
Transfers from RI Capital Plan and Bond Capital Funds (State FHWA Match)			15,400	
Proceeds from refunding			230,280	
Other			38,619	
Total Other Financing Sources			284,299	
Total Revenues and Other Financing Sources			750,875	
Expenditures (budgeted):				
Central Management				
Federal Funds		8,853	5,966	2,887
Gasoline Tax	8,540	3,783	2,179	1,604
Total - Central Management	8,540	12,636	8,145	4,491
Management and Budget				
Gasoline Tax		3,695	1,354	2,341
Total - Management and Budget		3,695	1,354	2,341
Infrastructure-Engineering-GARVEE/ Motor Fuel Tax Bonds				
Federal Funds		248,361	237,137	11,224
Federal Funds-Stimulus	240,533	17,042	11,256	5,786
Restricted Receipts	14,542	160	2,600	(2,440)
Gasoline Tax	1,000	72,513	72,319	194
Motor Fuel Tax Residuals	73,801	2,500	310	2,190
Total - Infrastructure - Engineering	329,876	340,576	323,622	16,954
Infrastructure - Maintenance				
Gasoline Tax	14,128	19,787	19,509	278
Non-Land Surplus Property	10	10		10
Outdoor Advertising	100	100		100
Rhode Island Highway Maintenance Account	54,349	59,067	30,446	28,621
Total - Infrastructure - Maintenance	68,587	78,964	49,955	29,009
Total Expenditures (budgeted)	$ 407,003	$ 435,871	$ 383,076	$ 52,795
Expenditures and Financing Uses (unbudgeted):				
Infrastructure Expenditures - State Match funded by RI Capital Plan and Bond Capital Funds			19,972	
Infrastructure Expenditures - GARVEE			1,738	
Payments to escrow agent			267,328	
I-195 Redevelopment District Project			2,012	
Mission 360 Loan Program			(50)	
Transfers to General Fund - Gas Tax			53,136	
Total Expenditures and Financing Uses (unbudgeted)			344,136	
Total Expenditures and Other Financing Uses			727,212	
Net change in fund balance			23,663	
Fund balance, beginning			112,476	
Fund balance, ending			$ 136,139	

See Notes to Required Supplementary Information.

Budget and Actual

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund and certain special revenue funds. The annual budget is prepared on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the "actual" column that have no corresponding original or final budget amount. These amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

The budget to actual comparison for the General Fund on the preceding pages is summarized and does not present budget and actual amounts detailed at the legal level of budgetary control. The legal level of budgetary control, i.e., the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is the line item within the appropriation act. Examples of line items under “Administration” are “Central Management” and “Auditing”. Management cannot reallocate any appropriations without special approval from the legislative branch. A separate schedule presenting such amounts at the detailed legal level of budgetary control is labeled “Annual Budgetary Comparison Schedules” and is available on the State Controller’s website, http://controller.admin.ri.gov/index.php.

The comprehensive annual budget includes transportation function expenditures, the majority of which are reflected in the IST Fund for financial reporting purposes. The IST Fund major fund financial statements include transportation related activity of the various transportation funding sources including gas tax revenues, federal funds, GARVEE and Motor Fuel Bonds, and the proceeds of bonds issued by the I-195 Redevelopment District which were transferred to the IST fund to be utilized for infrastructure projects. The budget to actual comparison schedule for the IST fund on the preceding page is presented at the legal level of budgetary control consistent with the legally adopted budget. Not all the activity reported within the IST fund financial statements is budgeted. Unbudgeted activity has been separately identified in the budget to actual comparison schedule to facilitate reconciliation to the IST fund financial statements.

The original budget includes the amounts in the applicable appropriation act, general revenue appropriations carried forward by the Governor, and any unexpended balances designated by the General Assembly.

State of Rhode Island and Providence Plantations
Pension Information
Defined Benefit Multiple Employer Cost-Sharing Plan

The Employees' Retirement System (ERS) Plan is a multiple-employer cost-sharing defined benefit plan covering state employees and local teachers. Separate actuarial valuations are performed for state employees and teachers but not for individual employers within those groups. The net pension liability and other pension related amounts are apportioned based on proportionate employer contributions to the plan.

By statute, the State funds 40% of the actuarially determined employer contribution for teachers. This constitutes a special funding situation as described in GASB Statement No. 68. Consequently, the State has recognized its proportionate share of the net pension liability and other related pension amounts for this special funding situation in its financial statements.

The amounts included in these schedules for fiscal 2016 reflect a June 30, 2015 measurement date.

Additional information for the ERS plan is available in the separately issued audited financial statements of the Employees' Retirement System of Rhode Island and an additional report prepared to provide the GASB 68 related information for participating employers.

The following schedules are presented for the ERS cost-sharing plan with a special funding situation:

- **ERS – Schedule of State's Proportionate Share of the Net Pension Liability – State Employees**
- **ERS – Schedule of State Contributions**
- **ERS – Schedule of State's Proportionate Share of the Net Pension Liability – Teachers**
- **ERS – Schedule of State Contributions – Teachers**

These schedules are intended to show information for 10 years – additional years will be displayed as information becomes available. Note 13 to the financial statements contains detailed information concerning pension plans.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State's Proportionate Share
of the Net Pension Liability
Last Two Fiscal Years
(Expressed in Thousands)

Employees' Retirement System-State Employees-Governmental Activities

	2016	2015
State's proportion of the net pension liability	89.0%	89.0%
State's proportionate share of the net pension liability	$ 1,767,095	$ 1,585,647
State's covered employee payroll	$ 595,832	$ 581,589
State's proportionate share of the net pension liability as a percentage of its covered employee payroll	296.6%	272.6%
Plan fiduciary net position as a percentage of the total pension liability	55.0%	58.6%

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Last Two Fiscal Years
(Expressed in Thousands)

Employees' Retirement System-State Employees-Governmental Activities

	2016	2015
Actuarially determined contribution	$ 144,696	$ 138,689
Contributions in relation to the actuarially determined contribution	$ 144,696	$ 138,689
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	$ 612,081	$ 594,466
Contributions as a percentage of covered-employee payroll	23.64%	23.33%

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of the State's Proportionate Share
of the Net Pension Liability
Last Two Fiscal Years
(Expressed in Thousands)

Employees' Retirement System-State Share-Teachers (Special Funding Situation)

	2016	2015
State's proportion of the net pension liability	40.59%	40.68%
State's proportionate share of the net pension liability	$ 1,117,395	$ 990,129
Plan fiduciary net position as a percentage of the total pension liability	57.60%	61.40%

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Last Two Fiscal Years
(Expressed in Thousands)

Employees' Retirement System-State Share-Teachers (Special Funding Situation)

	2016	2015
Statutorily required contribution	$ 87,998	$ 84,944
Contributions in relation to the statutorily required contribution	87,998	84,944
Annual contribution deficiency (excess)	$ -	$ -

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Pension Information
Single Employer Defined Benefit Plans

Certain state employees are covered by the following single-employer plans, separate from the ERS plan, which covers most state employees.

- State Police Retirement Benefits Trust (SPRBT)
- Judicial Retirement Benefits Trust (JRBT)
- Rhode Island Judicial Retirement Fund Trust (RIJRFT)

These plans are administered within the Employees' Retirement System of Rhode Island. Separate actuarial valuations are performed of each plan. Additional information for the plans is available in the separately issued audited financial statements of the Employees' Retirement System of Rhode Island.

The amounts included in these schedules for fiscal 2016 reflect a June 30, 2015 measurement date.

The following schedules are presented for each single-employer plan:

- **Schedule of Changes in the Net Pension Liability and Related Ratios**
    - SPRBT
    - JRBT
    - RIJRFT
- **Schedule of State Contributions**
    - SPRBT
    - JRBT
    - RIJRFT

These schedules are intended to show information for 10 years – additional years will be displayed as information becomes available. Note 13 to the financial statements contains detailed information concerning pension plans.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of Changes in Net Pension Liability
and Related Ratios
Last Two Fiscal Years
(Expressed in Thousands)

State Police Retirement Benefits Trust

	2016	2015
Total Pension Liability		
Service cost	$ 4,198	$ 5,122
Interest	8,540	7,768
Benefit Changes	1,170	-
Differences between expected and actual experience	(3,522)	-
Changes of assumptions	-	(364)
Benefit payments	(2,497)	(1,767)
Net Change in Total Pension Liability	7,889	10,759
Total Pension Liability-Beginning	113,018	102,259
Total Pension Liability-Ending	$ 120,907	$ 113,018
Plan Fiduciary Net Position		
Employer contributions	$ 3,432	$ 3,331
Employee contributions	1,732	2,034
Net investment income	2,656	14,124
Benefit payments	(2,497)	(1,767)
Transfers of member contributions	-	-
Administrative expenses	(100)	(83)
Other	4	5
Net Change in Plan Fiduciary Net Position	$ 5,227	$ 17,644
Plan Fiduciary Net Position-Beginning	109,679	92,035
Plan Fiduciary Net Position-Ending	$ 114,906	$ 109,679
Net Pension Liability	$ 6,001	$ 3,339
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	95.0%	97.0%
Covered Employee Payroll	$ 19,701	$ 23,051
Net Pension Liability as a Percentage of Covered Employee Payroll	30.5%	14.5%

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of Changes in Net Pension Liability
and Related Ratios
Last Two Fiscal Years
(Expressed in Thousands)

Judicial Retirement Benefits Trust

	2016	2015
Total Pension Liability		
Service cost	$ 3,024	$ 3,002
Interest	4,540	4,134
Benefit Changes	253	-
Differences between expected and actual experience	(2,857)	-
Changes of assumptions	-	(672)
Benefit payments	(1,809)	(1,631)
Net Change in Total Pension Liability	3,151	4,833
Total Pension Liability-Beginning	59,934	55,101
Total Pension Liability-Ending	$ 63,085	$ 59,934
Plan Fiduciary Net Position		
Employer contributions	$ 2,709	$ 2,543
Employee contributions	1,121	1,093
Net investment income	1,368	7,221
Benefit payments	(1,809)	(1,631)
Transfers of member contributions	-	-
Administrative expenses	(51)	(43)
Other	-	-
Net Change in Plan Fiduciary Net Position	$ 3,338	$ 9,183
Plan Fiduciary Net Position-Beginning	56,172	46,989
Plan Fiduciary Net Position-Ending	$ 59,510	$ 56,172
Net Pension Liability	$ 3,575	$ 3,762
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.3%	93.7%
Covered Employee Payroll	$ 9,570	$ 9,314
Net Pension Liability as a Percentage of Covered Employee Payroll	37.4%	40.4%

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of Changes in Net Pension Liability
and Related Ratios
Last Two Fiscal Years
(Expressed in Thousands)

Rhode Island Judicial Retirement Fund Trust

	2016	2015
Total Pension Liability		
Service cost	$ 416	$ 498
Interest	673	710
Benefit Changes	-	-
Differences between expected and actual experience	(642)	1,617
Changes of assumptions	859	(1,160)
Benefit payments	-	-
Net Change in Total Pension Liability	1,306	1,665
Total Pension Liability-Beginning	17,506	15,841
Total Pension Liability-Ending	$ 18,812	$ 17,506
Plan Fiduciary Net Position		
Employer contributions	$ -	$ -
Employee contributions	159	153
Net investment income	9	12
Benefit payments	-	-
Transfers of member contributions	-	-
Administrative expenses	-	-
Other	-	-
Net Change in Plan Fiduciary Net Position	$ 168	$ 165
Plan Fiduciary Net Position-Beginning	318	153
Plan Fiduciary Net Position-Ending	$ 486	$ 318
Net Pension Liability	$ 18,326	$ 17,188
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	2.6%	1.8%
Covered Employee Payroll	$ 1,321	$ 1,276
Net Pension Liability as a Percentage of Covered Employee Payroll	1387.4%	1346.8%

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Last Two Fiscal Years
(Expressed in Thousands)

State Police Retirement Benefits Trust

	2016	2015
Actuarially determined contribution	$ 4,005	$ 3,432
Contributions in relation to the actuarially determined contribution	4,005	3,432
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	$ 23,258	$ 19,907
Contributions as a percentage of covered-employee payroll	17.22%	17.24%

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Last Two Fiscal Years
(Expressed in Thousands)

Judicial Retirement Benefits Trust

	2016	2015
Actuarially determined contribution	$ 2,410	$ 2,709
Contributions in relation to the actuarially determined contribution	2,410	2,709
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	$ 8,993	$ 9,566
Contributions as a percentage of covered-employee payroll	26.80%	28.32%

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Last Two Fiscal Years
(Expressed in Thousands)

Rhode Island Judicial Retirement Fund Trust

	2016	2015
Actuarially determined contribution	$ 1,512	$ 1,623
Contributions in relation to the actuarially determined contribution	140	-
Contribution deficiency (excess)	$ 1,372	$ 1,623
Covered-employee payroll	$ 1,172	$ 1,276
Contributions as a percentage of covered-employee payroll	11.9%	N/A

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Pension Information
Non-Contributory (pay-as-you-go) Defined Benefit Single Employer Plans

Certain retired state employees are covered by the following single-employer plans, which are separate from the plans previously described, and are not part of the Employees' Retirement System of Rhode Island.

- State Police Non-Contributory Retirement Plan
- Judicial Non-Contributory Retirement Plan

The State funds these plans on a pay-as-you-go basis and no actuarially determined advance employer contribution is made nor are assets accumulated in a trust to pay future benefits. Separate actuarial valuations are performed to provide the accounting measures of the total pension liability for each of the plans.

The amounts included in these schedules for fiscal 2016 reflect a June 30, 2015 measurement date.

The following schedules are presented for each plan:

- **Schedule of Changes in the Total Pension Liability**
  - State Police Non-Contributory Retirement Plan
  - Judicial Non-Contributory Retirement Plan

The Schedule of State Contributions is not presented as the plans operate on a pay-as-you-go basis and there is no covered payroll because there are no active members of the plans.

These schedules are intended to show information for 10 years – additional years will be displayed as information becomes available. Note 13 to the financial statements contains detailed information concerning pension plans.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of Changes in Total Pension Liability
Last Two Fiscal Years
(Expressed in Thousands)

State Police Non-Contributory Retirement Plan

Total Pension Liability	2016	2015
Service cost	$ -	$ -
Interest	10,503	10,795
Benefit changes	-	-
Differences between expected and actual experience	3,565	-
Changes of assumptions	15,955	-
Benefit payments	(17,512)	(17,700)
Net Change in Total Pension Liability	12,511	(6,905)
Total Pension Liability-Beginning	253,580	260,485
Total Pension Liability-Ending	$ 266,091	$ 253,580

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of Changes in Total Pension Liability
Last Two Fiscal Years
(Expressed in Thousands)

Judicial Non-Contributory Retirement Plan

Total Pension Liability	2016	2015
Service cost	$ -	$ -
Interest	2,172	2,334
Benefit changes	-	-
Differences between expected and actual experience	328	-
Changes of assumptions	1,885	-
Benefit payments	(6,020)	(6,173)
Net Change in Total Pension Liability	(1,635)	(3,839)
Total Pension Liability-Beginning	53,653	57,492
Total Pension Liability-Ending	$ 52,018	$ 53,653

See Notes to Required Supplementary Information.

Required Supplementary Information – Pensions

Significant Methods and Assumptions used in calculating the actuarially determined contributions

Actuarially determined contributions are calculated as of June 30, three years prior to the fiscal year in which the contribution rates are applicable. The actuarially determined contribution rates for fiscal 2016 were determined based on valuations performed as of June 30, 2013. Significant methods and assumptions are summarized for each plan in the table below:

<table>
<tr><th rowspan="2"></th><th colspan="2">ERS</th><th rowspan="2">SPRBT</th><th rowspan="2">JRBT</th><th rowspan="2">RIJRFT</th></tr>
<tr><th>State Employees</th><th>Teachers</th></tr>
<tr><td>Actuarial Cost Method</td><td colspan="5">Entry Age Normal - the Individual Entry Age Actuarial Cost methodology is used.</td></tr>
<tr><td>Amortization Method</td><td colspan="4">Level Percent of Payroll – Closed</td><td>Level Dollar</td></tr>
<tr><td>Equivalent single remaining amortization period</td><td colspan="5">22 years remaining at June 30, 2013</td></tr>
<tr><td>Asset valuation method</td><td colspan="5">5 year smoothed market</td></tr>
<tr><td>Amortization period for gains and losses</td><td colspan="5">20 years</td></tr>
<tr><td colspan="6">Actuarial Assumptions</td></tr>
<tr><td>Investment Rate of Return</td><td colspan="4">7.50%</td><td>4.00%</td></tr>
<tr><td>Projected Salary Increases</td><td>3.50% to 6.50%</td><td>3.50% to 13.5%</td><td>3.75% to 11.75%</td><td>3.50%</td><td>3.50%</td></tr>
<tr><td rowspan="2">Mortality</td><td colspan="5">• Male Employees, MERS General and MERS P&F: 115% of RP-2000 Combined Healthy for Males with White Collar adjustments, projected with Scale AA from 2000.
• Female Employees, MERS General and MERS P&F: 95% of RP-2000 Combined Healthy for Females with White Collar adjustments, projected with Scale AA from 2000.</td></tr>
<tr><td></td><td>Male and female teachers: 97% and 92%, respectively of rates in a GRS table based on male and female teacher experience, projected with Scale AA from 2000.</td><td colspan="3"></td></tr>
<tr><td>Inflation</td><td colspan="5">2.75%</td></tr>
<tr><td colspan="6">Cost of Living Adjustments: COLA is equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% - the COLA is to be applied to the first $25,000 of benefits, indexed over time. COLA is delayed until the latter of Social Security eligibility age or 3 years after retirement except for State Police for which the COLA is delayed until the later of age 55 or 3 years after retirement.</td></tr>
</table>

Factors affecting trends for amounts related to the net pension liability

There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability as of the June 30, 2015 measurement date compared to the June 30, 2014 measurement date except for the changes in assumption for the RIJRFT plan due to use of the municipal bond index rate of 3.8% compared to 4.29% used in the June 30, 2014 valuation.

Benefit changes, which resulted from the settlement of the pension litigation and the subsequent enactment of those settlement provisions by the General Assembly, are reflected in the calculation of the net pension liability at the June 30, 2015 measurement date. Significant benefit changes are summarized below:

- Employees with more than 20 years of service at July 1, 2012 will increase their employee contribution rates to 11% for state employees and participate solely in the defined benefit plan effective July 1, 2015 – service credit accruals will increase from 1% to 2% per year.

- Members are eligible to retire upon the attainment of: age 65 with 30 years of service, 64 with 31 years of service, or 62 with 33 years of service. Members may retire earlier if their RI Retirement Security Act date is earlier or are eligible under a transition rule.

- The COLA formula was adjusted to 50% of the COLA is calculated by taking the previous 5-year average investment return, less the discount rate (5 year return – 7.5%, with a max of 4%) and 50% calculated using the previous year's CPI-U (max of 3%) for a total max COLA of 3.5%. The COLA is calculated on the first $25,855, effective, 01/01/2016, and indexed as of that date as well.

- Other changes included providing interim cost of living increases at four rather than five year intervals, providing a one-time cost of living adjustment of 2% (applied to first $25,000), two $500 stipends, and minor adjustments

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
Other Postemployment Benefits
June 30, 2016
(Expressed in Thousands)

State Employees Plan

Actuarial Valuation Date		Actuarial Value of Assets (a)		Actuarial Accrued Liability (AAL) (b)		Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)		Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2015	$	92,125	$	622,826	$	530,701	14.8%	$	682,965	77.7%
06/30/2013		39,527		637,059		597,532	6.2%		671,762	88.9%
06/30/2011	*	11,545		728,207		716,662	1.6%		600,273	119.4%

Teachers Plan

Actuarial Valuation Date		Actuarial Value of Assets (a)		Actuarial Accrued Liability (AAL) (b)		Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2015	$	6,648	$	13,050	$	6,402	50.9%	NA	NA
06/30/2013		3,230		12,569		9,339	25.7%	NA	NA
06/30/2011		2,040		11,512		9,472	17.7%	NA	NA

Judicial Plan

Actuarial Valuation Date		Actuarial Value of Assets (a)		Actuarial Accrued Liability (AAL) (b)		(Overfunded)/ Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)		Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2015	$	2,826	$	756	$	(2,070)	373.8%	$	10,281	-20.1%
06/30/2013		2,151		1,054		(1,097)	204.1%		13,447	-8.2%
06/30/2011		841		2,610		1,769	32.2%		10,813	16.4%

State Police Plan

Actuarial Valuation Date		Actuarial Value of Assets (a)		Actuarial Accrued Liability (AAL) (b)		Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)		Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2015	$	22,920	$	78,857	$	55,937	29.1%	$	18,119	308.7%
06/30/2013		9,587		70,385		60,798	13.6%		17,748	342.6%
06/30/2011		1,488		81,759		80,271	1.8%		17,384	461.8%

Legislators Plan

Actuarial Valuation Date		Actuarial Value of Assets (a)		Actuarial Accrued Liability (AAL) (b)		(Overfunded)/ Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)		Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2015	$	2,469	$	1,317	$	(1,152)	187.5%	$	1,742	-66.1%
06/30/2013		2,202		1,549		(653)	142.2%		1,695	-38.5%
06/30/2011		1,442		1,443		1	99.9%		1,615	0.1%

Board of Education Health Care Insurance Retirement Plan

Actuarial Valuation Date		Actuarial Value of Assets (a)		Actuarial Accrued Liability (AAL) (b)		Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)		Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2015	$	14,608	$	69,106	$	54,498	21.1%	$	113,947	47.8%
06/30/2013		7,486		55,706		48,220	13.4%		113,375	42.5%
06/30/2011		3,189		53,751		50,562	5.9%		125,340	40.3%

See Notes to Required Supplementary Information.

Schedules of Funding Progress - Other Postemployment Benefits

1. Actuarial Assumptions and Methods

The information presented in the required supplementary information schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation, June 30, 2015, is included in Note 14.

2. Schedules of Funding Progress

Changes affecting the June 30, 2015 Actuarial Valuation:

There have been some changes in actuarial assumptions since the June 30, 2013 valuation. Certain actuarial assumption for State Employees, Legislators and Board of Education were updated to match the assumptions used for State Employees in the most recent pension valuation for the Employees' Retirement System of Rhode Island (ERSRI). Changes were made to the following assumptions; merit and longevity portion of the salary increase assumption, rates of separation from active membership, rates of retirement and rates of disability. In addition, the wage inflation for the State Police was changed to 3.75% in order to match the most recent actuarial valuation of the State Police Retirement Benefits Trust. Also, the health care trend assumption has been reset to 9.0% the first year trending down to 3.5% over 10 years. The excise tax load was increased from 11% to 13.8%. The excise tax has been delayed by one year; however, the rate increase in pre-65 pre-capita costs has out-paced increases in price inflation which has a lowering effect on the excise tax.

Changes affecting the June 30, 2013 Actuarial Valuation:

Several changes were made in OPEB specific actuarial assumptions and methods between the June 30, 2011 and June 30, 2013 valuations. Changes to the OPEB specific assumptions include a decrease in the wage inflation and long term health care assumptions from 4% to 3.5%. In addition, the excise tax load expected to be imposed under the Patient Protection and Affordable Care Act on pre-65 liabilities was changed from 7.4% to 11%. Also, there was a change in actuarial method. The premium development methodology was changed to create a single premium for all groups.

Changes affecting the June 30, 2011 Actuarial Valuation:

A number of changes in actuarial assumptions were made between the June 30, 2009 and June 30, 2011 valuations. These changes include reflecting new assumptions adopted by the Employees Retirement System of Rhode Island (ERSRI) and the State Police Retirement Benefits Trust of Rhode Island (SPRBT), changes to the OPEB specific assumptions as well as the provisions of the Retirement Security Act, which was enacted on November 18, 2011 and included comprehensive pension reform measures. The June 30, 2011 valuation also reflects the potential excise tax under the Patient Protection and Affordable Care Act.

Changes from the ERSRI and SPRBT experience studies include changes to the retirement and disability rates and salary expectations. In addition, new mortality assumptions were adopted for all plans which provide for future mortality improvement by using generational mortality.

The significant decrease in the unfunded actuarial accrued liability for the Judicial and Legislator plans is primarily due to retirement eligibility changes resulting from enactment of the Retirement Security Act and an increase in the Medicare election rate.

Changes to the OPEB specific assumptions include a change in the medical trend assumption from 9% decreasing to 4.5% in 8 years to 9% decreasing to 4.0% in 10 years, a change in the Medicare election rate for Legislators from 75% electing Medicare to 100% electing Medicare and the addition of the assumption that current retired Teachers over age 65 in the Early Retiree Plan are assumed to not be eligible for Medicare.

The June 30, 2011 actuarial valuation employs a four-year smoothed market methodology for the determination of the actuarial value of assets. In addition, the Judicial and Legislator plans changed from a level percent of payroll amortization method to the level dollar method.

The Patient Protection and Affordable Care Act includes an excise tax on high cost health plans beginning in 2018. The excise tax is 40% of costs above a threshold. The actuarial assumptions used in the most recent valuation assume that the plans will be subject to the excise tax as early as 2018.

The General Laws were amended in the 2013 session of the General Assembly to modify the manner in which health insurance is provided to Medicare eligible retirees covered under the System's plan covering state employees. The System's actuary has updated the June 30, 2011 actuarial valuation to reflect the effect on the Actuarial Accrued Liability resulting from this change.

Schedule of Expenditures of Federal Awards

Schedule of Expenditures of Federal Awards

Table of Contents

Page

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

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2016

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture						
Plant and Animal Disease, Pest Control, and Animal Care	10.025				$ 250,417	$ -
Federal-State Marketing Improvement Program	10.156				(35)	-
Inspection Grading and Standardization	10.162				4,222	-
Market Protection and Promotion	10.163				4,886	-
Specialty Crop Block Grant Program	10.169				244,887	145,449
Very Low to Moderate Income Housing Loans (See Note 2)	10.410				649,192	-
Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers	10.443				8,583	8,583
SNAP Cluster:						
Supplemental Nutrition Assistance Program	10.551			$ 275,468,252		-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561			10,360,410	285,828,662	461,705
Child Nutrition Cluster:						
School Breakfast Program	10.553			9,965,838		9,203,831
National School Lunch Program (See Note 3)	10.555			35,092,181		28,802,148
Special Milk Program for Children	10.556			55,092		7,841
Summer Food Service Program for Children (See Note 3)	10.559			1,509,388	46,622,499	1,218,085
Special Supplemental Nutrition Program for Women, Infants, and Children (See Note 4)	10.557				22,526,127	3,959,980
Child and Adult Care Food Program	10.558				9,972,010	9,883,742
State Administrative Expenses for Child Nutrition	10.560				923,159	453
Food Distribution Cluster:						
Commodity Supplemental Food Program	10.565			148,976		17,825
Emergency Food Assistance Program (Administrative Costs)	10.568			153,896		20,830
Emergency Food Assistance Program (Food Commodities) (See Note 3)	10.569			1,428,892	1,731,764	-
WIC Farmers' Market Nutrition Program (FMNP)	10.572				112,892	-
Senior Farmers Market Nutrition Program	10.576				31,287	-
Child Nutrition Discretionary Grants Limited Availability	10.579				98,454	22,538
Supplemental Nutrition Assistance Program, Process and Technology Improvement Grants	10.580				(9)	-
Fresh Fruit and Vegetable Program	10.582				1,820,124	1,659,278
Cooperative Forestry Assistance	10.664				428,407	121,688
Forest Legacy Program	10.676				41,805	-
Environmental Quality Incentives Program	10.912				41,177	-
Total U.S. Department of Agriculture					$ 371,340,510	$ 55,533,975

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
U.S. Department of Commerce						
Personal Census Search	11.006				$ 40,920	$ -
Economic Development Cluster:						
Investments for Public Works and Economic Development Facilities	11.300			$ 408,139		-
Economic Adjustment Assistance (See Note 3)	11.307			10,903,762	11,311,901	-
Economic Development - Support for Planning Organizations	11.302				(13)	-
Interjurisdictional Fisheries Act of 1986	11.407				85,361	-
Sea Grant Support	11.417				42,656	-
Coastal Zone Management Administration Awards	11.419				1,502,003	-
Coastal Zone Management Estuarine Research Reserves	11.420				1,003,706	-
Marine Fisheries Initiative	11.433				510,928	-
Unallied Management Projects	11.454				444,412	-
Atlantic Coastal Fisheries Cooperative Management Act	11.474				252,885	-
NOAA Programs for Disaster Relief Appropriations Act - Non-Construction and Construction	11.483				127,294	-
State and Local Implementation Grant Program	11.549				230,160	-
ARRA - State Broadband Data and Development Grant Program	11.558				344,907	-
Total U.S. Department of Commerce					$ 15,897,120	$ -
U.S. Department of Defense						
Procurement Technical Assistance for Business Firms	12.002				$ 344,907	$ -
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113				495,846	-
Military Construction, National Guard	12.400				76,186	-
National Guard Military Operations and Maintenance (O&M) Projects	12.401				12,154,471	-
Economic Adjustment Assistance for State Governments	12.617				673,473	-
Total U.S. Department of Defense					$ 13,744,883	$ -
U.S. Department of Housing and Urban Development						
Mortgage Insurance - Homes (See Note 2)	14.117				$ 172,695,003	$ -
Qualified Participating Entities (QPE) Risk Sharing (See Note 2)	14.189				177,934,266	-
Section 8 Project-Based Cluster:						
Section 8 Housing Assistance Payments Program	14.195			$ 159,463,015		-
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856			512,399	159,975,414	-
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (See Note 2)	14.228				21,644,209	6,374,929

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Emergency Solutions Grant Program	14.231				576,081	501,778
Supportive Housing Program	14.235				1,186,197	-
Shelter Plus Care	14.238				1,642,428	-
Home Investment Partnerships Program (See Note 2)	14.239				23,440,765	-
Housing Opportunities for Persons with AIDS	14.241				671,567	-
CDBG - Disaster Recovery Grants - Pub. L. No. 113-2 Cluster:						
Hurricane Sandy Community Development Block Grant Disaster Recovery Grants (CDBG-DR)	14.269			1,663,488	1,663,488	1,453,305
Fair Housing Assistance Program - State and Local	14.401				166,570	-
Sustainable Communities Regional Planning Grant Program	14.703				167,021	-
Housing Voucher Cluster:						
Section 8 Housing Choice Vouchers	14.871			15,789,738	15,789,738	-
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900				994,923	-
Total U.S. Department of Housing and Urban Development					$ 578,547,670	$ 8,330,011
U.S. Department of the Interior						
Hurricane Sandy Disaster Relief – Coastal Resiliency Grants	15.153				$ 59,922	$ -
Fish and Wildlife Cluster:						
Sport Fish Restoration Program	15.605			$ 5,070,021		-
Wildlife Restoration and Basic Hunter Education	15.611			1,902,135	6,972,156	-
Fish and Wildlife Management Assistance	15.608				9,232	-
Cooperative Endangered Species Conservation Fund	15.615				100,446	-
Clean Vessel Act Program	15.616				13,272	-
Sportfishing and Boating Safety Act	15.622				532,548	-
State Wildlife Grants	15.634				336,064	-
Endangered Species Conservation – Recovery Implementation Funds	15.657				32,233	-
U.S. Geological Survey - Research and Data Collection	15.808				1,690	-
Historic Preservation Fund Grants-In-Aid	15.904				555,548	49,710
Outdoor Recreation - Acquisition, Development and Planning	15.916				1,017,920	-
Historic Preservation Fund Grants to Provide Disaster Relief to Historic Properties Damaged by Hurricane Sandy	15.957				727,549	408,047
Total U.S. Department of the Interior					$ 10,358,580	$ 457,757
U.S. Department of Justice						
Sexual Assault Services Formula Program	16.017				$ 258,655	$ 242,993
Juvenile Accountability Block Grants	16.523				5,007	-
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540				390,128	159,642

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2016

Federal Grantor / Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Missing Children's Assistance	16.543				224,796	-
National Criminal History Improvement Program (NCHIP)	16.554				242,682	-
National Institute of Justice W.E.B. DuBois Fellowship Program	16.566				705,809	-
Crime Victim Assistance	16.575				2,305,888	1,826,743
Crime Victim Compensation	16.576				374,497	-
Edward Byrne Memorial Formula Grant Program	16.579				17,033	-
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580				95,056	-
Drug Court Discretionary Grant Program	16.585				189,834	-
Violence Against Women Formula Grants	16.588				1,045,491	600,260
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590				216,743	171,508
Residential Substance Abuse Treatment for State Prisoners	16.593				46,824	-
State Criminal Alien Assistance Program	16.606				597,564	-
Bulletproof Vest Partnership Program	16.607				27,255	-
Project Safe Neighborhoods	16.609				3,311	3,258
Juvenile Mentoring Program	16.726				40,925	-
Enforcing Underage Drinking Laws Program	16.727				12	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738				868,771	467,520
DNA Backlog Reduction Program	16.741				307,657	-
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742				57,657	-
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745				85,238	-
Support for Adam Walsh Act Implementation Grant Program	16.750				201,929	-
Edward Byrne Memorial Competitive Grant Program	16.751				60,536	-
Harold Rogers Prescription Drug Monitoring Program	16.754				199	-
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803				54,108	54,105
Second Chance Act Reentry Initiative	16.812				49,045	-
John R. Justice Prosecutors and Defenders Incentive Act	16.816				31,152	-
National Center for Campus Public Safety	16.822				7,082	7,078
Vision 21	16.826				72,730	-
Equitable Sharing Program	16.922				9,921,755	-
Total U.S. Department of Justice					$ 18,505,369	$ 3,533,106
U.S. Department of Labor						
Labor Force Statistics	17.002				$ 720,327	$ -
Compensation and Working Conditions	17.005				18,765	-

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Employment Service Cluster:						
Employment Service/Wagner-Peyser Funded Activities	17.207			$ 4,408,638		-
Disabled Veterans' Outreach Program (DVOP)	17.801			422,346		-
Local Veterans' Employment Representative (LVER) Program	17.804			170,733	5,001,717	-
Unemployment Insurance (See Note 5)	17.225				171,898,018	-
Senior Community Service Employment Program	17.235				513,186	513,186
Trade Adjustment Assistance	17.245				538,902	82,472
WIA/WIOA Cluster:						
WIA/WIOA Adult Program	17.258			4,135,746		1,614,009
WIA/WIOA Youth Activities	17.259			4,648,009		1,467,574
WIA/WIOA Dislocated Worker Formula Grants	17.278			5,939,836	14,723,591	685,138
WIA/WIOA Pilots, Demonstrations, and Research Projects	17.261				569,110	-
Incentive Grants - WIA Section 503	17.267				566,420	150,524
H-1B Job Training Grants	17.268				170,989	-
WIOA National Dislocated Worker Grants/WIA National Emergency Grants	17.277				1,453,811	152,050
WIA/WIOA Dislocated Worker National Reserve Technical Assistance and Training	17.281				98,852	-
Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282				1,300,991	-
Workforce Innovation Fund	17.283				437,997	-
Consultation Agreements	17.504				521,717	-
Other Department of Labor Awards	17.U01	10.073.1750104			41,226	-
Total U.S. Department of Labor					$ 198,575,619	$ 4,664,953
U.S. Department of Transportation						
Airport Improvement Program	20.106				$ 34,314,029	$ -
Highway Planning and Construction Cluster:						
Highway Planning and Construction	20.205			$ 228,059,053	228,059,053	3,219,390
National Motor Carrier Safety	20.218				956,624	-
Performance and Registration Information Systems Management	20.231				(36)	-
Commercial Driver's License Program Improvement Grant	20.232				333,685	-
Safety Data Improvement Program	20.234				39,968	-
Commercial Vehicle Information Systems and Networks	20.237				306,542	-
ARRA - High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants	20.319				11,255,762	-

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2016

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Federal Transit Cluster:						
Federal Transit - Capital Investment Grants	20.500			7,704,913		116,257
Federal Transit - Formula Grants	20.507			34,931,343	42,636,256	-
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505				416,448	6,518
Formula Grants for Rural Areas	20.509				486,448	-
Transit Services Programs Cluster:						
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513			1,310,508		-
New Freedom Program	20.521			520,000	1,830,508	-
Public Transportation Emergency Relief Program	20.527				123,770	-
Highway Safety Cluster:						
State and Community Highway Safety	20.600			1,581,752		974,925
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601			28,667		17,574
Occupant Protection Incentive Grants	20.602			5,794		-
Safety Belt Performance Grants	20.609			14,495		14,419
State Traffic Safety Information System Improvement Grants	20.610			199,046		-
Child Safety and Child Booster Seats Incentive Grants	20.613			27,005		-
National Priority Safety Programs	20.616			3,397,771	5,254,530	2,199,196
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608				1,747,640	344,226
National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	20.614				89,220	-
Pipeline Safety Program State Base Grants	20.700				107,181	-
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703				78,490	29,036
Payments for Small Community Air Service Development	20.930				190,266	-
Total U.S. Department of Transportation					$ 328,226,384	$ 6,921,542
Equal Employment Opportunity Commission						
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002				$ 112,496	$ -
Total Equal Employment Opportunity Commission					$ 112,496	$ -
National Foundation on the Arts and the Humanities						
Promotion of the Arts - Partnership Agreements	45.025				$ 700,798	$ 397,131
Grants to States	45.310				1,069,279	-
Total National Foundation on the Arts and the Humanities					$ 1,770,077	$ 397,131

Federal Grantor / Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
U.S. Department of Veterans Affairs						
Veterans State Nursing Home Care	64.015				$ 7,687,925	$ -
Veterans Housing - Guaranteed and Insured Loans (See Note 2)	64.114				410,000	-
All-Volunteer Force Educational Assistance	64.124				28,160	-
Total U.S. Department of Veterans Affairs					$ 8,126,085	$ -
Environmental Protection Agency						
State Indoor Radon Grants	66.032				$ 125,547	$ -
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034				438,572	-
State Clean Diesel Grant Program	66.040				462,789	-
Healthy Communities Grant Program	66.110				110,141	-
State Public Water System Supervision	66.432				569,532	-
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	66.436				(3)	-
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Water Quality Management Planning	66.454				89,998	-
Clean Water State Revolving Fund Cluster:						
Capitalization Grants for Clean Water State Revolving Funds	66.458			$ 13,178,060	13,178,060	12,833,965
Drinking Water State Revolving Fund Cluster:						
Capitalization Grants for Clean Water State Revolving Funds	66.468			16,754,483	16,754,483	13,809,524
Beach Monitoring and Notification Program Implementation Grants	66.472				188,115	-
Performance Partnership Grants	66.605				4,923,460	441,522
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701				203,495	-
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707				137,905	-
Pollution Prevention Grants Program	66.708				3,364	-
Superfund State, Political Subdivision, and Indian Tribe Site - Specific Cooperative Agreements	66.802				400,777	-
Underground Storage Tank Prevention, Detection and Compliance Program	66.804				381,458	-
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805				719,270	-
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809				143,989	-
State and Tribal Response Program Grants	66.817				946,692	125,000
Brownfields Assessment and Cleanup Cooperative Agreements	66.818				241,926	-
Total Environmental Protection Agency					$ 40,019,570	$ 27,210,012

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
U. S. Nuclear Regulatory Commission						
U.S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006				$ 2,668	$ -
Total U.S. Nuclear Regulatory Commission					$ 2,668	$ -
U.S. Department of Energy						
State Energy Program	81.041				$ 303,008	$ 23,935
Weatherization Assistance for Low-Income Persons	81.042				715,819	86,516
Office of Science and Financial Assistance Program	81.049		Brown University *N/A*		1,126	1,126
University Nuclear Science and Reactor Support	81.114				(7)	-
State Energy Program Special Projects	81.119				93,804	-
Nuclear Energy Research, Development and Demonstration	81.121				333,881	-
State Heating Oil and Propane Program	81.138				9,406	-
Total U.S. Department of Energy					$ 1,457,037	$ 111,577
U.S. Department of Education						
Adult Education - Basic Grants to States	84.002				$ 2,248,195	$ 1,779,971
Student Financial Assistance Cluster: (See Note 6)						
Federal Supplemental Educational Opportunity Grants	84.007			$ 2,507,667		-
Federal Work - Study Program	84.033			2,218,395		-
Federal Perkins Loan Program - Federal Capital Contributions (See Note 2)	84.038			15,999,865		-
Federal Pell Grant Program	84.063			53,973,968		-
Federal Direct Student Loans (See Note 2)	84.268			152,205,782		-
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379			8,000	226,913,677	-
Title I Grants to Local Educational Agencies	84.010				47,868,316	44,593,637
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013				346,567	-
Special Education Cluster:						
Special Education - Grants to States	84.027			42,693,766		36,532,636
Special Education - Preschool Grants	84.173			1,547,668	44,241,434	1,067,708
Federal Family Education Loans (Guarantee Agency) (See Note 2)	84.032				863,142,214	-
TRIO Cluster:						
TRIO - Student Support Services	84.042			486,135		-
TRIO - Talent Search	84.044			454,626		-
TRIO - Upward Bound	84.047			610,696		-
TRIO - Educational Opportunity Centers	84.066			660,770	2,212,227	-
Career and Technical Education - Basic Grants to States	84.048				5,633,747	4,581,481

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126				14,252,669	-
Independent Living - State Grants	84.169				371,441	-
Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	84.177				208,498	-
Special Education - Grants for Infants and Families	84.181				2,647,069	454,287
Supported Employment Services for Individuals with the Most Significant Disabilities	84.187				307,923	-
Education for Homeless Children and Youth	84.196				251,181	205,288
Assistive Technology	84.224				344,493	-
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265				3,794	-
Charter Schools	84.282				1,163,759	1,137,075
Twenty-First Century Community Learning Centers	84.287				5,736,425	5,104,852
Special Education - State Personnel Development	84.323				715,927	-
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326				99,991	-
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330				75,564	-
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334				3,069,385	3,067,851
English Language Acquisition State Grants	84.365				2,095,289	1,706,294
Mathematics and Science Partnerships	84.366				884,792	857,784
Improving Teacher Quality State Grants	84.367				9,785,664	8,959,884
Grants for Enhanced Assessment Instruments	84.368				16,297	16,297
Grants for State Assessments and Related Activities	84.369				3,463,132	-
Statewide Longitudinal Data Systems	84.372				1,309,192	-
School Improvement Grants	84.377				428,705	407,481
College Access Challenge Grant Program	84.378				1,295,524	157,186
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants	84.395				43,828	16,416
Transition Programs for Students with Intellectual Disabilities into Higher Education	84.407				103,127	-
Investing in Innovation (i3) Fund	84.411				607,444	-
ARRA - Race to the Top – Early Learning Challenge	84.412				13,882,339	609,377
Preschool Development Grants	84.419				2,177,868	1,766,126
National Assessment Of Educational Programs	84.U01	ED-IES-14-C-0100			117,410	-
National Center For Educational Statistics	84.U02	ED-IES-14-C-0100			4,520	-
Total U.S. Department of Education					$ 1,258,069,627	$ 113,021,630

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
U.S. Department of Health and Human Services						
Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041				$ 29,795	$ -
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042				82,967	24,928
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043				98,187	24,500
Aging Cluster:						
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044			$ 2,544,128		1,821,366
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045			2,759,016		2,289,835
Nutrition Services Incentive Program	93.053			429,862	5,733,006	429,675
Special Programs for the Aging - Title IV - and Title II - Discretionary Projects	93.048				360,710	9,500
National Family Caregiver Support, Title III, Part E	93.052				762,843	41,917
Public Health Emergency Preparedness	93.069				5,109,502	174,270
Environmental Public Health and Emergency Response	93.070				714,592	127,924
Lifespan Respite Care Program	93.072				102,035	32,141
Birth Defects and Developmental Disabilities - Prevention and Surveillance	93.073				165,062	-
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074				1,367,565	680,604
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	93.079				382,454	2,163
Guardianship Assistance	93.090				418,118	-
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092				254,480	96,650
Well-Integrated Screening and Evaluation for Women Across the Nation	93.094				618,829	99,723
Food and Drug Administration - Research	93.103				935,855	-
Maternal and Child Health Federal Consolidated Programs	93.110				671,925	151,952
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116				192,699	-
Emergency Medical Services for Children	93.127				136,295	-
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130				207,590	36,558
Injury Prevention and Control Research and State and Community Based Programs	93.136				930,870	261,429
Projects for Assistance in Transition from Homelessness (PATH)	93.150				249,773	249,773
Grants to States for Loan Repayment Program	93.165				35,930	-
Disabilities Prevention	93.184				305,849	-

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197				399,234	34,459
Family Planning - Services	93.217				1,271,259	980,904
Grants to States to Support Oral Health Workforce Activities	93.236				516,907	8,250
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243				5,343,651	2,604,277
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		Brown University *N/A*		26,954	-
Universal Newborn Hearing Screening	93.251				258,291	127,306
Occupational Safety and Health Program	93.262				12,154	-
Immunization Cooperative Agreements (See Note 3)	93.268				14,821,169	360,704
Adult Viral Hepatitis Prevention and Control	93.270				164,270	-
Substance Abuse and Mental Health Services - Access to Recovery	93.275				98,114	-
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283				1,546,965	511,027
State Partnership Grant Program to Improve Minority Health	93.296				77,552	77,504
National State Based Tobacco Control Programs	93.305				1,562,599	378,901
State Health Insurance Assistance Program	93.324				355,370	12,617
Student Financial Assistance Cluster: (See Note 6)						
Health Professions Student Loans, Including Primary Care Loans / Loans for Disadvantaged Students (See Note 2)	93.342			2,169,417		-
Nursing Student Loans (See Note 2)	93.364			1,956,771	4,126,188	-
Cancer Detection and Diagnosis Research	93.394				18,157	-
Food Safety and Security Monitoring Project	93.448				247,315	-
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505				8,633,422	7,091,899
ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers	93.506				406,393	-
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	93.511				2,504,048	-
The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF	93.521				1,507,159	-
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525				17,571,840	-

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds	93.539				226,014	-
Promoting Safe and Stable Families	93.556				748,140	-
TANF Cluster:						
Temporary Assistance for Needy Families	93.558			73,148,137	73,148,137	7,785,473
Child Support Enforcement	93.563				11,288,667	-
Refugee and Entrant Assistance - State Administered Programs	93.566				301,249	8,000
Low-Income Home Energy Assistance	93.568				27,100,903	25,080,390
Community Services Block Grant	93.569				3,751,514	3,645,700
CCDF Cluster:						
Child Care and Development Block Grant	93.575			20,678,699		167,414
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596			11,151,067	31,829,766	3,316
Refugee and Entrant Assistance - Discretionary Grants	93.576				441,369	138,805
State Court Improvement Program	93.586				316,673	-
Community-Based Child Abuse Prevention Grants	93.590				205,803	-
Grants to States for Access and Visitation Programs	93.597				111,221	-
Head Start	93.600				147,662	-
The Affordable Care Act - Medicaid Adult Quality Grants	93.609				665,109	-
Voting Access for Individuals with Disabilities - Grants to States	93.617				29,457	-
ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance	93.624				1,665,780	-
Affordable Care Act State Health Insurance Assistance Program (SHIP) and						-
Aging and Disability Resource Center (ADRC) Options Counseling for Medicare-Medicaid Individuals in States with Approved Financial Alignment Models	93.626				2,389	-
University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632				531,506	-
ACA Support for Demonstration Ombudsman Programs Serving Beneficiaries of State Demonstrations to Integrate Care for Medicare-Medicaid	93.634				154	-
Children's Justice Grants to States	93.643				74,848	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645				624,969	-
Adoption Opportunities	93.652				462,391	-
Foster Care - Title IV-E	93.658				9,763,809	-
Adoption Assistance	93.659				7,173,010	-
Social Services Block Grant	93.667				12,913,490	2,222,757
Child Abuse and Neglect State Grants	93.669				106,653	-

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	93.671				736,976	189,485
Chafee Foster Care Independence Program	93.674				576,125	-
Health Information Technology and Public Health	93.729				2,579,759	-
Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance - financed in part by the Prevention and Public Health Fund (PPHF)	93.733				850,197	28,767
Empowering Older Adults and Adults with Disabilities through Chronic Disease Self-Management Education Programs – financed by Prevention and Public Health Funds (PPHF)	93.734				19,801	19,801
State Public Health Approaches for Ensuring Quitline Capacity – Funded in part by Prevention and Public Health Funds (PPHF)	93.735				46,454	-
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations Financed in part by Prevention and Public Health Funds	93.752				1,534,285	337,984
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	93.757				4,394,205	2,120,304
Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	93.758				873,569	418,817
Children's Health Insurance Program (See Note 4)	93.767				57,300,129	-
Medicaid Cluster:						
State Medicaid Fraud Control Units	93.775			972,422		-
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777			2,818,441		-
Medical Assistance Program (See Note 4)	93.778			1,585,719,077	1,589,509,940	-
Money Follows the Person Rebalancing Demonstration	93.791				1,342,628	-
Organized Approaches to Increase Colorectal Cancer Screening	93.800				181,147	44,893
Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.815				162,663	-
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817				430,442	430,222
Section 223 Demonstration Programs to Improve Community Mental Health Services	93.829				311,790	-
Child Health and Human Development Extramural Research	93.865				107,996	-
Grants to States for Operation of Offices of Rural Health	93.913				192,349	36,169
HIV Care Formula Grants (See Note 4)	93.917				2,065,674	-
HIV Prevention Activities - Health Department Based	93.940				1,220,102	217,431
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944				232,277	-

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Assistance Programs for Chronic Disease Prevention and Control	93.945				1,038,292	97,766
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946				122,738	-
Block Grants for Community Mental Health Services	93.958				1,230,488	462,864
Block Grants for Prevention and Treatment of Substance Abuse	93.959				5,930,875	4,979,958
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977				385,241	50,353
Maternal and Child Health Services Block Grant to the States	93.994				1,872,403	1,183,591
Food Inspections	93.U01	HHSF223201210109C			41,611	-
Healthcare Surveillance/Health Statistics	93.U02	200-2012-50839			83,720	-
Total U.S. Department of Health and Human Services					$ 1,940,340,501	$ 68,413,014
Corporation for National and Community Service						
Foster Grandparent/Senior Companion Cluster:						
Senior Companion Program	94.016			$ 378,728	$ 378,728	$ -
Total Corporation for National and Community Service					$ 378,728	$ -
Social Security Administration						
Disability Insurance/SSI Cluster:						
Social Security - Disability Insurance	96.001			$ 9,253,138	$ 9,253,138	$ -
Social Security - Research and Demonstration	96.007				429,049	-
Social Security - Work Incentives Planning and Assistance Program	96.008				62,507	-
Social Security Investigations	96.U01	10.066.3005117			165,044	-
Total Social Security Administration					$ 9,909,738	$ -
U.S. Department of Homeland Security						
State and Local Homeland Security National Training Program	97.005				$ 165	$ -
Boating Safety Financial Assistance	97.012				764,534	-
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023				101,029	-
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036				6,293,025	5,256,452
Hazard Mitigation Grant	97.039				116,846	-
National Dam Safety Program	97.041				24,256	-
Emergency Management Performance Grants	97.042				4,837,439	1,034,859
State Fire Training Systems Grants	97.043				23,404	-
Assistance to Firefighters Grant	97.044				442,770	-
Cooperating Technical Partners	97.045				32,525	-
Pre-Disaster Mitigation	97.047				15,065	6,779
Homeland Security Grant Program	97.067				4,616,071	1,174,156
National Explosives Detection Canine Team Program	97.072				148,133	-

Federal Grantor / Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Disaster Assistance Projects	97.088				422,782	323,688
Driver's License Security Grant Program	97.089				472,252	-
Law Enforcement Officer Reimbursement Agreement Program	97.090				108,880	-
Port Security Grant Program	97.116				28,000	-
Total U.S. Department of Homeland Security					$ 18,447,176	$ 7,795,934
Research and Development Cluster:						
U.S. Department of Agriculture						
Agricultural Research - Basic and Applied Research	10.001			$ 173,331		$ -
Plant and Animal Disease, Pest Control, and Animal Care	10.025			15,239		-
Plant and Animal Disease, Pest Control, and Animal Care	10.025		University of Connecticut, Storrs *83414*	2,422		-
Plant and Animal Disease, Pest Control, and Animal Care	10.025		University of Connecticut, Storrs *119005*	1,818		-
Grants for Agricultural Research, Special Research Grants	10.200			(1,107)		-
Grants for Agricultural Research, Special Research Grants	10.200		Connecticut AES *CAES-VL-22533-01*	1,174		-
Grants for Agricultural Research, Special Research Grants	10.200		Cornell University *74403-10516*	32,933		-
Grants for Agricultural Research, Special Research Grants	10.200		University of Maryland *28598-Z5659005*	14,363		-
Grants for Agricultural Research, Special Research Grants	10.200		University of Maryland *Z555106*	50,922		22,107
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203			2,135,302		-
Sustainable Agriculture Research and Education	10.215		University of Vermont *GNE14-071-27806*	9,399		-
Sustainable Agriculture Research and Education	10.215		University of Vermont *LNE15-342-29994*	21,506		706
Sustainable Agriculture Research and Education	10.215		University of Vermont *SNE14-12-29001*	(1,122)		-
Sustainable Agriculture Research and Education	10.215		University of Vermont *SNE15-12-29994*	5,610		-
Agricultural and Rural Economic Research, CAs and Collaborations	10.250			54,314		-
Integrated Programs	10.303			92,936		10,561
Integrated Programs	10.303		University of Connecticut, Storrs *#76428*	1,925		-
Integrated Programs	10.303		University of Massachusetts, Amherst *SUB 14 008127 B 00*	3,867		-
Homeland Security - Agricultural	10.304		Cornell University *67826_9926*	23,066		-
Organic Agriculture Research and Extension Initiative	10.307		West Virginia University *#12-638-URI/50078435*	127,920		-
Agriculture and Food Research Initiative (AFRI)	10.310			231,317		61,924
Agriculture and Food Research Initiative (AFRI)	10.310		North Carolina State University *2015-0097-08*	28,809		-

Federal Grantor / Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Agriculture and Food Research Initiative (AFRI)	10.310		State University of New York at Stony Brook *550-1125193-71549*	43,211		-
Agriculture and Food Research Initiative (AFRI)	10.310		University of Delaware *25882*	56,184		-
Agriculture and Food Research Initiative (AFRI)	10.310		University of Vermont *28976 SUB 51706*	17,969		-
Crop Protection and Pest Management Competitive Grants Program	10.329			129,603		-
Crop Protection and Pest Management Competitive Grants Program	10.329		Cornell University *73984-10462*	9,423		-
Crop Insurance Education in Targeted States	10.458			204,110		-
Cooperative Extension Service	10.500			1,455,636		-
Cooperative Extension Service	10.500		Kansas State University *S15067*	7,011		-
Cooperative Extension Service	10.500		Kansas State University *S15134*	34,207		-
Cooperative Extension Service	10.500		Kansas State University *S16075*	10,376		-
Cooperative Extension Service	10.500		University of Connecticut, Avery Point *KFS#5630940&RSA62415*	7,005		-
Cooperative Extension Service	10.500		University of Connecticut, Storrs *99414*	5,741		-
Farm to School Grant Program	10.575		Farm Fresh Rhode Island *SUB: F2S SA-1*	379		-
Forest Health Protection	10.680			31,018		-
Soil Survey	10.903			30,881		-
Environmental Quality Incentives Program	10.912			59,980		-
Regional Conservation Partnership Program	10.932			28,802		-
Technical Agricultural Assistance	10.960			467,385		-
Other Research and Development - Department of Agriculture	10.RD	16-8244-0694-CA		4,400		-
Other Research and Development - Department of Agriculture	10.RD	58-0510-4-055 N		9,289		-
Other Research and Development - Department of Agriculture	10.RD	G24493093001		16,120		-
U.S. Department of Commerce						
Ocean Exploration	11.011			223,914		-
Integrated Ocean Observing System (IOOS)	11.012		Northeastern Regional Association Of Coastal Ocean Observing Systems *A002-003*	57,828		-
Integrated Ocean Observing System (IOOS)	11.012		Remote Sensing Systems *SC 6102*	53,234		-
Integrated Ocean Observing System (IOOS)	11.012		Rutgers University *PO#1568768*	12,867		-
Sea Grant Support	11.417			2,198,939		393,405

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Sea Grant Support	11.417		Woods Hole Oceanographic Institution *SUB.A101111*	7,133		-
Coastal Zone Management Administration Awards	11.419		National Estuarine Research Reserve Association *Agreement 2-2011*	(247)		-
Coastal Zone Management Administration Awards	11.419		Restore America's Estuaries *2016-URI-01*	16,388		-
Climate and Atmospheric Research	11.431			31,704		-
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432		University of Miami *ORDER NO AC38944*	13,289		-
Marine Fisheries Initiative	11.433			49,092		1,336
Weather and Air Quality Research	11.459			27,407		-
Special Oceanic and Atmospheric Projects	11.460			(1,424)		-
Meteorologic and Hydrologic Modernization Development	11.467		University of Delaware *Subaward 34336*	(838)		-
Meteorologic and Hydrologic Modernization Development	11.467		University of Delaware *Subaward 38430*	43,205		-
Applied Meteorological Research	11.468			176,242		-
Congressionally Identified Awards and Projects	11.469			70,097		-
Unallied Science Program	11.472		Fisheries Specialists *NONE*	5,095		-
Center for Sponsored Coastal Ocean Research - Coastal Ocean Program	11.478			74,717		28,329
Other Research and Development - Department of Commerce	11.RD	Subcontr 2013-11-01	Fisheries Specialists *Subcontr 2013-11-01*	33,802		-
Other Research and Development - Department of Commerce	11.RD	SUB:A003-003	Northeastern Regional Association Of Coastal Ocean Observing Systems *SUB:A003-003*	7,082		-
Other Research and Development - Department of Commerce	11.RD	PO S1961919	Rutgers University *PO S1961919*	25,646		-
Other Research and Development - Department of Commerce	11.RD	41944	University of Delaware *41944*	58,536		-
Other Research and Development - Department of Commerce	11.RD	EA-133F-14-SE-3526		63,789		29,767
Other Research and Development - Department of Commerce	11.RD	WC-133R-14-SU-1097		56,730		-
U.S. Department of Defense						
Collaborative Research and Development	12.114			512,851		25,395
Collaborative Research and Development	12.114		Regents of New Mexico State University *SUB#Q01620*	99,981		-
Basic and Applied Scientific Research	12.300			2,932,301		51,334
Basic and Applied Scientific Research	12.300		HDR, Inc. *23081*	125,076		-
Basic and Applied Scientific Research	12.300		HDR, Inc. *Contract# M15PC00002*	1,346		-

Federal Grantor / Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Basic and Applied Scientific Research	12.300		MAR, Inc. *M16-397*	10,346		-
Basic and Applied Scientific Research	12.300		Massachusetts Institute of Technology *5710003986*	28,962		-
Basic and Applied Scientific Research	12.300		McLaughlin Research Corporation *PO-14-0314*	20,134		-
Basic and Applied Scientific Research	12.300		McLaughlin Research Corporation *PO-16-0246, Task 4.2*	511		-
Basic and Applied Scientific Research	12.300		Ocean Exploration Trust *PO# 2011-021*	171,784		-
Basic and Applied Scientific Research	12.300		TRITON Systems, Inc. *TSI-2417-13-102085*	3,758		-
Basic and Applied Scientific Research	12.300		TRITON Systems, Inc. *TSI-2433-14-102661*	79,081		-
Basic and Applied Scientific Research	12.300		University of Michigan *3003266434*	51,185		-
Basic and Applied Scientific Research	12.300		University of Michigan *3003285020*	54,420		-
Basic and Applied Scientific Research	12.300		Woods Hole Oceanographic Institution *A101264*	20,089		-
Basic and Applied Scientific Research	12.300		Yardney Technical Products *PO# 1484916*	163,660		-
Basic Scientific Research - Combating Weapons of Mass Destruction	12.351			349,932		220,492
Basic Scientific Research	12.431			52,927		-
The Language Flagship Grants to Institutions of Higher Education	12.550		Institute for International Education *0054URI-18 chn-P01*	26,720		-
The Language Flagship Grants to Institutions of Higher Education	12.550		Institute for International Education *0054-URI-18-SSC-280-PO2*	318,175		-
Basic, Applied, and Advanced Research in Science and Engineering	12.630			91,963		-
Air Force Defense Research Sciences Program	12.800			55,630		-
Air Force Defense Research Sciences Program	12.800		Cherokee Nation Technology Solutions *150057.0044S01-0005*	(1,287)		-
Air Force Defense Research Sciences Program	12.800		Cherokee Nation Technology Solutions *CNTS RFQ 15SA15017-0044*	75,064		-
Air Force Defense Research Sciences Program	12.800		Cherokee Nation Technology Solutions *CNTS RFQ 15SA15037-0044*	42,019		-
Air Force Defense Research Sciences Program	12.800		Defense Engineering Corporation *PO10190Proj-J030*	33,190		-
Air Force Defense Research Sciences Program	12.800		Electro Standards Laboratories *W911NF-15-P-0068*	42,985		-
Air Force Defense Research Sciences Program	12.800		Johns Hopkins University *PO# 2002263022*	24,968		-
Research and Technology Development	12.910			47,238		-
Research and Technology Development	12.910		Michigan Technological University *1410003Z3PO#P0094859*	16,256		-

Federal Grantor / Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Other Research and Development - Department of Defense	12.RD	FA9453-12-C-0208		61,782		47,442
Other Research and Development - Department of Defense	12.RD	PO# 44406-44701	Government of Israel - Ministry of Defense *PO# 44406-44701*	104,043		-
Other Research and Development - Department of Defense	12.RD	PO 429	Propel LLC *PO 429*	4,034		-
Other Research and Development - Department of Defense	12.RD	CIRE-TASK4-URI	RNET Technologies *CIRE-TASK4-URI*	19,780		-
U.S. Department of the Interior						
Hurricane Sandy Disaster Relief - Coastal Resiliency Grants	15.153			548,758		50,791
Bureau of Ocean Energy Management (BOEM) Environmental Studies Program (ESP)	15.423			595,067		94,971
Bureau of Ocean Energy Management (BOEM) Environmental Studies Program (ESP)	15.423		The University of Texas at Austin *UTA11-000876*	25,118		-
Marine Minerals Activities - Hurricane Sandy	15.424			150,087		-
Coastal Impact Assistance Program (CIAP)	15.426		CSA International, Inc. *CSA JOB # 2314*	5,266		-
Sport Fish Restoration Program	15.605			13,053		-
Fish and Wildlife Management Assistance	15.608			208,935		34,813
Coastal	15.630		Wildlife Management Institute *WMI Service Contract*	13,035		-
Migratory Bird Monitoring, Assessment and Conservation	15.655			14,263		-
Assistance to State Water Resources Research Institutes	15.805			73,834		-
Earthquake Hazards Research Grants	15.807			94,006		-
U.S. Geological Survey - Research and Data Collection	15.808			111,108		-
National Land Remote Sensing - Education Outreach and Research	15.815			35,307		-
National Land Remote Sensing - Education Outreach and Research	15.815		AmericaView *AV14-R101*	24,651		-
Natural Resource Stewardship	15.944			39,050		-
Cooperative Research and Training Programs – Resources of the National Park System	15.945			1,732,951		111,063
Other Research and Development - Department of the Interior	15.RD	P11AT40781		4,830		-
	15.RD	14403-37126	Stantec Consulting Services Inc. *14403-37126*	2,120		-
U.S. Department of Justice						
Juvenile Justice & Delinquency Prevention	16.540			85,120		-
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560			37,551		-
U.S. Department of State						
Academic Exchange Programs - Scholars	19.401		Institute for International Education *ECA/A/S/S-13-05*	46,076		23,984
Public Diplomacy Programs for Afghanistan and Pakistan	19.501			98,146		-

Federal Grantor / Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
National Aeronautics and Space Administration						
Science	43.001			204,205		-
Science	43.001		University of Colorado, Boulder *1552614*	51,399		-
Science	43.001		West Virginia University *SUB: 14-764-URI*	9,957		-
Science	43.001		Woods Hole Group, Inc. *A101249*	21,740		-
Science	43.001		Woods Hole Oceanographic Institution *A101079*	66,956		-
Education	43.008		Brown University *00000693*	26,399		-
Education	43.008		Brown University *00000785*	35,697		-
Education	43.008		Brown University *00000797*	15,000		-
Education	43.008		Brown University *00000800*	32,251		-
Education	43.008		Brown University *00000801*	33,601		-
Other Research and Development - National Aeronautics and Space Administration	43.RD	NNX09AV82G		12,517		-
Other Research and Development - National Aeronautics and Space Administration	43.RD	00000579	Brown University *00000801*	46,323		-
Institute of Museum and Library Services						
National Leadership Grants	45.312			202,816		-
National Leadership Grants	45.312		Providence Public Library *LG-07-13-0318-13*	15,551		-
National Science Foundation						
Engineering Grants	47.041			1,103,974		71,545
Mathematical and Physical Sciences	47.049			349,591		-
Geosciences	47.050			4,850,303		186,872
Geosciences	47.050		Consortium for Ocean Leadership *T353A1*	17,753		-
Geosciences	47.050		Lamont-Doherty Earth Observatory *PO #G10521*	29,632		-
Geosciences	47.050		University of California *51536013*	(2,065)		-
Geosciences	47.050		University of Hawaii *MA140036*	5,732		-
Geosciences	47.050		University of Southern California *149704*	197,629		-
Geosciences	47.050		Woods Hole Oceanographic Institution *A101300*	12,249		-

Federal Grantor / Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Computer and Information Science and Engineering	47.070			568,157		-
Computer and Information Science and Engineering	47.070		Arkansas State University *SA15-704-15-15*	15,041		-
Biological Sciences	47.074			1,196,661		161,735
Biological Sciences	47.074		Yale University *C10D10896*	159,124		-
Education and Human Resources	47.076			1,360,576		6,428
Education and Human Resources	47.076		University of Massachusetts, Amherst *12-006782-D 00/PO#00*	104,869		-
Polar Programs	47.078			692,568		-
Office of International Science and Engineering	47.079			769,737		149,183
Office of International Science and Engineering	47.079		Brown University *N/A*	3,686		-
Office of International Science and Engineering	47.079		University of New Hampshire *16-019*	34,962		-
Office of Experimental Program to Stimulate Competitive Research	47.081			2,780,242		1,239,839
Office of Experimental Program to Stimulate Competitive Research	47.081		Rhode Island Science and Technology Advisory Council *RI STAC 2015-15*	9,494		6,141
Office of Integrative Activities	47.083		University of Southern California *66919743*	42,728		-
Other Research and Development - National Science Foundation	47.RD	DGE-1244657 -DGE-125		46,102		-
Other Research and Development - National Science Foundation	47.RD	DGE-1244657 -DGE-126		45,996		-
Other Research and Development - National Science Foundation	47.RD	DGE-1244657 -DGE-127		45,996		-
Other Research and Development - National Science Foundation	47.RD	DGE-1244657 -DGE-128		45,996		-
Other Research and Development - National Science Foundation	47.RD	DGE-1244657 -DGE-129		39,500		-
Securities and Exchange Commission						
Securities and Exchange Commission No CFDA	58.RD	IPA - Academic Fellow		181,070		-
Small Business Administration						
Small Business Development Centers	59.037			552,502		109,591
Environmental Protection Agency						
National Estuary Program	66.456		New England Interstate Water Pollution *CE96184201/2014-025*	112,226		-
Great Lakes Program	66.469			137,497		-
Other Research and Development - Environmental Protection Agency	66.RD	3334792	Environ *3334792*	25,696		-
U. S. Nuclear Regulatory Commission						
U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008			51,232		-

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
U.S. Department of Energy						
Office of Science Financial Assistance Program	81.049			(7)		-
Office of Science Financial Assistance Program	81.049		Brown University *00000475/PO# P276735*	497,950		-
Office of Science Financial Assistance Program	81.049		Pennsylvania State University *5027-URI-DOE-1090*	79,816		-
Conservation Research and Development	81.086			18,407		-
Renewable Energy Research and Development	81.087			93,504		-
Defense Nuclear Nonproliferation Research	81.113			252,225		-
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117		Leonardo Technologies, Inc. *S167-CCC-PPM4002 MOD*	16,519		-
Advanced Research Projects Agency – Energy	81.135		Optodot Corporation *URI-BP001*	6,078		-
Other Research and Development - Department of Energy	81.RD	Subcontract # 310681	Los Alamos National Laboratory *Subcontract # 310681*	988,054		-
U.S. Department of Education						
Higher Education Institutional Aid	84.031			(375)		-
Magnet Schools Assistance	84.165		Sackett Street Schools *PO 77800E_80106F_82*	265		-
Research in Special Education	84.324		University of Connecticut, Storrs *FRS525880/PSA#7124*	9,387		-
U.S. Department of Health and Human Services						
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107		Brown University *00000574 PO#P281714*	48,908		-
Environmental Health	93.113			127,207		-
NIEHS Superfund Hazardous Substances - Basic Research and Education	93.143		Brown University *00000846*	27,347		-
Research and Training in Complementary and Integrative Health	93.213			23,256		-
Research on Health Care Costs, Quality, and Outcomes	93.226		Boston University Medical Center *Agreement #4870*	11,756		-
Mental Health Research Grants	93.242		University of North Carolina, Greensboro *20110511.1*	121,132		-
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		Community Care Alliance *NONE*	19,471		-
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		Kent Center *NONE*	19,693		-
Advanced Nursing Education Grant Program	93.247			227,245		38,989
Occupational Safety and Health Program	93.262			163,754		14,405
Alcohol Research Programs	93.273			463,937		33,327

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Alcohol Research Programs	93.273		Rhode Island Hospital *Subaward 701-5486*	13,312		-
Drug Abuse and Addiction Research Programs	93.279			606,883		-
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286			282,899		-
Trans-NIH Research Support	93.310			434,045		-
Nursing Research	93.361			(771)		-
National Center for Research Resources	93.389			(93,264)		(93,264)
Cancer Cause and Prevention Research	93.393			169,674		-
Cancer Biology Research	93.396			29,052		-
Health Care Innovation Awards (HCIA)	93.610			728,532		455,379
Developmental Disabilities Basic Support and Advocacy Grants	93.630			471,337		299,740
Cardiovascular Diseases Research	93.837		Brown University *SUB AWARD# 00000729*	75,978		-
Cardiovascular Diseases Research	93.837		Tufts University *100130-00001*	18,308		-
Cardiovascular Diseases Research	93.837		University of North Carolina, Chapel Hill *5050218*	86,445		-
Blood Diseases and Resources Research	93.839			146,437		-
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847			115,454		-
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		University of California, Los Angeles *1561 G RB069*	99,863		-
Allergy and Infectious Diseases Research	93.855			2,699,308		1,834,818
Allergy and Infectious Diseases Research	93.855		Baylor Research Institute *Subaward#41000411346*	(85)		-
Allergy and Infectious Diseases Research	93.855		University of California, Davis *SUB. 201303042-03*	57,266		-
Microbiology and Infectious Diseases	93.856			11,626		-
Biomedical Research and Research Training	93.859			6,628,137		3,443,430
Biomedical Research and Research Training	93.859		Rhode Island Hospital *Subaward 701-5480*	3,470		-
Biomedical Research and Research Training	93.859		University of Oklahoma *2011-25*	48,332		-
Biomedical Research and Research Training	93.859		Yale University *M11A11176(A08334)*	98,548		-
Biomedical Research and Research Training	93.859		Yale University *M16A12388 (A10553)*	132,048		-
Child Health and Human Development Extramural Research	93.865			1,101,077		411,450
Aging Research	93.866			54,487		-
Research, Prevention, and Education Programs on Lyme Disease in the United States	93.942			(52,774)		-
PPHF Geriatric Education Centers	93.969			554,198		180,695

Federal Grantor / Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
International Research and Research Training	93.989			9,148		-
Department of Health and Human Services	93.RD	1R43NS087659-01A1	Rokhan, LLC *1R43NS087659-01A1*	(1,485)		-
Corporation for National and Community Service:						
AmeriCorps	94.006		Jumpstart for Young Children, Inc. *340200 JS-Site#34*	56,446		-
AmeriCorps	94.006		Jumpstart for Young Children, Inc. *Jumpstart 2015*	13,179		
U.S. Department of Homeland Security						
State and Local Homeland Security Training	97.005			149,153		16,370
Centers for Homeland Security	97.061		Northeastern University *SUB 505035-78059*	517,698		-
Centers for Homeland Security	97.061		University of North Carolina, Chapel Hill *5101662*	150,695		-
Agency for International Development						
USAID Foreign Assistance for Programs Overseas	98.001			6,568,590		2,780,814
USAID Foreign Assistance for Programs Overseas	98.001		International Center for Living Aquatic Resources Management *NONE*	(880)		-
USAID Foreign Assistance for Programs Overseas	98.001		PACT *P3249*	669,502		46,762
USAID Foreign Assistance for Programs Overseas	98.001		WorldFish *MOUWF 412015*	116,193		-
USAID Development Partnerships for University Cooperation and Development	98.012		University of Todelo *F-2014-28*	10,768		-
Total Research and Development Cluster					$ 60,913,363	$ 12,602,669
Total Expenditures of Federal Awards					$ 4,874,743,201	$ 308,993,312

NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the State of Rhode Island and Providence Plantations (the State). The Schedule is presented for purposes of additional analysis as required by the Title 2 U.S. Code of Federal Regulations Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance").

The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal regulations Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance").

The reporting entity is defined in the Notes to the Basic Financial Statements that are presented in section A of this report (see Note 1 to the basic financial statements – Summary of Significant Accounting Policies – B. Reporting Entity). When federal financial assistance is received by one state entity and passed through to another state organization (contained within the reporting entity), the federal financial assistance is reflected by the primary recipient organization to avoid duplication and overstatement of the aggregate level of federal financial assistance expended by the State.

Expenditures reported on the Schedule are recognized following, as applicable, either the cost principles in Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule differ from amounts presented in, or used in the preparation of, the basic financial statements.

Programs are generally listed in CFDA number order by federal funding agency. When the CFDA number is not available from the State or component unit's accounting records, the federal funding agency is identified and these amounts are included in the Schedule along with federal awards for that federal grantor agency (e.g., 84.U01). The Research and Development (R&D) Cluster is presented at the end of the schedule because there are multiple federal funding agencies. As a result, total expenditures of federal awards presented for some federal funding agencies do not include expenditures for R&D programs.

Programs funded by the American Recovery and Reinvestment Act of 2009 (ARRA) have been separately identified in the Schedule using the prefix ARRA in the program title. In some instances, unique CFDA numbers were created for ARRA funded programs. When a unique CFDA number was not created, the same CFDA number is repeated with the ARRA prefix included in the program description to identify the portion of the program funded by ARRA.

Cash assistance is presented using the same basis of accounting as that used in reporting the expenditures (or expenses) of the related funds and component units in the State's basic financial statements (see Note 1 to the basic financial statements – Summary of Significant Accounting Policies – D. Measurement Focus and Basis of Accounting).

Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Loans have been included in the Schedule in accordance with the Uniform Guidance, whereby, loans with continuing Federal compliance requirements are recorded at the value of new loans made or received during the audit period, plus beginning of the audit period balance of loans from previous years, plus cash and/or administrative cost allowances. Loans that do not have continuing Federal compliance requirements are recorded at the value of new loans made or received during the audit period, plus cash and/ or administrative cost allowances.

NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

None of the State's large loan programs met the criteria that would require such amounts to be excluded from the State's Type "A" major program threshold.

Non-monetary assistance is also included in the Schedule consistent with Uniform Guidance requirements. Additionally, all non-monetary assistance has been included in determining major programs as defined by the Uniform Guidance. Non-monetary assistance included in the schedule is listed by federal program in Note 3 to this schedule.

NOTE 2. LOAN, LOAN GUARANTEE AND INSURANCE PROGRAMS

Expenditures of federal awards include assistance in the form of loans, loan guarantees, and insurance, as well as donated vaccines, food commodities, and property. The following table details all non-monetary assistance included in the Schedule of Expenditures of Federal Awards.

CFDA Number	Loan, Loan Guarantee and Insurance Programs	Expenditures of Federal Awards Year Ended June 30, 2016	Non-monetary Assistance June 30, 2016	Loan Outstanding Balance June 30, 2016
10.410	Very Low to Moderate Income Housing Loans	$ 649,192	$ 649,192	*N/A*
11.307	Economic Adjustment Assistance	10,903,762	9,450,204	$ 7,160,850
14.117	Mortgage Insurance – Homes	172,695,003	172,695,003	*N/A*
14.189	Qualified Participating Entities (QPE) Risk Sharing	177,934,266	177,934,266	173,240,033
14.228	Community Development Block Grant/States Program and Non- Entitlement Grants in Hawaii	21,644,209	14,821,532	11,754,819
14.239	Home Investment Partnerships Program	23,440,765	23,440,765	22,222,401
64.114	Veterans Housing - Guaranteed and Insured Loans	410,000	410,000	*N/A*
84.032	Federal Family Education Loans (Guaranty Agency)	863,142,214	862,163,907	750,656,105
84.038	Federal Perkins Loan Program – Federal Capital Contributions	15,999,865	15,999,865	13,072,747
84.268	Federal Direct Student Loans	152,205,782	152,205,782	*N/A*
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	2,169,417	2,169,417	1,832,156
93.364	Nursing Student Loans	1,956,771	1,956,771	1,703,490

Note: Outstanding Loan Balance containing "N/A" indicates no continuing compliance requirements.

Federal awards which include loan, loan guarantee and insurance programs are presented as follows:

Loan, Loan Guarantee and Insurance Programs

- The following guaranteed/insured mortgage loan programs are reported at the value of loans originated or purchased during the fiscal year: Very Low to Moderate Income Housing Loans (CFDA 10.410); Mortgage Insurance-Homes (CFDA 14.117); and Veterans Housing - Guaranteed and Insured Loans (64.114).

- Other guaranteed/insured mortgage loan programs are reported at the value of beginning of the audit period loan balances plus loans originated or purchased during the fiscal year: Qualified Participating Entities (QPE) Risk Sharing (CFDA 14.189); Community Development Block Grants/State's Program (CFDA 14.228); Home Investment Partnerships Program (CFDA 14.239).

NOTE 2. LOAN, LOAN GUARANTEE AND INSURANCE PROGRAMS (continued)

- Economic Adjustment Assistance (CFDA 11.307) includes the outstanding principal balance of loans originated under, and the balance of cash and cash equivalents of, the Revolving Loan Fund, and the administrative expenses paid from income earned.

- Federal Family Education Loans (Guaranty Agency) (CFDA 84.032) are reported at the beginning of the audit period loan balances plus administrative cost allowances.

- Federal Direct Student Loans – (CFDA 84.268) are reported at the value of loans made during the fiscal year.

- Federal Perkins Loan Program – Federal Capital Contributions (CFDA 84.038), Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students (CFDA 93.342) and Nursing Student Loans (CFDA 93.364) are reported at the beginning of the audit period loan balances plus loans made during the year and any administrative cost allowances.

NOTE 3. NON-MONETARY ASSISTANCE

CFDA	Program	Expenditures of Federal Awards Year ended June 30, 2016	Nonmonetary Assistance Year ended June 30, 2016
10.555	National School Lunch Program	$ 35,092,181	$ 4,382,433
10.559	Summer Food Service Program for Children	1,509,388	5,910
10.569	Emergency Food Assistance Program (Food Commodities)	1,428,892	1,428,892
93.268	Immunization Cooperative Agreements	14,821,169	12,908,539

Non-Monetary Assistance is presented as follows:

- National School Lunch Program (CFDA 10.555), Summer Food Service Program for Children (CFDA 10.559) and Emergency Food Assistance Program (Food Commodities) (CFDA 10.569) are reported at the fair market value of food distributed.

- Immunization Cooperative Agreements (CFDA 93.268) includes the value of vaccines received at the contracted price (amount paid by the federal Centers for Disease Control to the manufacturer) and cash assistance for administrative costs.

NOTE 4. REBATES OF PROGRAM EXPENDITURES

The State received the following program expenditure rebates during fiscal 2016:

Program	CFDA Number	Rebate Amount
Medical Assistance Program	93.778	$ 70,868,337
Children's Health Insurance Program	93.767	$ 2,609,962
HIV Care Formula Grants	93.917	$ 6,524,145
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	$ 5,173,706

Manufacturers of infant formula (WIC) and prescription drugs (Medical Assistance, CHIP, and HIV) remitted the rebates. The Medical Assistance Program and CHIP rebates reduced previously-incurred program expenditures; therefore expenditures of these programs are reported net of the applicable federal share of rebates earned during fiscal year 2016. Rebates received under the HIV Care Grant are considered program income. WIC program expenditures include amounts funded by rebates earned as well as direct federal assistance.

NOTE 5. UNEMPLOYMENT INSURANCE EXPENDITURES

Expenditures of federal awards for Unemployment Insurance (CFDA 17.225) represent $152.7 million funded from the State's account in the federal Unemployment Trust Fund and $19.2 million funded by federal grants.

NOTE 6. STUDENT FINANCIAL ASSISTANCE CLUSTER

Expenditures for the Student Financial Assistance Cluster are listed under two separate departments, Department of Education and Department of Health and Human Services. The total expenditures for the Cluster are $231,039,865.

NOTE 7. ITEMS EXCLUDED FROM THE SEFA

In accordance with guidance included in the OMB Compliance Supplement, amounts received by the State under the Build America Bonds program are not included in the Schedule of Expenditures of Federal Awards. The State received $1,873,854 during fiscal year 2016, which was reported as federal revenue in the State's financial statements.

NOTE 8. EXPENDITURES OF OTHER AWARDS

Some expenditures of federal awards included in the Schedule are not specifically identified by Catalog of Federal Domestic Assistance number. When the federal funding agency is known, these amounts are included in the Schedule along with federal awards for that federal grantor agency (e.g., 84.U01). In these instances, an Additional Award Identification Number or information, such as, a federal contract award number or state account number are included in the Schedule.

Certain Research and Development expenditures of federal awards are similarly reflected in the accompanying Schedule when the federal awarding agency is known but not the specific Catalog of Federal Domestic Assistance number.

NOTE 9. INDIRECT FACILITIES AND ADMINISTRATIVE COSTS

Agencies that have never received a negotiated cost rate may elect to charge a de minimis rate of 10% of modified total direct costs that may be used indefinitely. This methodology must be used consistently for all federal awards until such time as an agency chooses to negotiate for a rate, which an agency may apply to do at any time. None of the agencies included in the SEFA for the year ended June 30, 2016, have elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Auditor's Reports

Auditor’s Reports

Table of Contents

Office of the Auditor General
State of Rhode Island and Providence Plantations - General Assembly
Dennis E. Hoyle, CPA - Auditor General
oag.ri.gov
33 Broad Street • Suite 201 • Providence, RI • 02903-4177
tel: 401.222.2435 • fax: 401.222.2111

INDEPENDENT AUDITOR'S 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*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements 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 of Rhode Island and Providence Plantations (the State), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the State's basic financial statements and have issued our report thereon dated December 23, 2016 (*except for Note 19 and our opinion on the aggregate discretely presented component units as to which the date is February 2, 2017*). Our report includes a reference to other auditors who audited the financial statements of:

- the Tobacco Settlement Financing Corporation, a blended component unit which represents 1% of the assets and deferred outflows and 1% of the revenues of the governmental activities and 1% of the assets and 2% of the revenues of the aggregate remaining fund information;

- the Convention Center Authority, a major fund, which also represents 34% of the assets and deferred outflows and 2% of the revenues of the business-type activities;

- the HealthSource RI Trust, an agency fund, the Ocean State Investment Pool, an investment trust fund, and the Rhode Island Higher Education Savings Trust, a private-purpose trust fund, which collectively represent 43% of the assets and 35% of the revenues of the aggregate remaining fund information; and

- all the component units comprising the aggregate discretely presented component units.

This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed in the accompanying schedule of findings and responses, we and the other auditors identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the State's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: Findings: 2016-007, 2016-010, 2016-011, 2016-012, 2016-013, 2016-014, 2016-015, 2016-020, 2016-023, and 2016-031. Other auditors of the discretely presented component units considered the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: Findings 2016-025 and 2016-027.

A significant deficiency is a deficiency, or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies: Findings: 2016-001, 2016-002, 2016-003, 2016-004, 2016-005, 2016-006, 2016-008, 2016-016, 2016-017, 2016-018, 2016-019, 2016-021, 2016-022, and 2016-024. Other auditors of the discretely presented component units considered the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies: Findings: 2016-026, 2016-028, and 2016-029.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests and those of the other auditors disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as Findings: 2016-009 and 2016-030.

State's Response to Findings

The State's responses to the findings identified in our audit are described in the accompanying State Corrective Action Plan. The State's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dennis E. Hoyle, CPA
Auditor General

December 23, 2016, except as this report relates to the Schedule of Expenditures of Federal Awards, included as supplementary information, for which the date is March 30, 2017.

Office of the Auditor General
State of Rhode Island and Providence Plantations - General Assembly
Dennis E. Hoyle, CPA - Auditor General

33 Broad Street • Suite 201 • Providence, RI • 02903-4177
tel: 401.222.2435 • fax: 401.222.2111

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY UNIFORM GUIDANCE

Report on Compliance for Each Major Federal Program

We have audited the State of Rhode Island and Providence Plantations' (the State) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the State's major federal programs for the year ended June 30, 2016.

With respect to certain major programs, we did not audit the compliance of the State with the requirements described in the preceding sentence. These major federal programs had combined expenditures of federal awards representing 36% of the reporting entity's total major federal program expenditures of federal awards in fiscal year 2016. Those audits were performed by other auditors whose reports on compliance with requirements applicable to each major federal program were furnished to us, and this report, insofar as it relates to those programs that were audited by other auditors, is based solely on the reports of the other auditors.

The State's major federal programs are identified in the Section I - *Summary of Auditor's Results* of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the State's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

Finance Committee of the House of Representatives and
Joint Committee on Legislative Services, General Assembly

We believe that our audit, and the reports of the other auditors, provide a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the State's compliance.

Basis for Qualified Opinions on the Unemployment Insurance Program and Low-Income Home Energy Assistance Program

As described in Findings 2016-037 and 2016-056 in the accompanying schedule of findings and questioned costs, the State did not comply with the requirements regarding the following:

Finding #	CFDA #	Program (Cluster) Name	Compliance Requirement
2016-037	17.225	Unemployment Insurance	Special Tests and Provisions – UI Program Integrity – Overpayments
2016-056	93.568	Low-Income Home Energy Assistance	Period of Performance

Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to those programs.

Basis for Qualified Opinion on the TANF Cluster

As described in the accompanying schedule of findings and questioned costs (Finding 2016-060), we were unable to obtain sufficient appropriate audit evidence to support the compliance of the State with the Income Eligibility and Verification System special tests and provisions requirement applicable to the TANF Cluster (CFDA 93.558), consequently we were unable to determine whether the State complied with those requirements applicable to that program.

Basis for Qualified Opinion on the Medicaid Cluster and Children's Health Insurance Program

As described in the accompanying schedule of findings and questioned costs (Finding 2016-061), we were unable to obtain sufficient appropriate audit evidence to support the compliance of the State with the eligibility requirement applicable to the Medicaid Cluster (CFDA 93.778) and Children's Health Insurance Program (CFDA 93.767), consequently we were unable to determine whether the State complied with those requirements applicable to those programs.

Qualified Opinion on Unemployment Insurance Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinions paragraph, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Unemployment Insurance program for the year ended June 30, 2016.

Qualified Opinion on Low-Income Home Energy Assistance Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinions paragraph, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Low-Income Home Energy Assistance Program for the year ended June 30, 2016.

Finance Committee of the House of Representatives and
Joint Committee on Legislative Services, General Assembly

Qualified Opinion on TANF Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinions paragraph, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the TANF Cluster for the year ended June 30, 2016.

Qualified Opinion on Medicaid Cluster and Children's Health Insurance Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinions paragraph, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Medicaid Cluster and Children's Health Insurance Program for the year ended June 30, 2016.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in Section I - *Summary of Auditor's Results* of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2016.

Other Matters

The State's responses to the noncompliance findings identified in our audit are described in the accompanying State's Corrective Action Plan. The State's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the State is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we, and the other auditors, considered the State's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

Our consideration, and the other auditors' consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we, and the other auditors, identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance

Finance Committee of the House of Representatives and
Joint Committee on Legislative Services, General Assembly

requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We, and the other auditors, consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Findings 2016-032, 2016-035, 2016-037, 2016-042, 2016-055, 2016-056, 2016-059, 2016-060, 2016-061, 2016-062, 2016-063, 2016-064, 2016-066, and 2016-070 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We, and the other auditors, consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Findings 2016-033, 2016-034, 2016-036, 2016-038, 2016-039, 2016-040, 2016-041, 2016-043, 2016-044, 2016-045, 2016-046, 2016-047, 2016-048, 2016-049, 2016-050, 2016-051, 2016-052, 2016-053, 2016-054, 2016-057, 2016-058, 2016-065, 2016-067, 2016-068, 2016-069, 2016-071, 2016-072, and 2016-073 to be significant deficiencies.

The State's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs and immediately follow each finding. The State's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dennis E. Hoyle, CPA
Auditor General

March 30, 2017

Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs

Table of Contents

PAGE

Basic Financial Statements

1) The independent auditor's report on the basic financial statements expressed the following opinion

Opinion Unit	**Opinion**
Governmental Activities	Unmodified
Business–type Activities	Unmodified
Aggregate Discretely Presented Component Units	Unmodified
Major funds –	
General	Unmodified
Intermodal Surface Transportation	Unmodified
Lottery	Unmodified
Convention Center Authority	Unmodified
Employment Security	Unmodified
Aggregate Remaining Fund Information	Unmodified

2) The audit of the basic financial statements disclosed significant deficiencies and material weaknesses in internal control over financial reporting.

3) The audit disclosed an instance of noncompliance, which was material to the basic financial statements, and is required to be reported in accordance with *Government Auditing Standards.*

4) The audit disclosed one other matter required to be reported in accordance with *Government Auditing Standards.*

Federal Awards

5) The audit disclosed significant deficiencies in internal control over major programs, some of which were classified as material weaknesses.

6) The independent auditor's report on compliance for major programs expressed an unmodified opinion for all major programs except for the following programs in which it expressed a qualified opinion:

Program	**CFDA #**
Unemployment Insurance	17.225
TANF Cluster	93.558
Low-Income Home Energy Assistance	93.568
Children's Health Insurance Program	93.767
Medicaid Cluster	93.778

7) The audit disclosed findings that must be reported in accordance with 2 CFR 200.516(a) of OMB Uniform Guidance provisions.

8) Major programs are listed in the table below.

2016 Major Programs ***Program Title:***	***CFDA Number***
Supplemental Nutrition Assistance Program (SNAP) Cluster:	
Supplemental Nutrition Assistance Program (SNAP)	10.551
State Administrative Matching Grants for the SNAP Program	10.561
Child and Adult Care Food Program	10.558
Mortgage Insurance – Homes	14.117
Section 8 Project-Based Cluster:	
Section 8 Housing Assistance Payments Program	14.195
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228
Hurricane Sandy Community Development Block Grant Disaster Recovery Grants (CDBG-DR)	14.269
Housing Voucher Cluster:	
Section 8 Housing Choice Vouchers	14.871
Unemployment Insurance	17.225
WIA/WIOA Cluster:	
WIA/WIOA Adult Program	17.258
WIA/WIOA Youth Activities	17.259
WIA/WIOA Dislocated Worker Formula Grants	17.278
Highway Planning and Construction Cluster:	
Highway Planning and Construction	20.205
ARRA – High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants	20.319
Drinking Water State Revolving Fund Cluster:	
Capitalization Grants for Clean Water State Revolving Funds	66.468
Student Financial Assistance Cluster:	
Federal Supplemental Educational Opportunity Grants	84.007
Federal Work-Study Program	84.033
Federal Perkins Loan Program – Federal Capital Contributions	84.038
Federal Pell Grant Program	84.063
Federal Direct Student Loans	84.268
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342
Nursing Student Loans	93.364
Title I Grants to Local Educational Agencies	84.010
Federal Family Education Loans (Guaranty Agency)	84.032
Immunization Cooperative Agreements	93.268
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525

2016 Major Programs ***Program Title:***	***CFDA Number***
TANF Cluster:	
Temporary Assistance for Needy Families	93.558
Low-Income Home Energy Assistance	93.568
Children's Health Insurance Program	93.767
Medicaid Cluster:	
State Medicaid Fraud Control Units	93.775
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777
Medical Assistance Program	93.778

9) The dollar threshold used to distinguish between Type A and Type B programs was $14,624,230.

10) The State did not qualify as a low-risk auditee as defined by OMB Uniform Guidance.

Finding 2016-001 **(*significant deficiency – new finding)***

STRATEGIC AND BUSINESS CONTINUITY PLANNING FOR CRITICAL FINANCIAL AND ADMINISTRATIVE COMPUTER SYSTEMS

The State lacks a strategic plan to (1) coordinate needed replacements/enhancements to its key statewide financial and administrative systems and (2) ensure that critical legacy financial systems, such as the payroll system, which pose a business continuity risk, will be available to support State operations. Without a comprehensive plan, there is substantial risk that the intended integration of various components may not be achieved.

The State has signaled, through a series of recent actions, that it intends to address needed functionalities within its centralized financial and administrative systems by implementing various independent software solutions rather than modules within the Oracle E-Business Suite – the original platform for the State's Enterprise Resource Planning (ERP) system. The intent of an ERP system is to optimize integration thereby enhancing efficiency.

Currently, the State is (1) implementing a time and effort reporting system, (2) selecting a grants management software solution, and (3) contemplating a budget preparation system, procurement system, and options to replace its outdated payroll system. The need for these replacements/enhancements is undisputed and the allocation of resources to these projects is encouraging. However, failure to develop a comprehensive plan to guide these projects and ensure the intended integration is a significant concern. Without a comprehensive plan, there is substantial risk that the intended integration of various components may not be achieved.

A comprehensive plan is critical to ensure that the various software solutions align at some future point to meet the State's overall financial management needs. When separate software solutions are used to accomplish multiple objectives, the responsibility of ensuring data connectivity and integration falls more to the user. Examples of the desired integration among these functionalities include:

- time and effort information flows to the payroll system which supports allocation of personnel costs to federal grants through grants management software;
- budget preparation is aided by information flows from the payroll system and the centralized accounting system which contains actual expenditure data; grants management software provides information on grant awards available; and
- the procurement system easily interfaces with the accounts payable module to optimize controls and streamline payment processing.

Many of the functionalities either pending implementation or contemplated are interdependent. The risk of failed integration is increased due to the long-term implementation timeline that could likely transcend multiple administrations. A significant amount of resources, both financial and personnel, will be deployed in implementing these systems.

A comprehensive plan should include the following critical elements:

- identification of stakeholders and system users and how design and implementation will reflect their needs;

- identification of planned common data elements to be exchanged between the various component systems including data definitions and data imports and exports of the various component systems;
- a coordinated timeline which sequences critical completion targets that impact other project components;
- internal staff or vendors who will ensure the integration of components;
- resources needed (personnel and dollars) during implementation and ongoing support;
- identification and coordination of how the various software solutions will address the State's overall internal control objectives; and
- address the business continuity risks associated with critical systems that utilize outdated technology and are challenging to replace.

Important functionalities are currently met either through legacy systems or through multiple departmental processes without the intended integration and efficiencies. This results in business continuity risk, decreased efficiency and effectiveness, and control weaknesses. Some of the State's critical systems utilize outdated technology which makes these operations vulnerable from a business continuity and systems security perspective. Certain legacy systems utilize software that is no longer supported and the availability of skilled personnel to work on the systems is limited.

The State's payroll system is a key example of a critical computer system that results in business continuity risk. The payroll system processes payroll for over 14,000 employees totaling more than $1 billion in fiscal 2016 and accommodates the provisions of 100 separate collective bargaining agreements, health and pension benefit plan contributions and other withholdings. The payroll system utilizes outdated technology and is maintained by a very small group of employees. It still utilizes an outdated legacy account structure and external support for the system would largely be unavailable. Documentation of the system has not been maintained consistent with current information technology (IT) standards further heightening business continuity risks and complicating development of a replacement system.

Implementing a new payroll system that meets current information technology standards would be a significant challenge and undertaking; however, planning for that eventuality is necessary. Further, conversion to a modern platform is needed to allow other integrated functionalities to progress, such as grants and project management and cost allocation – again highlighting the need for a comprehensive plan.

The importance of these functionalities to overall State operations and the State's control structure as well as the significance of the amount of resources that will be deployed in improving the State's centralized systems requires that a comprehensive strategic plan be developed to guide this effort. External resources to assist in developing the plan and providing an objective view of the planned approach should be considered.

RECOMMENDATION

2016-001 Develop and implement a comprehensive strategic plan to address the integration approach and business continuity risks for planned and contemplated replacements/enhancements to critical statewide financial system functionalities.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-002 **(*significant deficiency – new finding)***

COMPREHENSIVE DOCUMENTATION OF THE STATE'S INTERNAL CONTROL STRUCTURE CONSISTENT WITH THE REVISED INTERNAL CONTROL FRAMEWORK

The State can enhance its communication and implementation of a statewide approach to design, document, and monitor its internal control policies and procedures following the principles contained in the revised internal control framework. The State's system of internal controls is intended to safeguard public resources and support accurate financial reporting.

The State's management has responsibility for the design and operation of internal control. The Committee of Sponsoring Organizations (COSO) has designed a framework for internal control that consists of three categories of objectives – *operations, reporting and compliance* – and five components – *control environment, control activities, risk assessment, information and communication, and monitoring.* An internal control framework, such as COSO, provides an overall structure for management to design, document, and monitor its internal control policies and procedures. Both within and outside government, there is an expectation for management to take increasing responsibility for the adequacy of design and operation of an entity's control structure.

In 2013, COSO revised its framework, and in an effort to tailor this framework to the public environment, the federal Government Accountability Office (GAO) issued an update to its "Green Book", *Standards for Internal Control in the Federal Government*. The "Green Book" is required for federal agencies as a basis for establishing effective internal control systems; however, it can be useful to other governments when applying the principles contained within the COSO internal control framework.

While certain control policies and processes have been documented, opportunity exists for a coordinated effort to implement the revised internal control framework and to reassess the design of its current control structure with particular emphasis on assessing risk and monitoring control results - both essential components of internal control.

Recently, the Office of Accounts and Control allocated a full-time employee to facilitate adoption of the revised COSO/Green Book framework and communicate internal control requirements to State departments and agencies. Additionally, the Office of Internal Audit has adopted the revised internal control framework in its planning and has begun to evaluate internal processes at State departments and agencies. Further efforts are needed to communicate the State's overall objectives and related guidance regarding the internal control framework to departments and agencies. Additional training is necessary to ensure that departments and agencies are adequately documenting their internal control structures to reflect an understanding of its required elements as prescribed by the revised framework.

We acknowledge that this effort is likely to require significant resources and full implementation would span multiple years. We believe reasonable next steps may involve development of an implementation strategy which may require external assistance. The most significant statewide control processes should be assigned the highest priority for documentation and monitoring. A concurrent education program for key finance individuals within the departments and agencies should also be a near term priority.

A statewide plan should be implemented to communicate and educate departments and agencies on the State's overall objectives for its comprehensive internal control structure.

RECOMMENDATION

2016-002 Enhance communication and implementation of a statewide approach to design, document, and monitor its internal control policies and procedures following the principles contained in the COSO/Green Book. Reassess, document, and monitor control procedures following the guidelines of the internal control framework.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-003	***(significant deficiency - repeat finding –2015-001)***

SEGREGATION OF DUTIES WITHIN FUNCTIONS PERFORMED BY THE OFFICE OF THE GENERAL TREASURER

Certain duties performed by the Office of the General Treasurer are not adequately segregated resulting in control deficiencies.

Appropriate controls over cash receipts and disbursements require segregation of duties. The functions of authorizing and recording transactions should be totally separate from functions related to the disbursement and movement of funds, cash receipts, and reconciliation of bank and book balances.

During fiscal 2016 and prior years, we observed numerous journal entries initiated and approved by Treasury personnel that were not consistent with the appropriate level of segregation of duties over cash receipts and disbursements thereby weakening controls.

Receipt transactions are directly recorded as general ledger transactions. Since Treasury has been designated as the "final approver" of cash receipt transactions upon confirmation of the bank deposit, Treasury has general ledger access that would ordinarily not exist in a control environment following the desired level of segregation of duties. While the State has attempted to implement compensating controls to mitigate these risks, there are limits to the effectiveness of these compensating controls due to the existing configuration of the accounting system and the organizational structure in place.

Treasury has engaged a consultant to recommend changes that would strengthen controls within systemic and personnel resource limitations. Optimally, changes to current procedures should include reassignment of certain duties now performed by certain Treasury personnel that would segregate journal entry initiation and approval from the cash receipt and reconciliation functions.

Further consideration should be given to the creation of a separate unit within the Office of Accounts and Control that would handle the authorization and accounting for these transaction types. Until such an interdepartmental reallocation of duties could be effected, certain transaction types should not be performed by Treasury and routed through modified workflows for authorization and recording.

RECOMMENDATIONS

2016-003a Reorganize accounting responsibilities currently performed by the Office of the General Treasurer to ensure proper segregation of duties over cash receipt and disbursement functions.

2016-003b Redirect workflows for certain accounting transaction types so that adequate segregation of duties over cash receipt and disbursement functions is maintained.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-004 **(*significant deficiency – new finding)***

OFFICE OF MANAGEMENT AND BUDGET – RESPONSIBILITIES FOR OVERSIGHT OF FEDERAL GRANT ACTIVITY

Various responsibilities, related to the oversight of federal grants and assigned to the State's Office of Management and Budget (OMB), have not been fully addressed operationally.

The sections of the Rhode Island General Laws, creating the Office of Management and Budget (OMB) within the Department of Administration, delineate various responsibilities to the OMB including those related to oversight of the State's federal grant programs. We have highlighted in past audits, through conduct of the annual Single Audit of the State, that the administration of federal programs is almost exclusively the purview of the departments and agencies - there are few uniform statewide grant administrative procedures and little statewide oversight of federal grant activities. Federal grants support approximately 40% of state operations accounted for within the General Fund.

The creation of the OMB was in part intended to address those concerns by vesting responsibility for oversight of federal grant activities within a group outside of the day-to-day administration of grant programs. Certain of the specific responsibilities of the OMB, as contained in the enabling statute, are highlighted below:

> **§ 35-1.1-5 Federal grants management. –** (a) The office of management and budget shall be responsible for managing federal grant applications, providing administrative assistance to agencies regarding reporting requirements, providing technical assistance and approving agreements with federal agencies pursuant to § 35-1-1. The director shall:
>
> (2) Ensure that the state establishes and maintains statewide federally-mandated grants management processes and procedures as mandated by the federal Office of Management and Budget;
>
> (6) Assist the state controller in managing and overseeing the disbursements of federal funds in accordance with § 35-6-42;
>
> (7) Assist the state controller in the preparation of the statewide cost allocation plan and serve as the monitoring agency to ensure that state departments and agencies are working within the guidelines contained in the plan; and,
>
> (8) Provide technical assistance to agencies to ensure resolution and closure of all single state audit findings and recommendations made by the Auditor General related to Federal funding.

Opportunities exist to enhance the role of the OMB in overseeing the operation of the State's many federally funded programs consistent with the intent of the enabling statute. Higher-level monitoring of federal grant activities is necessary to ensure overall compliance with federal requirements and also to prompt timely corrective action when warranted. There are a number of recurring findings related to the administration of federal programs included in our Single Audit Report that remain unresolved.

We acknowledge OMB's efforts to provide training on the new federal regulations affecting all federal awards (Uniform Guidance) and vendor vs. subrecipient determinations. Additionally, OMB is leading the effort to select grants management software for statewide application.

Further areas that should be enhanced include ensuring there are uniform, efficient and effective statewide processes in place to meet the various requirements of federal grant administration (e.g., cost allocation, cash management, federal reporting). The OMB should be the agency advocating for needed IT applications that would facilitate and standardize many of the "backroom" operations that are now unique to each department and often result in control weaknesses over federal program administration.

RECOMMENDATION

2016-004 Enhance the operational activities of the OMB to comply with the enabling statute and to meet the need to provide centralized monitoring of federal programs, which constitute a material portion of the State's overall activities.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-005 *(significant deficiency - repeat finding – 2015-008)*

MONITORING RIFANS ACCESS PRIVILEGES AND AGENCY APPROVAL HIERARCHIES

The State can enhance certain system access controls within the RIFANS statewide accounting system.

Authorizing and monitoring access to RIFANS, the State's centralized accounting system, is a key control over financial reporting. We observed three distinct, but interrelated areas where the State can improve its monitoring of RIFANS access privileges by implementing reporting functionalities that allow for the periodic review of RIFANS user and administrator access. The State's current lack of monitoring of user and administrator access represents a collective weakness in internal control over financial reporting.

RIFANS "Super Users"

Activities of individuals with system administrator or "super user" roles are logged but not reported and reviewed. These individuals have unlimited access to RIFANS functions and data. Consequently, any RIFANS transactions or activity initiated by system administrators should be monitored. The Division of Information Technology's (DoIT) policies and procedures require the activities of privileged users (system administrators) to be logged by the system and reviewed for propriety by assigned personnel.

The State could improve controls over system administrator access by either a) developing reports that specifically report on their system access and daily activities within the system and/or b) developing reports that detail when changes are made to critical data within RIFANS.

Agency Hierarchies

Access roles for all RIFANS users are controlled through unique passwords. These roles, which are assigned based on job functions and responsibilities, permit access to various system capabilities. Agency hierarchies permit specific transaction types and dollar authorization limits. Other transaction-specific authorization controls are managed through workflow directories within RIFANS.

The Office of Accounts and Control (Accounts and Control) is responsible for the design and control of system access by RIFANS users. This "blueprint" of the RIFANS control structure is periodically documented through hierarchies detailing access and approval flows for each department or agency. Maintaining off-line documentation of the hierarchies is manually intensive and only provides limited effectiveness in providing an audit trail of additions, deletions, and changes in authorization that are routinely made to RIFANS system access.

In addition, Accounts and Control authorizes changes to system access but the changes are effected by authorized individuals in the Division of Information Technology that have the system access to modify or expand RIFANS access. The resulting changes are not monitored to ensure they were established consistent with Accounts and Control's approval or that other unauthorized changes were not made.

In FY2016, the State created a reporting functionality designed to capture changes made to certain systemic data- for instance, RIFANS authorization. The reporting functionality is intended in order to facilitate timely review of changes in RIFANS user access and notify the Office of Accounts and Control when modifications have been made on an exception basis. However, as the resulting reports were not found to be sufficient to meet their intended purposes, the reports have as yet not been utilized. Additional modifications are required in order to provide adequate documentation of the designed and approved access structure which underlies the State accounting system control structure and objectives.

RIFANS Delegated Authority

RIFANS users may delegate their authority to other users in certain situations (e.g., vacation rules). The State implemented a policy that restricts employees from delegating their authority to others with a lower level of authority and requiring notification of the delegation to the Office of Accounts and Control in certain circumstances. The Office of Accounts and Control's monitoring of delegated RIFANS access authority has been limited thus far by the lack of a system reporting functionality. Consequently, monitoring is ineffective in determining whether any delegation of authority is consistent with policy or if the delegation is more than temporary. The State should consider reporting functionalities that facilitate monitoring of delegated authority to ensure compliance with existing policies.

RECOMMENDATIONS

2016-005a Review activities of privileged users (system administrators) on a scheduled basis to ensure that additions, modifications, and deletions initiated by them are appropriate.

2016-005b Improve controls over RIFANS access by continuing to explore reporting functionalities that would allow for periodic monitoring of user access for instances of unauthorized changes to user access and/or noncompliance with policies relating to delegated user access.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-006 *(significant deficiency – repeat finding -2015-002 and 2015-003)*

COMPREHENSIVE GENERAL LEDGER CONTROLS OVER RECEIVABLES

Statewide accounting controls over receivables should be enhanced.

The State can enhance its comprehensive general ledger controls over amounts owed to the State. Receivable balances are generally maintained by the revenue-collecting department or agency (e.g., Division of Taxation, Courts, and Department of Environmental Management). Summary balances are reported only annually to the Office of Accounts and Control for inclusion in the State's financial statements. The effectiveness of receivable recording at year-end is dependent upon agencies fully reporting balances to the Office of Accounts and Control and procedures performed by Accounts and Control to identify possible omissions. This manual process provides a level of compensating control but is susceptible to omission. Accounting and monitoring controls over the State's receivables in aggregate are limited.

Revenues are collected at many points throughout the State and, in many instances, due to volume and complexity (e.g., tax revenues); independent systems must be maintained to control and account for those revenues and related receivables. Controls are enhanced when there are effective general ledger controls over all receivable balances with periodic reconciliation to detailed subsidiary accounts receivable systems. Additions and reductions (payments) of receivables should be recorded in aggregate at the general ledger level with the detailed recording at the customer/taxpayer level within the various subsidiary receivable systems.

Currently, general ledger balances are adjusted at fiscal year-end to match the summary balances reported by the various revenue collecting agencies. Long-term receivables, which are included in the State's government-wide financial statements, are typically recorded and then reversed each year without a "permanent" general ledger or subsidiary ledger detail record of such amounts.

The lack of an integrated revenue and receivables functionality within the RIFANS accounting system requires that receipts/revenue be recorded via journal entry transactions (directly to the general ledger). Typically, receipts/revenue would be recorded in a separate module with expanded functionality that would interface with and post information to the general ledger.

The Office of Accounts and Control has added certain receivable categories to an existing revenue/receivables module that is part of RIFANS. However, since that module is more designed to track receivables on a unique customer basis; it does not easily match the need to control receivables within the State's various subsidiary systems (e.g., tax receivables). Other options need to be considered to meet the State's comprehensive control objectives for receivables, given the complicated and decentralized nature of revenue collection points throughout the State.

RECOMMENDATION

2016-006 Explore options to enhance statewide general ledger controls over receivables.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-007 **_(material weakness - repeat finding – 2015-004)_**

CONTROLS OVER FEDERAL PROGRAM FINANCIAL ACTIVITY

The State needs to improve controls over recording federal revenue to ensure (1) amounts are consistent with the limitations of grant awards from the federal government and (2) claimed expenditures on federal reports are consistent with amounts recorded in the State's accounting system. Further, statewide accounting functionalities should be implemented to support time reporting/payroll, grants management, and cost allocation – all functionalities that are integral to the management and control over federal programs.

Federal programs represented 40% of fiscal 2016 General Fund expenditures. Financial reporting risks include categorizing expenditures as federally reimbursable when grant funds have either been exhausted or the expenditures do not meet the specific program limitations. Further, the State can improve its overall centralized monitoring of federal program operations to ensure compliance with federal requirements.

Generally, federal revenues are recognized as expenditures are incurred for federal grant programs. Some federal grants are open-ended entitlement programs where the federal government will reimburse the State for all allowable costs incurred under the program. Other federal grants are limited by a specific award amount and grant period. These grant periods are often for the federal fiscal year and are not aligned with the State's fiscal year.

Knowledge of grant requirements, spending authorizations, and limitations on reimbursable expenditures all rests with departmental managers who administer the federal grant programs. Accordingly, the Office of Accounts and Control, in preparing the State's financial statements, relies primarily on the coding of expenditures (by funding source – federal) within the RIFANS accounting system. All expenditures recorded in federal accounts are considered reimbursable from the federal government and federal revenue is recorded to match those expenditures. From an overall statewide perspective, controls over financial reporting are ineffective to ensure that all federal expenditures are reimbursable and federal revenue is recognized appropriately.

The Office of Accounts and Control requires completion of a *Federal Grants Information Schedule* (FGIS) by the administering departments and agencies. The goal of the FGIS is to reconcile RIFANS program activity with amounts drawn and claimed on federal reports. The FGIS process is ultimately limited in its overall effectiveness to improve controls over federal revenue recognition. Presently, there is no statewide control measure to ensure that grant expenditures do not exceed available award authority.

During our fiscal 2016 audit, we proposed audit adjustments relating to federal grant activity. One adjustment corrected the recording of expenditures allocated to a federal grant that exceeded allowable federal funding. Other adjustments involved a mismatch of timing when expenditures were incurred and when federal revenues in reimbursement of those expenditures were recognized.

Federal Grants Management and Cost Allocation

The State's RIFANS accounting system does not meet the State's needs in three important and interrelated areas – time reporting/payroll, grants management, and cost allocation – all functionalities that are integral to management of federal programs. These functions are currently performed independent of RIFANS and generally through multiple systems - most of which are duplicative and utilize old and sometimes unsupported technology.

In general, each department within State government captures time and effort information, distributes costs to programs, and manages its federal grants in its own unique way. None of these processes or systems operates similarly, shares a common control structure or is integrated into RIFANS.

Time and effort data collected within an integrated system could be used to automatically distribute costs to various programs and activities. Because these functionalities are lacking in RIFANS, a high volume of manual accounting entries, supported by data derived from various departmental cost allocation processes and departmental systems, is required to distribute direct and indirect costs to various programs and activities. These manual accounting entries are adequately controlled from an authorization and access perspective but are not uniformly or sufficiently controlled from a sourcing or supporting documentation perspective.

The lack of full integration of these system functions results in delays in federal reimbursement as well as potentially impacts the timeliness and accuracy of reporting these program expenditures in RIFANS. The necessary journal entries required by State agencies to adjust indirect costs to federal programs can lag as much as one or two quarters during the fiscal year while independent time reporting and cost allocation processes get completed.

The State's Office of Management and Budget (OMB) and the Office of Accounts and Control should coordinate statewide accounting and monitoring processes to enhance controls over federal program financial activity for financial reporting purposes but also to ensure compliance with federal program requirements.

RECOMMENDATIONS

2016-007a Improve functionality within the statewide financial systems to facilitate federal grant administration (grants management, cash management, and cost allocation).

2016-007b Build statewide processes over federal grant administration within the Office of Management and Budget to supplement accounting controls within the RIFANS accounting system.

Auditee views: *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2016-008	***(significant deficiency –new finding)***

STATEWIDE CENTRALIZED COST ALLOCATIONS

Controls are weakened due to the use of "mirror" accounts rather than internal service funds to account for and distribute centralized costs to functions and activities.

The State discontinued use of certain internal service funds during fiscal 2007 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 are claimed and drawn down by departments with the federal revenue being moved to reimburse DOA for costs allocable and recoverable from federal programs.

This allocation method results in a process that is inherently complex and not fully understood by many of the State's departmental financial managers. The process increases the risk that federal revenue and expenditures could be overstated.

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 and monitoring procedures. Internal service funds more clearly demonstrate when other functions and activities (in aggregate) have been over or undercharged for services.

RECOMMENDATION

2016-008 Restore internal service funds as the means to account and distribute centralized costs to functions and activities.

Auditee views: *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2016-009 ***(other compliance matter – repeat finding – 2015-002)***

COLLECTION OF OVERPAYMENTS TO MEDICAID MANAGED CARE ORGANIZATIONS

Net recoverable gain share amounts totaling $101 million from Medicaid managed care organizations (MCOs) were outstanding at June 30, 2016. Of this amount, Medicaid Expansion gain share totaled $120 million.

Unusually large balances due to the State from managed care organizations in settlement of various contract periods beginning in January 2014 largely remained outstanding at June 30, 2016. We reported in our prior audit that $133 million was due to the State at June 30, 2015. During fiscal 2016, the Executive Office of Health and Human Services (EOHHS) recouped approximately $36 million of the Medicaid Expansion dollars that were due. The MCOs were overpaid an additional estimated amount of $22 million for Medicaid Expansion for the contract period ending June 30, 2016 resulting in an aggregate amount owed to the State of $120 million at June 30, 2016.

The overpayments due to the State resulted primarily from coverage extended to the "Medicaid expansion population" – a group provided coverage under the provisions of the federal Affordable Care Act (ACA). EOHHS faced early challenges in establishing a capitation rate for this population due to the high utilization of services expected at the inception of coverage. Actuarially certified capitation rates were based on conservative cost assumptions, which did not materialize as expected in the actual experience. This resulted in large recoverable gain share amounts under these risk/gain share arrangements with the MCOs - amounts much larger than typical risk share/gain share contract settlement amounts that routinely occur. The contracts provide for settlement of actual claims experience and the determination of risk share/gain share amounts due to or from the State measured at the close of contract periods, with final settlement at the end of the claims run-out period - one year later.

These amounts have been recognized within the overall Medicaid program receivables and payables calculated for inclusion in the State's financial statements at June 30, 2016. The amounts paid for the Medicaid expansion population were 100% funded by the federal government – once collected, the overpayments are due to the federal government.

Due to contract provisions in effect during fiscal 2015 and 2016, the MCOs unintentionally benefitted from a large interest free cash infusion and were allowed to retain a portion (approximately $7.7 million) of the excess capitation payments due to gain share provisions. Gain share provisions in the contract were intended to reward the MCOs for overall cost efficiencies attained through enhanced case management, preventative care, and enhanced coordination of services. In this instance, the gain share amounts retained by the MCOs resulted from overstated capitation assumptions and not from efficiencies achieved.

EOHHS did not fully recoup the overpayments initially cited in our fiscal 2015 audit by June 30, 2016 as reported in the State's corrective action plan for the 2015 findings. A 90-day required notice of recoupment stipulated in the MCO contracts and the MCOs refusal to waive such provision stalled collection efforts. While we recognize these contract provisions, we believe the extraordinary amount and nature of the overpayments was such that earlier repayment should have been negotiated and achieved. These overpayments, as acknowledged by all parties, were clearly beyond the normal scope and expectation of the managed care rate settlement process. Had the capitation payments to the MCO's been insufficient to cover actual claims experience, it is unlikely that the State would have been able to defer any further payment until the end of the contract settlement period.

EOHHS has reduced capitation rates to more accurately reflect the medical claims experience of the population. In addition, EOHHS added contract language modifying the risk share / gain share determination under managed care contracts going forward to prevent gains or losses when determined capitation rates are significantly different from the actual medical experience of the population. Lastly, EOHHS has also included an audit requirement in its future managed care contracts that mandates that the MCOs require their independent auditor to opine on the MCO's schedules that determine risk share / gain share outcomes for their annual contracts.

EOHHS finally recouped fiscal 2015 overpayments to the MCOs for the Medicaid Expansion population in early fiscal 2017. The fiscal 2016 overpayment to the MCOs (approximately $22 million) is expected to be recouped after the one-year claim runout period ends on June 30, 2017.

RECOMMENDATION

2016-009 Recoup overpayments from the MCOs using the newly effective and enhanced contract provisions.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-010 **(material weakness – new finding)**

MEDICAL ASSISTANCE PROGRAM COMPLEXITY AFFECTS FINANCIAL REPORTING AND OVERALL PROGRAM CONTROLS

The growing complexity of Medicaid program operations adds to the challenge of accurately accounting for all Medicaid program related financial activity within the State's financial statements.

The complexity of the Medicaid program has continued to increase each year through federal Affordable Care Act (ACA) provisions and various State initiatives that have changed how services are delivered and providers are reimbursed. Medicaid is the State's single largest program activity - representing nearly 25% of the annual budgeted outlays. Consequently, the financial aspects of this program are material to the State's financial reporting objectives.

The added complexity and related challenges are mainly attributable to the following initiatives and trends:

- New program initiatives have changed the way services are reimbursed through the program;
- Program changes are often implemented through managed care coverage increasing an already significant segment of Medicaid that is being administered outside of EOHHS's direct financial systems and controls;
- Contracts with managed care organizations (MCOs) are subject to complex settlement provisions. These settlements are increasingly dependent on data received from other providers and MCOs and require substantial data analysis to evaluate prior to recognizing the accounting impact on the State's books and additional payments to and from the providers. EOHHS is largely dependent on contractors to provide the data analysis and tracking of these settlement provisions.
- Financial activity relating to Medicaid that is manually accounted for, in total or in part, has increased the risk that certain receivables or liabilities may be omitted from the State's financial reporting processes and not be detected;
- New eligibility systems have resulted in claim processing problems that have resulted in estimated payments to providers in advance of the actual claims or capitation payments being processed;

- Several components of Medicaid financial activity, due to the timing and duration of contract and provider settlements, require material receivables and liabilities to be classified on a short and long-term basis that impacts how these amounts are reported in the State's financial statements; and

- The State lacks effective auditing and monitoring of MCO financial activity.

Ensuring this financial activity is properly and completely recorded in the State's financial statements is an increasingly complex task. MCO risk and gain share settlements, primary care service increases, certain "reinventing Medicaid" initiatives, and other settlements relating to delayed enrollment of newborns within the new UHIP system were all accounted for external to Medicaid's claims processing system. The financial effect of these settlements and program provisions totaled in the hundreds of millions of dollars. Much of this activity is higher risk from a financial reporting and federal program compliance perspective as it is less subject to systemic controls and instead is accounted for through manual independent processes.

EOHHS appropriately included a host of specific programmatic provisions that had a financial statement impact within its closing package provided to the Office of Accounts and Control at fiscal year-end. Identification of these provisions is solely dependent on individuals knowledgeable about the program. Due to the complexity, it would be challenging for any one person to have a complete financial understanding of all program operations as well as an understanding of the State's financial reporting objectives. Significant audit adjustments were required for fiscal 2016 relating to Medicaid financial activity reported in the State's financial statements.

For example, in accordance with ACA, Medicaid reimbursements to primary care physicians (PCP) were increased for the purpose of improving access to primary care with the federal government generally reimbursing States for 100% of the increase. The increases applied to Medicaid primary care services paid on a fee-for-service basis or through managed care organizations. Since these additional reimbursements were not reflected in the original capitation rates for these managed care organizations (MCOs), additional amounts owed to the MCOs were paid through settlements separate from the normal capitation settlement process. We found the State overpaid one of the MCO's $2.3 million for the PCP reimbursement during our audit - the State was invoiced for an incorrect amount that was subsequently paid.

PCP reimbursements under the ACA are similar to many other Medicaid program initiatives which require significant data analysis and periodic settlements typically for significant dollar amounts.

The significance of Medicaid expenditures and the continued trend of providing more services through capitation necessitate an examination of how the State ensures completeness and accuracy from a financial reporting perspective. Due to the heavy reliance on contractors to manage and analyze this financial activity, control processes should be evaluated and documented delineating contractor and EOHHS responsibilities and how overall financial reporting objectives are met. Additionally, increased financial oversight of the MCOs is needed to further support data used to prepare the State's financial statements.

<u>RECOMMENDATIONS</u>

2016-010a Evaluate and document control processes to meet the financial reporting objectives for the Medicaid program. Delineate those responsibilities delegated to contractors and how those responsibilities are integrated in the overall control structure.

2016-010b Improve financial oversight of the MCOs as a basis for enhancing program compliance objectives and enhancing data available for financial reporting purposes.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-011	**(material weakness – new finding)**

COMPREHENSIVE INFORMATION SYSTEMS SECURITY POLICIES AND PROCEDURES

The State needs to ensure its IT security policies and procedures are current and well communicated. Assessments of compliance for all critical IT applications have not been performed. Systems deemed to pose the most significant operational risk must be prioritized.

The Division of Information Technology (DoIT) within the Department of Administration (DOA) has responsibility for the State's varied and complex information systems. This includes ensuring that appropriate security measures are operational over each system and the State's information networks. Information security is critically important to ensure that information technology dependent operations continue uninterrupted and that sensitive data accumulated within State operations remains secure with access appropriately controlled.

The oversight and management of the State's information security program relies upon the implementation of DoIT's comprehensive information systems security plan, which includes detailed policies and procedures that are designed to safeguard all of the information contained within the State's critical systems.

The State has updated and created new policies and procedures for its critical information systems; however, it has lagged approving, communicating and implementing these policies. Further, the State has not performed an assessment to determine whether its IT systems are in compliance with these IT security policies and procedures. Due to the number and complexity of systems within State government, a risk-based approach should be employed where those systems deemed most critical or most at risk are prioritized for assessment.

The State should contract for the performance of IT security compliance reviews of its mission critical systems until such time that sufficient internal resources are in place to ensure that the State can conduct such reviews on a periodic basis for all mission critical systems. In addition, new information systems or significant system modifications should be subjected to a formalized systems security certification by DoIT or an external IT security consultant prior to becoming operational.

Lastly, the State should make appropriate use of external system assessments and reviews whenever available. In many instances, State systems are operated by external parties or interface with external processing entities. These entities often provide Service Organization Controls (SOC) reports, which typically include identification and testing of key controls within the application or organization. A number of these reports are available and should be accumulated and reviewed within DoIT as part of a risk-based approach to assessing and ensuring IT security compliance. This may assist in broadening the monitoring of the State's many systems in light of the minimal resources allocated to this function.

RECOMMENDATIONS

2016-011a Continue to update IT security policies and procedures to ensure such policies and procedures conform to current standards and address all critical systems security vulnerabilities.

2016-011b Complete an initial assessment of compliance with systems security standards for the State's mission critical systems. Contract for the performance of IT security compliance reviews and accumulate and make use of available Service Organization Control reports to extend IT security monitoring of critical systems.

2016-011c Prepare a corrective action plan that prioritizes significant system security risks with the goal of achieving compliance with DoIT's formalized system security standards for all significant State systems.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-012 ***(material weakness – repeat finding – 2015-006)***

DIVISION OF INFORMATION TECHNOLOGY - DISASTER RECOVERY PLAN

The State did not perform tests of its disaster recovery plan during fiscal 2015 and 2016. This reduces the assurance that all mission critical systems can be restored should a disaster disable or suspend operations.

The State has not performed testing of its disaster recovery plan since fiscal 2014. Tests of the disaster recovery plan are an important component of overall business continuity planning to increase the likelihood that systems can be restored should a disaster disable or suspend operations at the State's data center. The State needs to test the viability of its recovery center and its employees' knowledge and ability to perform restoration of the systems. Industry best practices stipulate that disaster recovery testing be performed twice a year in order to accommodate the ever-changing systems environment. The State should perform a full disaster recovery test at least annually.

DoIT has a designated data center recovery facility in New Jersey (operated by a vendor). Since the last test performed in fiscal 2014, the State has undergone a number of changes to its system environment. New systems such as UHIP, STAARS, and numerous patches to RIFANS along with network and communications configuration changes have not been part of a disaster recovery test.

If a test of the disaster recovery plan is conducted in June 2017, as now planned, the State will have gone more than 3 years without a comprehensive test performed at its off-site recovery data center.

RECOMMENDATION

2016-012 Perform an off-site disaster recovery test at the State's designated disaster recovery site at least annually.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-013 ***(material weakness - repeat finding -2015-007)***

INFORMATION TECHNOLOGY (IT) SYSTEMS - PROGRAM CHANGE CONTROLS

The State does not follow uniform enterprise-wide program change control procedures for the various IT applications operating within State government. This increases the risk that unauthorized or inappropriate changes could be made to IT applications without detection.

Program change controls are a critical IT control component to ensure that only authorized changes are made to programs with testing and acceptance before being placed in production. Additionally, program change control procedures prevent and detect unauthorized program modifications from being made.

Almost all custom developed computer applications require changes or updates during their production lifecycle. These customized, home-grown applications require a formalized change management system in order to properly control changes made to them.

The change management process should be standardized so that all movement of code, changes made, testing, acceptance, and implementation provide management with a tracking history. This leads to consistent outcomes, efficient use of resources and enhanced integrity of the application systems which flow through the process. Automated tools vastly help control this process and make the process consistent, predictable, repeatable and aids in the reduction of "human error" in the process.

In response to prior audit recommendations made since fiscal 2007, DoIT has attempted to implement change control software. These packages were never implemented enterprise-wide and with minimal success, thus leaving agencies to develop their own methods and procedures to control application changes. Various methods are used to control program change management which rely mostly upon manual and automated procedures that incorporate emails, memorandums and other paper-based forms to document application changes.

This has led to inconsistent methods and noncompliance and circumvention of DoIT's change control policy and procedural guidance. In a number of instances, we found no automated control system demonstrating that only authorized and proper changes had been implemented.

DoIT has indicated that it will implement an automated standardized formal enterprise program change control process for the application systems it supports. DoIT should develop procedural guidance that details the correct use of change management software and mandated internal control practices and procedures, thus ensuring a documented, monitored, and repeatable process.

RECOMMENDATIONS

2016-013a When implementing the new change management software, DoIT should determine the appropriate combination of operational, procedural and/or technical adjustments required to use the package in a manner that results in adequate program change control for the entire enterprise.

2016-013b Develop and implement procedures detailing specific requirements for program change control and disseminate and train DoIT support staff in its proper execution.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-014	***(material weakness - repeat finding -2015-011)***

DEPARTMENT OF REVENUE – CONTROLS OVER ELECTRONIC TRANSMISSION OF TAX PAYMENTS AND OTHER INFORMATION

Electronic data received by Taxation should remain encrypted and then be uploaded to Taxation's systems through automated processes without manual intervention. Current procedures create, rather than restrict, opportunities for data manipulation.

Electronic transmission of tax payments and tax information for uploading to the Division of Taxation's (Taxation) systems represents the majority of taxes collected and data received by Taxation. Ensuring the security and integrity of this data from transmission through posting to taxpayer records is critical.

The vast majority of the State's tax revenues are received electronically (ACH debit/credit). Funds are deposited automatically into the State's bank accounts, which causes the State's financial institutions to send electronic payment confirmation data files to Taxation (these electronic files contain abbreviated tax payment data, such as, taxpayer identification number, payment amount, tax type, and tax period). Through a lock box arrangement with a financial institution, other returns and payments that are mailed to Taxation are processed and converted to electronic data files. Other initiatives have increased the receipt of data in electronic form.

The electronic files are encrypted during transmission; however, they are not all directly uploaded to Taxation's systems without manual intervention. When these electronic files are in an open unencrytped text format, this allows, rather than restricts, manipulation of data prior to recording in Taxation's systems. Additionally, the files reside in an unprotected network folder prior to and after upload. These electronic files should be in a file format that is secure and configured to facilitate an efficient upload to Taxation's systems without need for manual intervention.

As a result of a "data classification" review, Taxation classified the data as "sensitive", therefore, requiring it to be encrypted using 256 bit or higher encryption strength. However, although Taxation has performed the "data classification" review, it does not currently have a mechanism to encrypt the data automatically. (Taxation is in the process of implementing a new system that is designed to encrypt data automatically.

Certain personnel are assigned responsibility for downloading electronic files, reconciling detailed electronic information to the amount recorded in the State's bank accounts, creating manual adjustments, and ensuring that the information is uploaded properly to Taxation's IT systems. While Taxation has taken steps to segregate duties regarding the processing of these files, certain individuals still have access that allows them to perform multiple functions.

Enhanced coordination with the primary financial institution regarding file layouts and unique processing requirements could alleviate any need to modify the tax payment files prior to upload to Taxation's systems.

<u>RECOMMENDATIONS</u>

2016-014a Secure all electronic files containing taxpayer information residing on the Division of Taxation's network to ensure data integrity.

2016-014b Control all electronic files that contain taxpayer information by requiring the file format to be secure and configured to the computer system in order to allow automatic transmission without any manual intervention.

2016-014c Develop monitoring and reporting procedures to ensure the proper upload of data files.

<u>Auditee views</u>: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-015 ***(material weakness - new finding)***

DEPARTMENT OF REVENUE – STAARS IMPLEMENTATION AND FINANCIAL REPORTING IMPACTS

Implementation of a new Taxation IT system presented issues impacting financial reporting due to processing timeframes for personal income tax returns and other returns held in suspense. This affected accruals based on historical processing timelines and complicated financial reporting estimates due to the uncertain effect of returns that had not fully processed at June 30, 2016.

Beginning in November 2015, personal income tax returns were processed by the Division's new State Tax Administration and Revenue System (STAARS). Processing of calendar 2015 tax returns through the new system was slowed due to a variety of issues associated with the implementation of STAARS. These included:

- more refined edits to detect potentially fraudulent returns – this resulted in more returns being held for review prior to payment of claimed refunds;
- scanning errors related to scanning equipment that did not meet designed system specifications for reliability - reading tax return bar codes and converting paper returns to electronic records; and
- manual intervention required to clear system processing edits and exceptions without sufficient personnel resources to meet the peak demand.

Financial reporting estimates at fiscal year-end were affected because normal processing timeframes and volumes differed from previous patterns. A significant volume of returns were held in suspense (posted exceptions report) or on the suspected fraud register at June 30, 2016. STAARS "classified" the returns held in suspense; however the system classification was unreliable with respect to accurately estimating the revenue impact when the return was fully processed (i.e., result in no revenue impact, a refund liability or a receivable).

STAARS Return Scanning Accuracy

The scanning functionality implemented as part of STAARS did not meet planned reliability targets. Scanning "errors" resulted from the inability to accurately read bar coding included on the returns, which impacted the accuracy of "reading" the return information. Errors also resulted from tax forms produced from commercial tax preparation software that did not align with the Division's scanner or STAARS system. This caused the returns to appear inaccurate and triggered edits which held the return in suspense pending further resolution.

The impact of the scanning errors was difficult to address in the midst of active processing. Controls and processes should be in place to ensure that returns are successfully scanned within designed tolerances. The Division has worked with its scanning vendor and tax preparation software companies to resolve the issues for the 2016 tax return processing season.

Refining system edits for optimal fraud detection and processing efficiency

STAARS was designed with heightened fraud detection edits. Based on a variety of criteria, a return could be flagged by the system as potentially fraudulent, which suspends further processing (refund payment) until the fraud suspicion is resolved or substantiated. This also slowed refund processing and contributed to the volume of returns held in suspense.

The Division prioritized the processing of likely refund returns prior to June 30, 2016. A significant volume of returns remained which required resolution; thereby complicating the various estimates used for financial reporting purposes. The Division must employ various measures to eliminate the volume of tax year 2015 returns pending full processing before the 2016 tax processing season commences. Most returns require human intervention to resolve errors, and staff were significantly challenged to handle the volume given the continued implementation of STAARS for additional tax types.

The Division has communicated its targeted strategy to eliminate the unreliability in its scanning functionality and coordinate with tax preparation software companies for the next tax return processing season. Additionally, fraud edit checks may need to be reviewed and refined to achieve the desired balance between heightened fraud detection and processing efficiency.

The Division should also increase its use of advanced analytical tools, in concert with the STAARS development vendor, to (1) prioritize resolution efforts for items included on the posted exceptions report, and (2) potentially apply a "system" resolution to groups of returns to reduce the number of returns requiring staff intervention. Lastly, staffing levels must be sufficient to meet peak demands and avoid processing backlogs.

RECOMMENDATIONS

2016-015a Ensure scanning reliability is restored to designed levels. Monitor scanning reliability on a timely basis to avoid processing backlogs and to allow for timely correction and recalibration as needed.

2016-015b Assess and refine system edits to achieve the optimal balance of fraud detection and processing efficiency.

2016-015c Utilize advanced analytical tools to (1) prioritize resolution efforts for items included on the posted exception report, and (2) potentially apply a system resolution to groups of returns to reduce the number of returns requiring staff intervention.

2016-015d Assess and add additional staff as needed to meet peak demands, resolve existing backlogs and prevent processing backlogs from occurring going forward.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-016	***(significant deficiency - repeat finding –2015-012)***

DEPARTMENT OF REVENUE - OFF-SITE STORAGE OF TAXATION CRITICAL DIGITAL BACKUP FILES AND INCLUSION IN ANNUAL DISASTER RECOVERY TEST

Critical Division of Taxation back-up data files are not stored off-site – a recommended disaster recovery best practice.

Critical data files, such as the personal income tax processing file information, should be backed-up and stored off-site consistent with recommended best practice guidance. This allows, along with periodic testing of a disaster recovery "hot-site", for system recovery in the event of disaster at the data center or loss of data.

The Division of Taxation continued implementing a new integrated tax system (STAARS - State Tax Administration and Revenue System) during Fiscal 2016 and used the system to process calendar 2015 personal income tax returns. Although STAARS data was routinely backed-up on digital media, the back-up media was not sent to an off-site storage location. Critical back-up files should be moved off-site to a geographically different location. This process is generally followed for other State systems with critical data files; however, it has not been put into effect for STAARS.

RECOMMENDATION

2016-016 Ensure that digital backups are stored off-site in a geographically different location for disaster recovery and business continuity purposes.

Auditee views: *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2016-017 ***(significant deficiency – new finding)***

DEPARTMENT OF REVENUE – REVENUE RECOGNITION

The Division of Taxation had inconsistent measures of recognizing taxes receivable across different tax types.

During fiscal 2016, the Division of Taxation expanded use of its new STAARS system to more tax types but also continued to use its legacy main-frame systems to administer and collect other tax revenues. We found this resulted in inconsistent measures of when taxpayer receivables were recognized and reported. For example, in some instances, taxpayer liabilities were recognized immediately and in other instances, a period of 30 days was provided before recognition to allow time for taxpayer appeal.

Revenue and receivable recognition should be consistent among all tax types. The taxpayer's legal right to appeal should not limit the recognition of revenue and receivables for financial reporting purposes when tax liabilities are known (e.g., taxpayer files a return indicating a tax liability but has not fully paid the amount).

Further, some receivables were recognized as revenue for financial reporting purposes but bills were suppressed by STAARS and not mailed to the taxpayer. These were appropriately suppressed from billing due to a payment known to the system that had not yet been matched or associated to the taxpayer liability. Suppression of the billing notice should have also prevented recognition of the revenue and receivable for financial reporting purposes.

As The Division continues implementation of its STAARS system, it should ensure consistent and appropriate recognition of revenue and receivables among all tax types.

RECOMMENDATION

2016-017 Establish uniform criteria and consistent recognition of revenue and receivables across all tax types.

Auditee views: *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2016-018 ***(significant deficiency - new finding)***

DEPARTMENT OF REVENUE – DATA USED TO CALCULATE SIGNIFICANT ESTIMATES

Historical data used to support significant financial reporting estimates for tax revenues should be reassessed periodically to ensure continued validity – this is particularly important with more current data emanating from the new STAARS system.

The Office of Accounts and Control utilizes various Division of Taxation generated information to estimate financial statement revenue accruals, revenue refunds, and allowances for uncollectible and unavailable amounts. The Division's new STAARS system is capable of providing different and likely more detailed reporting on which to build estimates. Many of the estimates are derived from multi-year historical statistics – care must be exercised in using a combination of legacy data and STAARS to ensure the resulting estimates are still valid. Regardless, the data and assumptions underlying all significant estimates should be reassessed periodically to ensure they are valid and appropriate for the circumstances.

Additionally, STAARS data should be used to refine certain estimates. For example, the allowance for uncollectible and unavailable amounts for certain smaller dollar collection taxes should be developed based on collection history data specific to that tax rather than using the average of other taxes.

RECOMMENDATION

2016-018 Assess the validity of data used to develop significant tax revenue and refund accrual estimates particularly in light of current data emanating from the new STAARS system. Refine estimates where necessary to reflect enhanced data provided by STAARS.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-019 ***(significant deficiency – new finding)***

DEPARTMENT OF REVENUE – STAARS SYSTEM ACCESS

STAARS system user access rights need to be assessed and tailored to ensure access is consistent and appropriate with each employee's responsibilities.

The Division of Taxation continues implementation of its integrated tax system - STAARS (State Tax Administration and Revenue System) with full system implementation by June 2017. We found that during the STAARS implementation, system user access for some users was broader than necessary. System access controls should be designed and monitored such that users have access tailored to their specific job functions and duties yet maintaining appropriate segregation of duties. This is particularly important in a tax processing system with sensitive data and large payment inflows and outflows.

We acknowledge that during system implementation user access is often broader than ultimately necessary. As the Division moves towards full implementation of its STAARS system, it should perform a thorough system access review to ensure user access is appropriately limited and consistent with each user's specific job function and responsibilities.

RECOMMENDATION

2016-019 Complete a thorough review of system access for all STAARS users to ensure user access is appropriately limited and consistent with each user's specific job function and responsibilities.

Auditee views: *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2016-020 ***(material weakness – repeat finding- 2015-014)***

DEPARTMENT OF REVENUE – PERSONAL INCOME TAX – CONFIDENTIAL COMMUNICATION

A finding concerning the administration of the personal income tax system was communicated confidentially due to the potential impact on taxpayer compliance.

Auditee views: *The auditee concurs with this finding.*

Finding 2016-021 ***(significant deficiency- new finding)***

FINANCIAL REPORTING – INTERMODAL SURFACE TRANSPORTATION FUND – USE OF RI DEPARTMENT OF TRANSPORTATION FINANCIAL MANAGEMENT SYSTEM (FMS) AND RIFANS ACCOUNTING SYSTEM

Use of two computer systems to account for the activities of the Intermodal Surface Transportation (IST) Fund is unduly complex.

Financial statements for the Intermodal Surface Transportation (IST) Fund are prepared primarily from the State's RIFANS accounting system; however, a significant amount of data required for financial reporting is also derived from RIDOT's Financial Management System (FMS). Because these two accounting systems were not designed to easily share data, preparation of the annual financial statements for the IST Fund is unduly complex.

The RIDOT FMS is an integrated, multi-module system intended to meet RIDOT's comprehensive project accounting needs, including purchasing, billing, construction management and general ledger functions. While the majority of RIDOT financial transactions originate in the FMS, the State's accounting systems are used to process cash disbursements to vendors and employee payroll. A significant interrelationship exists between the two systems requiring each system to generate and transmit data files to complete various processing cycles. By design, all financial transactions (some in summary) are intended to be replicated within the State's RIFANS accounting system. While recording transactions in two accounting systems is inherently duplicative, this would be less problematic if the configuration and accounting conventions were the same. For example:

- RIDOT FMS and RIFANS each utilize separate and distinct account structures, which necessitates mapping to "crosswalk" the two charts of accounts.

- Since no direct interface exists between the two systems, transmission files are utilized to transfer expenditure data between the RIDOT FMS and RIFANS to disburse vendor payments. Timing differences exist and have to be identified as part of the reconciliation process.

- RIDOT establishes and maintains purchase order balances on a detailed line item basis for the entire project duration; purchase order balances in RIFANS are in summary form and only for the amount expected to be expended during that fiscal year.

- Expenditures are recorded in the RIDOT FMS after disbursement in RIFANS; expenditures are recorded in RIFANS when entered and approved for payment.

- RIDOT FMS tracks activity at the project level as this is the level at which funding sources (e.g., federal, state and other) are determined and infrastructure or maintenance categorizations are made. RIFANS accumulates activity at the major program level (e.g., interstate highways).

In essence, the RIDOT FMS contains detailed project-level data which loses its project character when transmitted to RIFANS. However, the project-level data is needed for certain financial reporting purposes. When the project-level RIDOT FMS data is used, it must be reconciled and adjusted to conform to RIFANS accounting conventions. Various supplemental manual and reconciliation processes have been implemented to provide the information needed for financial reporting.

Due to the use of two separate accounting systems, RIDOT has implemented a process of reconciling RIDOT FMS to RIFANS on a monthly basis, as a control, to ensure both systems accurately reflect RIDOT activity. Specific areas of the reconciliation process have been automated but the cause for differences must be manually identified and corrected in the appropriate system, but the coding in the reconciliation report contains errors causing sections of the reconciliation to have offsetting variances that need to be explained and documented.

An analysis should be performed to determine whether continued use of the two accounting systems in the current configuration is the best way to accomplish financial reporting for the IST Fund. Options include better aligning of the design and configuration of the two systems or alternatively using the RIDOT FMS for financial reporting purposes rather than RIFANS. Recognizing that a significant investment has already been made and that further integration of the two systems would require additional investment, RIDOT should establish short-term and long-term goals for a more efficient process to yield reliable information in support of timely financial reporting.

<u>RECOMMENDATIONS</u>

2016-021a Reevaluate the continued operation of two separate accounting systems to support financial reporting for the IST Fund. Consider using the RIDOT FMS for financial reporting.

2016-021b Ensure the control over the reconciliation of FMS to RIFANS is operating as intended by modifying the reconciliation report to properly map the natural accounts between the systems.

<u>Auditee views</u>: *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2016-022	**_(significant deficiency - repeat finding – 2015-015)_**

<u>INTERMODAL SURFACE TRANSPORTATION FUND - FINANCIAL REPORTING</u>

Controls can be improved over the preparation of financial statements to ensure consistent and accurate reporting of fund activity in accordance with generally accepted accounting principles.

The Intermodal Surface Transportation (IST) Fund, a special revenue fund, includes financial reporting for transportation related activities of the State, including the highway construction programs, the expenditure of proceeds from the State's Grant Anticipation Revenue Vehicle (GARVEE) bonds and matching Motor Fuel bonds for specific highway construction related projects in addition to the funds received from the sale of excess land to the I-195 Redevelopment District Commission.

Controls over the Preparation of Financial Statements

Controls can be improved over the preparation of financial statements to ensure consistent and accurate reporting of fund activity in accordance with generally accepted accounting principles as follows:

- Multiple activities and funding streams are included within the IST Fund. Although combined for financial reporting purposes, each activity or funding stream requires separate analysis to ensure amounts are accurately reported. Classification of fund balance by category – nonspendable, restricted, committed, assigned, and unassigned - is dependent upon the analysis of each activity and/or funding stream. Our analysis identified misclassifications of various fund balance categories. During fiscal 2016 RIDOT did reconcile the federal funding streams related to fund balance and plans to expand the reconciliation to all other funding streams in fiscal year 2017.

- Controls over the reporting and accounting of fees collected by the Division of Motor Vehicles (DMV) and transferred to RIDOT in accordance with RI General Law 39-18.1 can be improved. The improvements at a minimum should include documenting how the fee structure identified by RI General Law 39-18.1 has been incorporated into the DMV computer system (document the surcharge amount being applied to each DMV transactions code.) In addition to obtaining weekly, monthly and yearly summary reports, the DMV should be identifying the number of transactions by type and the amount collected by transaction type to ensure the proper amounts are being transferred to the IST Fund.

- Transactions were identified in the reconciliation of funds on deposit with fiscal agent to the general ledger that were not timing differences. These transactions should be posted to the general ledger.

- There were several adjustments to payables, receivables, deferred inflows and due to/ due from the federal government that were booked to the financial statements in order for the statements to be materially correct.

RECOMMENDATIONS

2016-022a Ensure the transactions identified through the analysis of each activity and/or funding source within the IST Fund are booked to the general ledger. Also improve controls over the categorization and reporting of fund balance components.

2016-022b Strengthen control procedures over the fees collected by the Division of Motor Vehicles (DMV) and transferred to RIDOT to ensure compliance with General Law Chapter 39-18.1 by obtaining weekly, monthly and yearly summary reports which identify the number of transactions by type and the amount collect by transaction type.

2016-022c Improve controls over financial reporting to ensure payables, receivables, deferred inflows and due to/due from the federal government are properly recorded in the State's accounting system and financial statements.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-023	***(material weakness - repeat finding -2015-016)***

TRANSPORTATION INFRASTRUCTURE REPORTING

Controls should be improved over the process used to accumulate reported transportation infrastructure assets, the State's most material capital asset category, to ensure accurate reporting of such investments.

Process to Accumulate Infrastructure Outlays

The process performed by RIDOT to determine capitalized infrastructure outlays is manually intensive and requires reconciliation to the State's accounting system. Amounts reported as capitalized infrastructure are derived from project-level data contained in the RIDOT Financial Management System (FMS). The project information obtained from the FMS includes large amounts of data that must be sorted, subtotaled, categorized and reconciled. This significant volume of transactions and required data analysis increases the risk of error.

RIDOT's process to accumulate capital outlays utilizes actual construction expenditures but includes estimated amounts for design costs for some projects. Estimates are currently utilized, in certain instances, because RIDOT's system does not report design costs as part of project expenditures. Design expenditures, which are normally contracted separately from project construction, must be manually allocated or estimated. RIDOT should implement more effective systemic controls to accurately account for actual design costs relating to infrastructure projects.

We noted misstatements relating to the infrastructure balances initially reported for fiscal 2016. Certain projects were erroneously reclassified from construction in progress to infrastructure during fiscal year 2016 and from infrastructure to construction in progress. Although corrected through audit adjustment, these misstatements indicate that controls should be improved over the process for identifying projects to be included in construction in progress and infrastructure.

Explore an Automated Approach to the Accumulation of Capitalized Infrastructure Outlays

The control deficiencies noted here are significantly interrelated to the use of two incompatible accounting systems to prepare financial statements for the IST Fund. Due to the use of the two systems, accumulation of infrastructure outlays meeting the State's capitalization criteria is performed independent of both systems. Data is drawn from both systems into massive spreadsheets, which eventually yield the amounts needed for financial reporting purposes. The design of RIDOT's FMS envisioned that system providing capital asset (infrastructure) financial reporting information; however, the use of the two systems in the current configuration leads to the inefficient and error-prone spreadsheet approach.

The Department of Transportation and the Office of Accounts and Control should explore whether there may be a less cumbersome and more efficient means, ideally through an automated systems approach, to accumulate infrastructure investments for inclusion in the financial statements.

Asset Impairments

Generally accepted accounting principles for governmental entities require that capital assets be evaluated for impairment when events or changes in circumstances suggest that the service utility of a capital asset may have significantly and unexpectedly declined. These standards also require adjustment of the carrying value of capital assets that meet certain impairment criteria. RIDOT was unable to document its consideration of transportation infrastructure assets that may meet the impairment criteria and provide such documentation to the Office of Accounts and Control for the purpose of preparing the State's financial statements.

RECOMMENDATIONS

2016-023a Develop controls over the identification of project expenditures (to include construction costs, design costs, internal payroll, subtotaling of project expenditures, categorization of projects and reconciling between RIDOT FMS and RIFANS) to be recorded as infrastructure investment in the State's financial statements.

2016-023b Explore ways that capitalized infrastructure outlays could be accumulated through an automated systems approach rather than the inefficient and error-prone spreadsheet approach currently used.

2016-023c Evaluate and document the consideration of whether any of the State's transportation infrastructure has been impaired consistent with the criteria outlined in generally accepted accounting principles applicable to governmental entities.

Auditee views: *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2016-024 **_(significant deficiency - repeat finding -2015-017)_**

INTERMODAL SURFACE TRANSPORTATION FUND – CONTROLS OVER KEY DATA FILES

Controls should be enhanced to ensure that data integrity is maintained over key data files used to process vendor payments and to draw federal funds for the Intermodal Surface Transportation (IST) Fund.

Progress Payment Data Files

Progress payment data moves from the Project Management Portal (PMP) to RIDOT's Financial Management System (FMS) and ultimately RIFANS (the State's accounting system) for vendor payments. Data elements are sometimes manually altered after being transmitted from the PMP but prior to posting to the FMS accounting system.

While the need to manually verify and modify data was explained, the lack of adequate compensating controls increases the risk of inaccurate payments and unauthorized changes. In addition, RIDOT has a policy prohibiting certain actions (e.g., approving and releasing holds of self-initiated progress payments); however, the system does not prevent such actions.

A review of the entire file transfer process, from progress payment file creation in PMP to invoice creation in FMS to vendor disbursement in RIFANS, should be performed to identify critical points where automated controls should be implemented to eliminate all manual involvement.

Federal Billing

There are instances where the Highway Planning and Construction draw down file is modified prior to submission to the Federal Management Information System (FMIS). RIDOT's FMS does not fully provide the level of data required to draw federal funds as required by the Federal Highway Administration which necessitates the file modifications. We observed the following weaknesses:

- The FMS does not have the capability to link multiple funding sources award numbers (FSAN) to one Federal Aid Project (FAP). The Federal Highway Administration links many FSANs to one FAP and requires RIDOT to draw down funds by the FSAN. Consequently, RIDOT after creating the drawdown file, manually splits draw requests between multiple FSANs.

- The file is in an open text format with no encryption. This open text format allows anyone who has access to the server directory to modify the file.

- There is no change management system in place tracking changes to the file, documenting who made the change, or requiring management approval of changes.

RIDOT should improve its controls and processes over the FMS and the drawdown file to ensure accuracy and completeness of data transmitted to the FMIS.

RECOMMENDATIONS

2016-024a Review the progress payment file transfer process to identify critical points where automated controls could be implemented to eliminate the need for manual intervention.

2016-024b Create and implement appropriate approval hierarchies.

2016-024c Improve controls over the RIDOT federal billing process to include transferring files without modification.

2016-024d Modify the Financial Management System to allow for multiple funding source award numbers (FSAN) to be linked to one Federal Aid Project.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-025 **_(material weakness - repeat finding -2015-022)_**

CENTRAL FALLS SCHOOL DISTRICT - SIGNIFICANT ADJUSTMENTS

Criteria – Management is responsible for the maintenance of adequate accounting records, internal controls and the fair presentation of the financial statements in accordance with generally accepted accounting principles.

Condition – Material adjustments to year-end balances, restatements of opening balances and current year activity were necessary for the financial statement to be fairly presented in accordance with generally accepted accounting principles.

Cause – There are a number of causes for this condition, many being the result of attempts to correct circumstances. However, the principle causes are a lack of a coordinated, comprehensive plan to implement and train employees with new financial software, concurrent with the retirement of several key long term employees.

Effect – Information recorded in and reports produced from the accounting system contained numerous material errors related to the inclusion or exclusion of information resulting from data entry and software execution errors, resulting in material adjustments accepted by management to the District's financial statements.

RECOMMENDATION

2016-025 A comprehensive plan to coordinate all District financial accounting recording and reporting activities is in the process of being developed and implemented. This plan should include the development of a comprehensive policies and procedures manual; adequate staffing including training of all staff as to both the processes and the software involved; appropriate controls related to authorization and review of recorded transactions; timely recording of transactions, reconciliations and reviews of reconciliations so as to detect and correct errors in a timely manner, and a comprehensive review of the District's organizational structure to ensure adequate levels of supervision and clear reporting paths for all staff involved.

Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2016-026 ***(significant deficiency - repeat finding -2015-025)***

CENTRAL FALLS SCHOOL DISTRICT - CAPITAL ASSETS

Criteria – Capital assets are maintained by the District and reported in the government-wide statement of net position. Although these capital assets and the related depreciation do not impact the fund statements of the District, they do have an impact on the overall governmental net position. Additionally, the District is required to maintain capital asset records for all assets that are purchased with federal grant funds.

Condition – The District does not have procedures for maintaining the capital asset records on a perpetual basis or for taking a physical inventory of these assets. In addition, the District does not have a system in place for identifying capital assets acquired with federal grant funds.

Cause – The District currently maintains the capital asset records utilizing an excel database which is updated on an annual basis. This database contains a complete listing of capital assets and related depreciation expense which is maintained for financial reporting purposes only. The listing currently does not include any information regarding the location of the asset or the source of the funds used to acquire the asset.

Effect – Failure to maintain the capital asset records on a perpetual basis increases the risk of potential misstatement of the capital assets at year end. In addition, failure to conduct a periodic inventory of capital assets, including controllable assets (assets not meeting the capitalization threshold but included in inventory due to their sensitive, portable, and/or theft prone nature) increases the risk of misuse and safeguarding of District assets.

RECOMMENDATION

2016-026 We recommend that the District implement an integrated software package that will enable capital assets to be recorded when the asset is acquired rather than being captured at year end. We further recommend that the capital asset inventory be updated to include the location of the asset and a code to identify all assets that are acquired with federal funds. Management should utilize this capital asset inventory listing, as well as the controllable asset listing, to conduct periodic inventories of the assets.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-027 ***(material weakness - repeat finding -2015-020)***

METROPOLITAN REGIONAL CAREER AND TECHNICAL CENTER (THE "MET") - GENERAL LEDGER RECONCILIATIONS

Criteria - Internal controls should be in place to provide reasonable assurance that general ledger accounts are properly reconciled on a timely basis.

Condition - During the performance of our audit of the Met's financial statements, we noted the monthly reconciliations of the operating cash account for fiscal year 2016 included a variance of $92,417 resulting from improper reconciling items in the prior fiscal year.

Cause - Management failed to enforce policies and procedures to ensure internal controls are functioning properly in relation to the conditions listed above.

Effect - Failure to properly reconcile cash accounts to bank statements on a timely basis in previous years resulted in reconciling errors not discovered until fiscal year 2016. In addition, this resulted in an overstatement of cash and equivalents on the fiscal year 2015 audited financial statements requiring a prior period adjustment to reflect the proper account balances held at that time.

RECOMMENDATION

2016-027 Policies and procedures should be developed and implemented by the Met's management to ensure that appropriate internal controls are enforced.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-028 ***(significant deficiency – new finding)***

RHODE ISLAND CONVENTION CENTER AUTHORITY - UNTIMELY BANK RECONCILIATIONS

Criteria - Bank reconciliations should be performed timely after month-end.

Condition - Operating Bank Account and the Box Office Bank Account reconciliations at the Dunkin' Donuts Center were not completed on a timely basis.

Cause - Bank reconciliations were not completed on a timely basis.

Effect - Because the bank reconciliations were not timely performed, it is possible that errors at the Dunkin' Donuts Center, whether accounting errors or bank errors, would not be timely detected and corrected. In addition, as a result of bank reconciliations not being timely, it is also reasonably possible that not all expenses were captured during the event settlement process at the Dunkin' Donuts Center, meaning the Authority likely absorbed more expenses that it was contractually obligated to do. The impact of these issues, combined with the expenses being absorbed rather than being reimbursed as allowed in the event agreement, have the potential to be material to the financial statements as a whole.

Perspective - In July 2016 during preliminary audit fieldwork, we noted Dunkin' Donuts Center Operating Bank Account and Box Office Bank Account had not been reconciled since November 2015 and that the Payroll Bank Account has not been reconciled since March 2016.

RECOMMENDATION

2016-028 We recommend that all bank reconciliations be performed on a timely basis.

Auditee views: *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2016-029 ***(significant deficiency – new finding)***

RHODE ISLAND CONVENTION CENTER AUTHORITY - REVIEW OF BANK RECONCILIATIONS, JOURNAL ENTRIES AND EVENT SETTLEMENTS

Criteria - Bank reconciliations, journal entries and event settlements should be reviewed.

Condition - We noted that bank accounts, journal entries and an event settlement were not being reviewed.

Cause - Accounting staff were not reviewing or documenting their reviews of bank accounts, journal entries or an event settlement.

Effect - As a result of reviews not being performed, errors, which have the potential of being material, may occur which could go undetected.

Perspective - We noted based on a sample of 25 journal entries tested at the Rhode Island Convention Center, three journal entries that were not reviewed.

- We noted, based on a sample of 25 journal entries tested at the Dunkin' Donuts Center, one journal entry that was not reviewed at the Dunkin' Donuts Center.
- We noted one event settlement that was not reviewed at the Dunkin' Donuts Center.
- We also noted that operating and box office account bank reconciliations were not reviewed.

RECOMMENDATION

2016-029 We recommend that all bank reconciliations, journal entries and event settlements be reviewed by an appropriate accounting staff or management, and that the review be performed on a timely basis.

Auditee views: *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2016-030	***(material noncompliance - repeat finding –2015-026)***

RHODE ISLAND CONVENTION CENTER AUTHORITY - RESTRICTIVE COVENANTS

Criteria - Bond indentures require that the Authority fund the Operating Reserve and Renewal and Replacement components.

Condition - During the years ended June 30, 2016 and 2015, the Authority was unable to fund the Operating Reserve requirement of the restrictive covenants for the RICC and the DDC pursuant to the indentures. During the years ended June 30, 2016 and 2015, the Authority was unable to fund the Renewal and Replacement requirement of the restrictive covenant for the DDC pursuant to the indenture.

Cause - The Authority does not have sufficient cash flow to fund the Operating Reserve and Renewal and Replacement components.

Effect - As a result of these funds not being funded, the Authority is in noncompliance with bond indentures.

Perspective - Debt covenants.

RECOMMENDATION

2016-030 We recommend that the Authority fund the Operating Reserve and Renewal and Replacement Funds.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-031	***(material weakness – new finding)***

CONTROLS OVER PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Federal Uniform Guidance (2 CFR 200 - *Uniform Administrative Requirements, Cost Principles, And Audit Requirements For Federal Awards*) requires that an entity's Schedule of Expenditures of Federal Awards (SEFA) identify for each CFDA number, the amount of federal funds passed through to subrecipients. The State included this information in its SEFA for fiscal 2016; however, controls over the identification of such amounts within the statewide accounting system (RIFANS) were inadequate. During fiscal 2016, there was no reliable coding of amounts passed through to subrecipients within the accounting system. Accordingly, accounting system queries were supplemented with inquiries of the departments and agencies administering federal awards and other procedures necessary to accumulate such information. Adjustments were identified through our audit of the SEFA.

The Office of Accounts and Control recognizes the need for enhanced accounting system identification of amounts paid to subrecipients to facilitate preparation of the SEFA each year and is implementing enhanced system coding unique to subrecipient payments in fiscal 2017.

Certain federal asset forfeiture funds administered by the U.S. Department of Justice had not been identified as expenditures of federal awards within the State's accounting system but were instead identified as restricted revenues/expenditures. Total expenditures of federal awards for fiscal 2016 were increased by $9,921,755 in the SEFA, under the Department of Justice, CFDA 16.922 – Equitable

Sharing Program. Timely identification of federal awards is necessary to ensure that all relevant compliance requirements are known and considered.

Questioned Costs: None

RECOMMENDATIONS

2016-031a Evaluate the use of newly implemented coding within the state accounting system to identify amounts passed-through to subrecipients to ensure that it effectively meets the required reporting objective for the State's Schedule of Expenditures of Federal Awards.

2016-031b Enhance controls to ensure all funding meeting the definition of expenditures of federal awards are included in the State's Schedule of Expenditures of Federal Awards.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Table of Findings by Major Program

Program Title	CFDA	Applicable Findings
Supplemental Nutrition Assistance Program (SNAP) Cluster:		
Supplemental Nutrition Assistance Program (SNAP)	10.551	none
State Administrative Matching Grants for the SNAP Program	10.561	2016-032, 2016-033
Child and Adult Care Food Program	10.558	none
Mortgage Insurance – Homes	14.117	none
Section 8 Project-Based Cluster:		
Section 8 Housing Assistance Payments Program	14.195	none
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	none
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	2016-034, 2016-035, 2016-036
Hurricane Sandy Community Development Block Grant Disaster Recovery Grants (CDBG-DR)	14.269	2016-034, 206-036
Housing Voucher Cluster:		
Section 8 Housing Choice Vouchers	14.871	none
Unemployment Insurance	17.225	2016-037, 2016-038
WIA/WIOA Cluster:		
WIA/WIOA Adult Program	17.258	2016-039, 2016-040, 2016-041
WIA/WIOA Youth Activities	17.259	2016-039, 2016-040, 2016-041
WIA/WIOA Dislocated Worker Formula Grants	17.278	2016-039, 2016-040, 2016-041
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	2016-042, 2016-043, 2016-044, 2016-045, 2016-046
ARRA – High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants	20.319	2016-047
Drinking Water State Revolving Fund Cluster:		
Capitalization Grants for Clean Water State Revolving Funds	66.468	none
Student Financial Assistance Cluster:		
Federal Supplemental Educational Opportunity Grants	84.007	2016-049, 2016-054
Federal Work-Study Program	84.033	2016-050, 2016-051, 2016-054
Federal Perkins Loan Program – Federal Capital Contributions	84.038	2016-054
Federal Pell Grant Program	84.063	2016-048, 2016-049, 2016-052, 2016-053, 2016-054
Federal Direct Student Loans	84.268	2016-048, 2016-049, 2016-052, 2016-054
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	2016-052, 2016-054
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	2016-054
Nursing Student Loans	93.364	2016-054
Title I Grants to Local Educational Agencies	84.010	none
Federal Family Education Loans (Guaranty Agency)	84.032	none
Immunization Cooperative Agreements	93.268	none

Table of Findings by Major Program

Program Title	**CFDA**	**Applicable Findings**
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	2016-055
TANF Cluster:		
Temporary Assistance for Needy Families	93.558	2016-058, 2016-059, 2016-060
Low-Income Home Energy Assistance	93.568	2016-056, 2016-057
Children's Health Insurance Program	93.767	2016-061, 2016-062, 2016-063, 2016-064, 2016-065, 2016-066, 2016-072, 2016-073
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	none
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777	none
Medical Assistance Program	93.778	2016-061, 2016-062, 2016-063, 2016-064, 2016-065, 2016-066, 2016-067, 2016-068, 2016-069, 2016-070, 2016-071, 2016-072, 2016-073

Finding 2016-032 ***(material weakness – repeat finding-2015-029)***

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) CLUSTER:
State Administrative Matching Grants for the SNAP Program - CFDA 10.561
Federal Award Agency – Department of Agriculture
Award Year: Federal Fiscal Year 2014-2015
Federal Award Number: 2015IS251444
Administered by: Department of Human Services (DHS)

DOCUMENTATION OF IN-KIND MATCHING EXPENDITURES

The Department of Human Services can improve monitoring of its subrecipient contracted to provide Supplemental Nutrition Assistance Program (SNAP) Employment and Training services to ensure third-party in-kind matching expenditures are documented.

The Department of Human Services has contracted with a subrecipient to provide Supplemental Nutrition Assistance Program (SNAP) training services each year since 2012. DHS did not obtain sufficient documentation from the subrecipient to support the amounts of in-kind match claimed for the SNAP program. 7 CFR Section 277.4(d) describes the federal requirements regarding cash or in-kind contributions which are allowable as the State agency's share of program costs.

We previously reported that for its FFY 2015 (07/1/14 to 9/30/15) contract, DHS obtained copies of certifications that the subrecipient obtained from its "partners" that provided in-kind services. Most of these were dated prior to the start of the grant period. None of these certifications included any supporting documentation. During our 2016 audit we found that no certifications were provided at the end of the contract period to verify that previously pledged amounts were actually spent.

DHS paid the subrecipient $218,602 in SFY 2016 on their 2015 contract. DHS reported an equal amount of in-kind match without any or insufficient supporting documentation. Consequently, the state share of program costs was overstated. DHS reports in-kind match each quarter and therefore should have the required in-kind match documentation at the time amounts are claimed on the federal reports.

Questioned Costs: Unknown

RECOMMENDATIONS

2016-032a Obtain adequate supporting documentation for third party in-kind matching expenditures already reported or submit corrected federal reports.

2016-032b Obtain documentation supporting in-kind match from subrecipients each time payment is requested to ensure amounts included on federal reports are adequately supported.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-033 ***(significant deficiency – repeat finding - 2015-030)***

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) CLUSTER:
State Administrative Matching Grants for the SNAP Program - CFDA 10.561
Federal Award Agency – Department of Agriculture
Award Year: Federal Fiscal Years 2015-2016
Federal Award Numbers: 2016IS251444
Administered by: Department of Human Services (DHS)

FEDERAL REPORTING - MATCHING

DHS can improve its controls over federal reporting to ensure that SNAP program expenditures are properly reported.

DHS reports SNAP program expenditures on the FNS-778, which details expenditures by various categories and also reports expenditure totals on the SF 425 *Federal Financial Report*. Most expenditures are required to be matched equally between state and federal sources.

An adjusting journal entry was made to correct departmental charges for its INRHODES system. An error was made and the incorrect amount was posted to the state matching account. This was not detected and resulted in an over-statement of state and under-statement of federal expenditures on the report prepared for the quarter ended June 30, 2016.

Questioned Costs: None

RECOMMENDATION

2016–033 Enhance controls to ensure expenditures are properly matched and reported.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-034 ***(significant deficiency – new finding)***

COMMUNITY DEVELOPMENT BLOCK GRANT – CFDA 14.228
Federal Award Agency: Department of Housing and Urban Development
Award Years: Various
Federal Award Number: Various
HURRICANE SANDY COMMUNITY DEVELOPMENT BLOCK GRANT DISASTER RECOVERY GRANTS – CFDA 14.269
Federal Award Agency: Department of Housing and Urban Development
Award Years: Various
Federal Award Number: B-13-DS-44-0001
Administered by: Rhode Island Office of Housing and Community Development (OHCD)

CASH MANAGEMENT

The Office of Housing and Community Development (OHCD) can improve its controls over cash management for its CDBG and Hurricane Sandy Disaster Recovery federal programs to limit federal cash drawdowns to its immediate cash needs.

Federal cash management regulations require the State to limit the amount of federal funds on hand prior to disbursement for program purposes. During fiscal 2016, the Department of Administration Central Business Office (CBO) was responsible for drawing federal funds for the CDBG and Hurricane Sandy Disaster Recovery programs. The State is required to draw cash for these programs in accordance with 31CFR Part 205, Subpart B which states "a State must minimize the time between the drawdown of federal funds from the federal government and their disbursement for federal program purposes."

OHCD initiates drawdowns of federal funds once requests for reimbursement from subrecipients are reviewed and approved for invoicing. Invoice documents for the payments to the subrecipients are routed to CBO for final approval, where the drawdowns are approved once the corresponding invoices are approved in the State accounting system. The two offices utilize a drawdown backup sheet to track the drawdowns initiated, the invoice payments, and receipt documents in the State accounting system.

In conjunction with testing of cash balances for the program, we noted that the receipt of the federal funds frequently preceded the actual disbursement of funds from State accounts by a substantial margin. These elapses in time resulted in periods of significant positive cash balances for the CDBG program during the fiscal year, and to a lesser extent for the Hurricane Sandy Disaster Recovery program. This appears to be due largely to the State scheduling payments to vendors by at 30 days from the invoice date. As a result, we found that the delay between CBO's approval and actual payment could, at times, exceed two weeks.

The State should revised its procedures to ensure vendor payments have been disbursed before or simultaneous with the applicable draw of federal funds.

Questioned Costs: Unknown

RECOMMENDATION

2016-034 Enhance controls over cash management to ensure compliance with 31 CFR Part 205, Subpart B.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-035 *(material weakness – new finding)*

COMMUNITY DEVELOPMENT BLOCK GRANT – CFDA 14.228
Federal Award Agency: Department of Housing and Urban Development
Award Years: Various
Federal Award Number: Various
Administered by: Rhode Island Office of Housing and Community Development (OHCD)

SUBRECIPIENT MONITORING

The Office of Housing and Community Development (OHCD) can enhance its monitoring of subrecipients as required by federal program requirements.

OHCD grants CDBG funds to municipalities for community projects that meet specific national program objectives under federal regulations for the CDBG program. The cities and towns apply for CDBG funds each program year, and funding for those projects are granted according to the State's annual action plan.

Under federal regulations, the State is required to evaluate each subrecipient's risk of noncompliance with federal regulations. A critical piece of this evaluation is determination as to whether the subrecipient is required to have a Single Audit performed and review of the subrecipient's audit reports. Additionally, the State has certain compliance monitoring responsibilities, including environmental oversight.

Each calendar year, OHCD completes a risk analysis to determine a plan for financial and program compliance monitoring of subrecipients. The risk analysis is completed using several criteria, including the lapse of time since prior monitoring, potential issues presented in prior monitoring, staffing changes within the municipality, complexity of the activities funded at the local level, and the amount of funding allocated in the most recent program year. Cities or towns found at greater risk are slated for monitoring during the calendar year. As part of the financial monitoring performed, the OHCD monitoring staff reviews the most recent audit reports issued by the city or town to identify any relevant issues.

Currently, OHCD receives each subrecipient's audit reports and reviews reports applicable to scheduled monitoring reviews. In order to properly monitor subrecipients and adequately determine risk of noncompliance, all subrecipient audit reports should be reviewed each year; any relevant audit findings should be tracked to ensure appropriate subrecipient corrective action. OHCD should consider incorporating the review into the risk analysis.

Further, we noted that not all monitoring reviews planned were performed and completed in a timely manner. In order to ensure compliance and, when applicable, appropriate corrective action, monitoring reviews should be conducted and completed timely and resolution appropriately documented and tracked.

In November 2016, the US Department of Housing and Urban Development (HUD) performed a monitoring review of the State's CDBG program, as well as site visits to some of the State's subrecipients. HUD's report contained several findings that require corrective action.

OHCD should examine its current process for CDBG subrecipient oversight and monitoring. The OHCD's subrecipient monitoring procedures should be sufficiently comprehensive to meet all federal requirements and additionally provide assurance that subrecipients are adhering to program requirements.

<u>Questioned Costs</u>: Unknown

<u>RECOMMENDATIONS</u>

2016-035a Review annual subrecipient audit reports and, in instances where there are audit findings ensure that the subrecipient takes appropriate and timely corrective action.

2016-035b Complete subrecipient monitoring reviews in a timely manner and perform timely follow up to ensure corrective action by subrecipients.

2016-035c Examine current procedures for subrecipient monitoring and oversight s to ensure compliance with federal requirements The OHCD's subrecipient monitoring procedures should be sufficiently comprehensive to meet all federal requirements and additionally provide assurance that subrecipients are adhering to program requirements.

<u>Auditee views</u>: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-036 ***(significant deficiency– new finding)***

COMMUNITY DEVELOPMENT BLOCK GRANT – CFDA 14.228
Federal Award Agency: Department of Housing and Urban Development
Award Years: Various
Federal Award Number: Various
HURRICANE SANDY COMMUNITY DEVELOPMENT BLOCK GRANT DISASTER RECOVERY GRANTS – CFDA 14.269
Federal Award Agency: Department of Housing and Urban Development
Award Years: Various
Federal Award Number: B-13-DS-44-0001
Administered by: Rhode Island Office of Housing and Community Development (OHCD)

FEDERAL REPORTING

The Office of Housing and Community Development (OHCD) can improve its controls to ensure that federal reporting requirements are met.

The Office of Housing and Community Development is required to comply with certain Uniform Administrative requirements set forth in 2 CFR Part 200, including those requiring the completion of SF-425 *Federal Financial Report*. Guidance has been received in prior years from the U.S. Department of Housing and Urban Development exempting all block grants authorized under CDBG from completion of the report. This guidance has been applied by OHCD to the Hurricane Sandy Disaster Recovery Grant, and the SF-425 report is not completed for that program. However, given that the Hurricane Sandy Disaster Recovery grant is received under a separate federal award, clarification from HUD should be sought to determine whether it is required.

The State is also required to complete the HUD-60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons*, for both CDBG and the Hurricane Sandy Disaster Recovery Grant. Completion of the report requires compilation of data from subrecipients for activities meeting the report criteria. OHCD does not currently have procedures in place to compile the necessary data for CDBG program subrecipients. Due to problems with HUD's new reporting system, OHCD has been unable to submit the report to HUD since the new reporting system was brought online during fiscal 2016.

Questioned Costs: Unknown

RECOMMENDATIONS

2016-036a Enhance procedures to ensure all required federal reports are submitted. Request additional guidance regarding reporting requirements from the federal grantor, as necessary.

2016-036b Compile the required data from CDBG subrecipients necessary for completion of the HUD-60002 Section 3 report.

Auditee views: *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2016-037 ***(material non-compliance / material weakness - repeat finding –2015-032)***

UNEMPLOYMENT INSURANCE – CFDA - 17.225
Federal Awarding Agency: US Department of Labor / Employment and Training Administration
Federal Fiscal Year: Not Applicable
Federal Award Numbers: Not Applicable – Direct Payments with Unrestricted Use funded through US Treasury Trust Fund
Administered by Department of Labor and Training (DLT)

SPECIAL TESTS AND PROVISIONS - UI PROGRAM INTEGRITY – BENEFIT OVERPAYMENTS

The Department of Labor and Training (DLT) did not make the necessary changes to its system to allow for the imposition of penalties on overpayments due to fraud, and to prohibit relief from charges to an employer's UC account when the overpayment was the result of the employer failure to respond timely or adequately to a request for information.

Federal law[1] provides that (1) States are required to impose a monetary penalty (not less than 15 percent) on claimants whose fraudulent acts resulted in overpayments and deposit the funds in the State's account in the Unemployment Trust Fund, and (2) States are prohibited from providing relief from charges to an employer's UC account when overpayments are the result of the employer's failure to respond timely or adequately to a request for information.

[1] Pub. L. No. 112-40, enacted on October 21, 2011, and effective October 21, 2013, amended sections 303(a) and 453A of the Social Security Act and sections 3303, 3304, and 3309 of the Federal Unemployment Tax Act (FUTA) to improve program integrity and reduce overpayments. (See UIPL Nos. 02-12, and 02-12, Change 1).

In compliance with federal law, the State enacted these requirements into State law effective October 1, 2013, including a 15% penalty on overpayments due to claimant fraud (RIGL 28-42-62.1(a)(4)) and a prohibition on relieving employer's account of charges relating to any benefit overpayments made if the employer was at fault for failure to respond timely or adequately to a request of the department for information relating to the claim (RIGL 28-43-3(2)(viii)).

We tested a random sample of 25 benefit overpayments during fiscal 2016 to determine if the State was properly identifying and handling overpayments, including, as applicable, assessment of the 15% penalty on claimants who commit fraud, and not relieving an employer's account of charges for overpayments when their untimely or inaccurate responses cause improper payments. We found that:

- 18 overpayments were classified as claimant fraud. However, none of these individuals were assessed the 15% penalty as required by federal and state law, and
- employer fault was not identified as a cause of any of the 25 overpayments.

Management advised us that DLT did not implement these because it required programming changes to the UI computer system and all IT resources were committed to other projects, including the new UI computer system under development. DLT informed us these penalties will be implemented when DLT migrates to the new computer system in fiscal 2019.

Questioned Costs: None

RECOMMENDATION

2016-037 Adopt procedures to: (1) impose and collect a 15% penalty on benefit overpayments of claimants who commit fraud (RIGL 28-42-62.1(a)(4)) and (2) prohibit providing relief to an employer account when an overpayment is the result of the employer's failure to respond timely or adequately to a request for information by the State agency (RIGL 28-43-3(2)(viii)).

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-038 **_(significant deficiency – new finding)_**

UNEMPLOYMENT INSURANCE – CFDA - 17.225
Federal Awarding Agency: US Department of Labor / Employment and Training Administration
Federal Fiscal Year: Not Applicable
Federal Award Numbers: Not Applicable – Direct Payments with Unrestricted Use funded through US Treasury Trust Fund
Administered by Department of Labor and Training (DLT)

SPECIAL TESTS - UI BENEFIT PAYMENTS

The Department of Labor and Training (DLT) had instances where BAM review cases files did not reflect required documentation.

State Workforce Agencies such as DLT are required by 20 CFR section 602.11 (d) to operate a Benefits Accuracy Measurement (BAM) program to assess the accuracy of UI benefit payments and denied claims. The program estimates error rates, that is, numbers of claims improperly paid or denied and dollar amounts of benefits improperly paid or denied by projecting the results from investigations of small random samples to the universe of all claims paid and denied in a State. The BAM Unit is required to draw a weekly sample of payments and denied claims, review the records, and contact the claimant, employers, and third parties to verify all the information pertinent to the paid or denied claim that was sampled.

We selected a random sample of 25 BAM reviews conducted by DLT in fiscal 2016 and reviewed the BAM case file documentation for compliance with DLT's written procedures for BAM reviews. We found that:

- one case file did not have required documentation of three verifiable job search contacts, and
- four case files did not have required documentation of supervisory review: two of the four cases did not have any evidence of the supervisory review, and the two remaining cases lacked evidence of supervisory review on the time sheet but did have evidence of supervisory review on the data collection instrument.

Questioned Costs: None

RECOMMENDATION

2016-038 Strengthen controls to ensure that BAM case file documentation contains required evidence of three verifiable job search contacts, and supervisory review.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-039	***(significant deficiency – new finding)***

WIA/WIOA CLUSTER
WIA/WIOA Adult Program – CFDA 17.258
WIA/WIOA Youth Activities – CFDA 17.259
WIA/WIOA Dislocated Worker Formula Grants – CFDA 17.278
Federal Award Agency: US Department of Labor/ Employment and Training Administration
Award Years: State Program/Federal Fiscal Years 2014/2015 and 2015/2016
Federal Award Numbers: AA25378VG0, AA25378TA0, AA25378TE0, AA25378VI0, AA25378TC0, AA268041E0, AA26804YQ0, AA26804YU0, AA268041G0, AA26804YS0
Administered by Department of Labor and Training (DLT)

SUBRECIPIENT MONITORING

The Department of Labor and Training can improve subrecipient monitoring activities for its one WIA/WIOA Cluster subrecipient.

A pass-through entity is responsible for monitoring its subrecipients. Monitoring activities such as site visits are intended to provide assurance that federal awards are administered consistent with federal compliance requirements. During state fiscal year 2016, DLT did not perform any monitoring activities of a sub-recipient entity that is administered by the City of Providence.

DLT should have employed procedures to address subrecipient compliance with grant requirements such as cash management, earmarking, cost limitations, and financial reporting.

The subrecipient is included in the City of Providence's audit report. In reviewing the City's 2015 audit report, we noted that the SEFA reported $732,282 of federal expenditures for the Dislocated Worker program under an incorrect CFDA number (17.260) rather than the appropriate number (CFDA 17.278) and did not report such expenditures as part of the WIA / WIOA Cluster. As a result, the WIA / WIOA cluster was not identified as a major program in the City's 2015 audit. DLT did not observe the misidentification of the program funds and take appropriate follow up action with the subrecipient.

Questioned Costs: None

RECOMMENDATIONS

2016-039a Enhance monitoring procedures to address subrecipient compliance with grant requirements, such as, cash management, earmarking, cost limitations, and financial reporting.

2016-039b Strengthen audit report review procedures to more closely review audit report information and perform appropriate follow up when required.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-040 ***(significant deficiency – new finding)***

WIA/WIOA CLUSTER
WIA/WIOA Adult Program – CFDA 17.258
WIA/WIOA Youth Activities – CFDA 17.259
WIA/WIOA Dislocated Worker Formula Grants – CFDA 17.278
Federal Award Agency: US Department of Labor/ Employment and Training Administration
Award Years: State Program/Federal Fiscal Years 2015/2016
Federal Award Numbers: AA268041E0, AA26804YQ0, AA268041G0, AA26804YS0
Administered by Department of Labor and Training (DLT)

CASH MANAGEMENT

The Department of Labor and Training can improve controls to ensure compliance with cash management requirements by enhancing the review of subrecipient cash draw down requests.

The federal Cash Management Improvement Act requires grantees to limit draws of federal cash to immediate needs.

When testing DLT's draws of federal cash, we noticed that a subrecipient request for federal cash dated December 11, 2015 indicated significant variances between reported subrecipient expenditures by CFDA number and what was previously drawn. The request for cash of $202,416 for the Adult program (CFDA 17.258) was a netted amount comprised of a negative cash balance of ($419,002) for the Adult program and a positive cash balance of $216,586 for the Dislocated Worker program (CFDA 17.278). DLT drew the $202,416 of federal cash for the Adult Program, but did not have any documentation indicating whether it had investigated these variances and determined that this was the appropriate classification for the cash draw. DLT should revise its procedures to more closely review requests for federal cash and document follow up on discrepancies as appropriate.

Questioned Costs: None

RECOMMENDATION

2016-040 Strengthen review of sub-recipient requests for federal cash to investigate significant variances between cash draws and reported expenditures and document appropriate follow-up action.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-041 ***(significant deficiency – new finding)***

WIA/WIOA CLUSTER
WIA/WIOA Adult Program – CFDA 17.258
WIA/WIOA Youth Activities – CFDA 17.259
WIA/WIOA Dislocated Worker Formula Grants – CFDA 17.278
Federal Award Agency: US Department of Labor/ Employment and Training Administration
Award Years: State Program/Federal Fiscal Years 2014/2015 and 2015/2016
Federal Award Numbers: AA25378VG0, AA25378TA0, AA25378TE0, AA25378VI0, AA25378TC0, AA268041E0, AA26804YQ0, AA26804YU0, AA268041G0, AA26804YS0
Administered by Department of Labor and Training (DLT)

FEDERAL FINANCIAL REPORTING

The Department of Labor and Training can improve various aspects of its controls over financial reporting to ensure compliance with federal requirements.

Grantees are required to submit a quarterly financial report (ETA-9130, *Financial Report (OMB No. 1205-0461*) for each grant award received. A separate financial report is required to be submitted for every federal award in each of the following categories: Statewide Adult, Statewide Youth, Statewide Dislocated Worker, Statewide Rapid Response, Local Adult, Local Youth, and Local Dislocated Worker. Each category can have more than one federal award in a given quarter.

The State's accounting system does not account for federal expenditures by federal award. Accordingly, DLT uses its internal federal accounting and reporting system (FARS) to account for expenditures by federal award. FARS reports expenditures for each award that are reported in the federal financial reports.

We found that DLT did not reconcile expenditures between the state accounting system and FARS for the quarter ended and fiscal year ended June 30, 2016. Reconciliation is important to identify transactions entered in one system that are not yet entered in the other system. Variances should be identified, investigated and resolved. Not reconciling such data presents the risk that a reporting error could occur and go undetected.

The separate quarterly financial reports for the Local Adult, Local Youth and Local Dislocated Worker programs each report combined total expenditures for two Workforce Investment Boards (WIB's) – one of which is a sub-recipient. DLT requires the subrecipient to submit supporting documentation, including a copy of its general ledger accounts, for expenditures reported to DLT. The information submitted by the subrecipient was not reconcilable to amounts reported because it lacked a sufficient audit trail (e.g., reconciliations, grouping sheets or summaries). Management advised us that DLT internal audit staff is currently reconciling the information for state fiscal year 2016.

We also found that reported expenditures of $1,061,808 for the fiscal 2016 Local Adult program federal award were overstated by $30,000 in the report for the quarter ended June 30, 2016 due to a clerical error when entering the data into the federal reporting system. DLT corrected the overstatement in the subsequent quarter.

Questioned Costs: None

RECOMMENDATIONS

2016-041a Reconcile expenditures for the quarter ended and fiscal year ended June 30, 2016, between the State accounting system and the Department's internal cost allocation system (FARS) which is the source of information reported in quarterly federal financial reports.

2016-041b Improve supporting documentation of expenditures reported by the subrecipient to provide an audit trail between reported expenditures and supporting documentation.

Auditee views: *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2016-042 ***(material weakness – repeat finding – 2015-036)***

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER:
Highway Planning and Construction – CFDA 20.205
Federal Award Agency: US Federal Highway Administration
Award Years: Various
Federal Award Number: Various
Administered by: Rhode Island Department of Transportation (RIDOT)

QUALITY ASSURANCE PROGRAM - MATERIALS TESTING

RIDOT should further enhance its quality assurance program to ensure that required materials tests are performed and documented consistent with federal regulation and RIDOT policy.

Federal regulations (23 CFR 637.205) require that state transportation departments have a sampling and testing program for construction projects to ensure that materials and workmanship generally conform to approved plans and specifications, including approved changes. The program must meet the criteria in §637.207 and be approved by the FHWA.

RIDOT operates an FHWA approved quality assurance program; however, we observed opportunities for the department to enhance controls over its operation, implement efficiencies, and improve coordination within divisions with the overall goal of ensuring that materials and workmanship generally conform to approved plans and specifications. RIDOT has made policy changes in response to prior year recommendations with varying degrees of success.

For fiscal 2016, we tested 184 materials tests related to 25 projects. RIDOT's policy requires that materials test results be documented and available at each construction site office, which is the responsibility of the project Resident Engineer. Based on visits to various construction sites, we found that the recording of the materials test results was not uniform throughout the department. For the materials tests selected, only 105 out of 184 material tests were available at the construction sites. In many instances, obtaining the test results required follow-up; however, RIDOT ultimately was able to provide evidence of the tests performed.

A challenge in this and prior audits is discerning that the test results provided by RIDOT correspond to a specific material, delivery interval, and contract due to the lack of consistent cross-referencing between the material (item number) and the test results. There has been some progress in this area but there are still issues when testing stockpiled materials, which can be used at different times, places and for different purposes.

In response to prior findings, the Materials section issued a policy requiring the project Resident Engineer (Construction Section) to provide the Rhode Island Contract (RIC) number and material item number to the Material Inspector to ensure linkage of the test results to the appropriate project. Enforcement of this policy could be enhanced; we observed instances where the RIC number and material item reference information were not provided.

The Materials section has continued scanning and storing material test results in a shared folder on the RIDOT network. This process could be further enhanced by developing a uniform file naming convention that allows for easy identification of the applicable construction project and materials test by the resident engineer.

We also observed the need for enhanced coordination and communication among the three RIDOT sections (Materials, Construction, and Design) which have responsibilities related to the Quality

Assurance Program. Each section implements policy without necessarily coordinating and considering the impact on the overall Quality Assurance Program.

Lastly, RIDOT should consider employing additional information technology resources to this activity to enhance the timeliness, reliability, and availability of materials test results to the Resident Engineers and to effect overall departmental efficiencies.

Master Schedule of Sampling, Testing and Certification of Materials (MST)

RIDOT's Quality Assurance Program is formalized in a written policy (Master Schedule of Sampling, Testing and Certification of Materials (MST)). The MST identifies the materials and required testing for those most commonly used in the construction of roads and bridges. Industry standards related to testing procedures continually change and consequently the Department periodically changes its testing procedures and seeks approval from FHWA.

RIDOT converted the MST into an electronic system (Materials Testing System Module). A "Project Materials Test Book" is created for each construction project, which becomes the basis for all testing performed. We identified the following control weaknesses over the MST and Materials Testing System Module:

- The MST does not include all changes approved by FHWA. Consequently, Project Materials Test Books created from the MST do not reflect the updated testing requirements. Further, RIDOT has not adopted a formal policy regarding when MST changes are effective (e.g., effective immediately or only for new contracts).

- RIDOT has implemented controls over the creation, updating or deletion of materials testing requirements in the Materials Testing System (MTS) Module – but we have noted these changes are sporadically implemented by designated RIDOT personnel. As a result of our testing RIDOT completed the "testing template change forms" to update the Materials Test Book to the proper required test, which agreed to the actual materials testing performed.

Materials Test Book

RIDOT's Procedures for Uniform Record Keeping (PURK) manual states "the Construction Section will prepare and provide each project with a Project Materials Test Book. The Resident Engineer must ensure that the required tests are performed and logged. We observed the following control weaknesses over creation of the Project Materials Test Book:

- The PURK manual has not been updated to reflect various Department memorandums communicating changes in construction policies.

- Creation of the Project Materials Test Book has been computerized but still requires significant manual intervention. Users may modify testing requirements in the project specific Materials Test Book (within the MTS Module) without approval. Additionally, all non-standard items (Specialty Items) are assigned testing requirements by staff creating the Project Materials Test Book. These staff members may not have sufficient training or experience to assign the appropriate materials test. We observed instances where the test did not appear appropriate for the item.

- RIDOT has not implemented requirements regarding modifying the Project Materials Test Book for project change orders – generally as quantities change so do the number of required materials tests. Currently, there are no addendums to the Project Materials Test Book when change orders are approved.

- Specialty items are non-standard items that require different tests than those included in the Master Schedule of Testing (MST). The Materials section issued a policy requiring the consulting design engineer to identify appropriate material tests for the specialty items; however, this policy has not been implemented.

Questioned Costs: None

RECOMMENDATIONS

2016-042a Enforce existing policies designed to better link testing results to projects and contract items by requiring resident engineers to provide RIC and material item numbers; and establish a uniform file naming convention for test results shared on the RIDOT network.

2016-042b Update the Procedures for Uniform Record Keeping (PURK) manual to include all current policies and procedures. Maintain and distribute the PURK manual electronically.

2016-042c Enhance coordination among the three sections of RIDOT that have shared responsibility for the overall operation of the Department's Quality Assurance Program.

2016-042d Consider employing additional information technology resources to the Quality Assurance Activity to enhance the timeliness, reliability, and availability of materials test results to the Resident Engineers and to enhance overall departmental efficiencies.

2016-042e Train all project related staff, design through closeout, as to the requirements of 23 CFR 637.205 and the Department's related policies, procedures and controls. Establish a plan of self-testing (e.g., internal audit) of the Department's policies, procedures and controls to ensure compliance with the required Quality Assurance Program.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-043 **_(significant deficiency - repeat finding – 2015-038)_**

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER:
Highway Planning and Construction – CFDA 20.205
Federal Award Agency: US Federal Highway Administration
Award Years: Various
Federal Award Number: HPP0373003, STPDESN001, STPTCSC002, STPAWDA025, STPHRSY001, BRO0250008, BRMBCDR002, STPAWDA001, NHS1954051
Administered by: Rhode Island Department of Transportation (RIDOT)

SPECIAL TESTS AND PROVISIONS – UTILITY ACCOMMODATION REQUIREMENTS

Documentation of utility accommodation requirements for projects should be enhanced.

Controls over documentation of Utility Accommodation requirements can be improved. We selected 36 projects for testing. In a number of instances, the Utilities Section within RIDOT was unable to provide required documentation; however, documentation was subsequently obtained from the Financial Management Section for some of these projects.

The documentation required for utility accommodation projects is summarized as follows:

Plans, Specifications and Estimate (PS&E) packages on projects using Federal-aid highway program funds must have a utility agreement or statement verifying the appropriate coordination with all utilities on the project has occurred prior to FHWA construction authorization.

The agreements and supporting documentation, and the Federal requirements they reference, require that:

a. There must be itemized cost estimates for the proposed utility work (23 CFR section 645.113(c));

b. The utility agreement was approved prior to the utility incurring any costs or conducting any work that would be eligible for reimbursement (23 CFR section 645.113(g)(3));

c. Reimbursement of utility costs will occur after the work is completed (23 CFR section 645.107(a));

Ultimately, the missing documentation regarding utility accommodation for the projects tested resulted in questioned costs totaling $118,713 as summarized below:

- For one project, RIDOT was unable to provide the Utility Agreement, RIDOT Construction & Maintenance Agreement, a PS&E authorization request, a PS&E containing a statement confirming appropriate coordination with all utilities prior to the PS&E approval, or utility estimates. Accordingly, we were unable to determine whether the costs reimbursed met the requirements of the agreement.

- For ten projects, the Utility Accommodation file did not include the approved PS&E Authorization Request (Project Specification and Estimate). The PS&E form is part of RIDOT's utility accommodation approval process.

RIDOT should enforce documentation requirements for utility accommodation projects to ensure compliance with federal requirements.

Questioned Costs: $118,713

RECOMMENDATION

2016-043 Improve Utility Accommodation file documentation to demonstrate compliance with federal requirements.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-044 ***(significant deficiency - repeat finding – 2015-039)***

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER:
Highway Planning and Construction – CFDA 20.205
Federal Award Agency: US Federal Highway Administration
Award Years: Various
Federal Award Number: Various
Administered by: Rhode Island Department of Transportation (RIDOT)

VALUE ENGINEERING

RIDOT can improve compliance with federal requirements relating to value engineering analyses by including all the required elements in its value engineering policy. RIDOT can enhance documentation of the consideration of all recommendations made as a result of a value engineering analysis.

Federal regulation 23 CFR 627.1(b) states that State transportation departments shall assure that a Value Engineering (VE) analysis has been performed on all applicable projects and that all resulting, approved recommendations are incorporated into the plans, specifications and estimates. Applicable projects generally include those with an estimated total project cost of $50 million or more ($40 million for bridge projects) that utilize Federal-aid highway program funding.

We noted that RIDOT's Value Engineering policy does not include 5 of the 31 requirements of such as outlined in 23 CFR 627, although we acknowledge that the policy was approved by FHWA in May 2016.

RIDOT can improve its controls and procedures to (1) identify those projects that must include a value engineering analysis and delineate the appropriate point in the project timeline for such analysis to be performed, and (2) ensure value engineering recommendations are evaluated, and approved recommendations are incorporated into the plans, specifications, and cost estimate for the project. Enhanced control procedures should include an appropriate monitoring component to ensure compliance. For one project reviewed, which had a value engineering analysis, we observed that RIDOT disagreed with 10 of 14 recommendations made as a result of the value engineering analysis but did not document the reason for disagreement as required by federal regulations.

Questioned Costs: None

RECOMMENDATION

2016-044 Enhance policies, procedures, and controls to ensure compliance with Value Engineering analysis requirements contained in 23 CFR 627.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-045 ***(significant deficiency –new finding)***

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER:
Highway Planning and Construction – CFDA 20.205
Federal Award Agency: US Federal Highway Administration
Award Years: Various
Federal Award Number: STP0202102
Administered by: Rhode Island Department of Transportation (RIDOT)

CASH MANAGEMENT

RIDOT can enhance its controls to ensure reimbursements due to FHWA are credited timely. We identified an instance where four months elapsed between receipt/deposit of a refund and subsequent credit to FHWA.

A contractor reimbursement deposited on January 8, 2016 was not returned to FHWA until May 17, 2016. This refund was not identified timely by RIDOT personnel causing more than four months to elapse between receipt/deposit and subsequent credit to FHWA.

Federal regulations require that "the non-Federal entity must disburse funds available from program income (including repayments to a revolving fund), rebates, refunds, contract settlements, audit recoveries, and interest earned on such funds before requesting additional Federal cash draws (2 CFR section 200.305(b)(5)).

Controls can be enhanced to ensure timely credit to the federal grantor for refunds received.

Questioned Costs: None

RECOMMENDATION

2016-045 Enhance controls to ensure expenditures refunds and reimbursements are credited to FHWA timely to serve as an offset to new draws of federal funds.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-046 ***(significant deficiency –new finding)***

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER:
Highway Planning and Construction – CFDA 20.205
Federal Award Agency: US Federal Highway Administration
Award Years: Various
Federal Award Number: Various
Administered by: Rhode Island Department of Transportation (RIDOT)

ALLOWABLE COSTS/COST PRINCIPLES

Controls over the calculation of the Indirect Cost Rate Plan can be improved to ensure compliance with federal requirements identified in 2 CFR Part 200, Appendices III-VII.

Our testing of the fiscal 2015 final indirect cost rate calculated during fiscal year 2016 identified a number of discrepancies as follows:

- RIDOT made changes to Employee Classifications without documenting the reasons for such changes.
- RIDOT applied the incorrect Departmental Indirect (DI) percentage to facility charges causing facility charges used in the indirect cost rate calculation to be overstated by $14,521.
- Salaries, Fringe, Consultant and Operating expenditures to calculate Total Indirect Cost do not agree to the expenditure data per RIFANS, there is a cumulative immaterial difference of $60,048.
- The ICR rate should include 100% of the salaries identified as Capital Indirect (CI), for one category of employees classified as CI the department applied the DI rate (65.9194%) in error causing the Total Indirect Cost to be understated by $842,560.
- 59 rows of data had the Employee Classification Code information changed from when the DI rate of 65.9194% was calculated to when the final ICR was calculated. The changes in Employee Classification Code decreased the DI rate to 65.557% for a decrease of (0.3423%).

We acknowledge the development of the indirect cost rate is a negotiation with acceptance by the federal grantor. The differences between the expenditures per RIFANS and those used in the Proposed Indirect Cost Rate proposal are due to the manual process of sorting, subtotaling and manually allocating RIFANS data for purposes of calculating the indirect cost rate. Additionally, documentation supporting the amount used and the classification of employees in the calculation of the indirect cost rate should be maintained. Enhanced quality control and review procedures should be employed due to the complexity of the process and to ensure the accuracy of the base information developed for the indirect cost rate proposal.

Questioned Costs: Unknown

RECOMMENDATIONS

2016-046a Document changes to employee classifications identified in FMS for the purpose of calculating the indirect cost rate.

2016-046b Document the reasons for changes in methodologies used in the development of the indirect cost rate.

Auditee views: *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2016-047 **_(significant deficiency – new finding)_**

HIGH-SPEED RAIL CORRIDORS AND INTERCITY PASSENGER RAIL SERVICE – CAPITAL ASSISTANCE GRANTS:

ARRA -High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants – CFDA 20.319
Federal Award Agency: US Federal Rail Administration
Award Years: 2011 through 2017
Federal Award Number: FR-HSR-0079-11-01
Administered by: Rhode Island Department of Transportation (RIDOT)

SPECIAL TESTS AND PROVISIONS – WAGE RATE REQUIREMENT

RIDOT does not have controls to ensure compliance with the Wage Rate requirement for project activities funded by the High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants.

2 CFR section 200.303 require that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Therefore, RIDOT is required to establish and maintain internal control designed to reasonably ensure compliance with the Wage Rate requirement. The Wage Rate requirement states "All laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of $2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL) (40 USC 3141-3144, 3146, and 3147). "

The Department is relying on the contractor hired as project manager to ensure compliance with the Wage Rate requirement and does not have documentation to support such compliance. The Department has not established policies or procedures to ensure the contractor is adhering to the Wage Rate requirement.

Questioned Costs: None

RECOMMENDATION

2016-047 Establish and implement controls to ensure compliance with the Wage Rate Requirement.

Auditee views: *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2016-048	***(significant deficiency – repeat finding – 2015-046)***

STUDENT FINANCIAL ASSISTANCE CLUSTER (SFA)
Federal Pell Grant Program – CFDA 84.063
Federal Direct Student Loans – CFDA 84.268
Federal agency: U.S. Department of Education (“ED”)
Award year: 2016
Administered by: Community College of Rhode Island

SFA CLUSTER - COMMUNITY COLLEGE OF RHODE ISLAND

Criteria - According to 34 CFR Section 685.309(b)(2): A school shall, unless it expects to submit its next student status confirmation report to the Secretary within the next sixty days, notify the Secretary within thirty days if it discovers that a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who:

i. enrolled at that school but has ceased to be enrolled on at least a half-time basis;

ii. has been accepted for enrollment at that school but failed to enroll on at least a halftime basis for the period for which the loan was intended; or

iii. has changed his or her permanent address.

The Dear Colleague Letter GEN-12-6 (the "Letter") issued by ED on March 30, 2012 states that in addition to student loan borrowers, Enrollment Reporting files will include two additional groups of students: Pell Grant and Perkins Loan recipients.

Condition - The Federal government requires the College to report student enrollment changes to the National Student Loan Data System ("NSLDS") within sixty days. Out of a sample of forty students with enrollment status changes, one student's changes were not reported in a timely manner to the NSLDS.

Cause - Our audit disclosed that, although the Community College of Rhode Island had policies and procedures for transmitting information to the National Student Clearinghouse ("NSC") on at least a monthly basis to ensure reporting of all students is done in a timely manner, there were some instances in which the Community College failed to correct enrollment files within an adequate time frame to ensure timely reporting.

Effect - Withdrawal dates were not reported within the required timeframe, which may result in the students entering repayment status later than the required timeframe.

Perspective - Our sample was not, and was not intended to be statistically valid.

- For 3 out of our sample of 40 students selected for testing, students who withdrew were not reported within the required timeframe.
- In all 3 cases, the student information was reported to the NSC within 19 days of the determination of the withdrawal; however, the information was not received by NSLDS within the required timeframe.
- For 1 out of our sample of 40 students selected for testing, the student's withdrawal date that was reported was inaccurate. There was a 1 day difference between the last date of attendance and the reported effective date of the withdrawal.

Questioned Costs: N/A

RECOMMENDATION

2016-048 We recommend that the Community College review and update its policies and procedures for transmitting information to the National Student Clearinghouse on enrollment changes.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-049	**_(significant deficiency – new finding)_**

STUDENT FINANCIAL ASSISTANCE CLUSTER:
Federal Supplemental Educational Opportunity Grants – CFDA 84.007
Federal Pell Grant Program – CFDA 84.063
Federal Direct Student Loans – CFDA 84.268
Federal agency: U.S. Department of Education
Award year: 2016
Administered by: Community College of Rhode Island

<u>SFA CLUSTER - COMMUNITY COLLEGE OF RHODE ISLAND</u>

Criteria - According to 34 CFR Section 668.22(f)(2)(i):The total number of calendar days in a payment period or period of enrollment includes all days within the period that the student was scheduled to complete, except that scheduled breaks of at least five consecutive days are excluded from the total number of calendar days in a payment period or period of enrollment and the number of calendar days completed in that period. Five consecutive days could include weekends.

Condition - When a recipient of Title IV funds withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the proper amount of Title IV funds to be refunded as of the recipient's withdrawal date. The institution should complete a "Treatment of Title IV Funds when a Student Withdraws from a Credit-Hour Program" worksheet in order to determine the proper amount of Title IV funds to be refunded. Once a recipient's withdrawal date is determined, an institution needs to calculate the percentage of the payment period or period of enrollment completed. The percentage of the payment period or period of enrollment completed represents the percentage of Title IV funds earned by the recipient.

Cause - Our audit disclosed that, although the Community College of Rhode Island had policies and procedures for calculating the amount of Title IV funds to be returned, there was an instance where the scheduled break days of at least five consecutive days were not excluded.

Effect - The student's earned portion of Title IV aid was calculated incorrectly.

Perspective - Our sample was not, and was not intended to be, statistically valid. For 1 out of our sample of 25 students selected for testing, the student's Return of Title IV ("R2T4") calculation was incorrect.

<u>Questioned Costs:</u> $39

<u>RECOMMENDATION</u>

2016-049 We recommend that the Community College review and update its policies and procedures for reviewing R2T4 calculations. We recommend that the Community College designate an individual or individuals to perform sample review periodically of the R2T4 calculations.

<u>Auditee views</u>: *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2016-050	***(significant deficiency – new finding)***

STUDENT FINANCIAL ASSISTANCE CLUSTER: (SFA)
Federal Work-Study Program –CFDA 84.033
Federal agency: U.S. Department of Education
Award year: 2016
Administered by: Community College of Rhode Island

<u>SFA CLUSTER - COMMUNITY COLLEGE OF RHODE ISLAND</u>

Criteria - According to 34 CFR Section 675.16(a)(1): An institution must pay a student federal work-study compensation at least once per month.

Condition - Students earning Federal Work-Study wages are required to be compensated at least monthly. One student selected for testing was not paid within a month from the days worked.

Cause - Our audit disclosed that, although the Community College of Rhode Island had policies and procedures for ensuring timely (bi-weekly) payment of Federal work-study wages, an instance occurred where a student was not paid within a month from the time the wages were earned.

Effect - The student was not paid timely.

Perspective -Our sample was not, and was not intended to be statistically valid.• For 1 out of our sample of 86 paychecks selected for testing, one paycheck included wages for time earned up to 5 days in excess of the required timeframe.

Questioned Costs: $117

RECOMMENDATION

2016-050 We recommend that the Community College review and update its policies and procedures for ensuring that all timesheets are submitted timely. Additional training can be provided for all supervisors of Federal Work-Study students, which would help reduce the likelihood of a timesheet not being submitted for the given pay period.

Finding 2016-051 **_(significant deficiency – new finding)_**

STUDENT FINANCIAL ASSISTANCE CLUSTER: (SFA)
Federal Work-Study Program – CFDA 84.033
Federal agency: U.S. Department of Education
Award year: 2016
Administered by: Rhode Island College

SFA CLUSTER – RHODE ISLAND COLLEGE

Criteria - According to 34 CFR Section 675.16(a)(1): An institution must pay a student federal work-study compensation at least once a month. Also, the 2015-2016 Federal Student Aid Handbook (Vol. 6, Pg. 48) states: A student's FWS compensation is earned when the student performs the work, and the school must pay the student that FWS compensation at least once a month. Regardless of who employs the student, the school is responsible for ensuring that the student is paid for work performed.

Condition - The Federal Government requires an institution to pay student FWS compensation at least once per month. Our testing of twenty-five students revealed one student who was not paid at least once per month.

Cause - The College did not have policies and procedures to ensure federal work-study students employed by non-institution employers are paid at least once per month.

Effect - The College paid a federal work-study student a lump-sum for services the student performed in in excess of one month.

Perspective - Our sample was not, and was not intended to be statistically valid. Of twenty-five students selected for testing, one student or 4% of our sample was not paid at least once per month.

Questioned Costs: $2,000

RECOMMENDATION

2016-051 Management of the College should establish policies and procedures to ensure federal workstudy students are paid at least once per month. The finding was related to a student employed by a non-institution employer. The College should consider the implementation of a control sheet detailing each FWS student employed by non-institution employers and monitor the control sheet to ensure all students are paid at least once monthly.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-052 ***(significant deficiency – repeat finding – 2015-047)***

STUDENT FINANCIAL ASSISTANCE CLUSTER: (SFA)
Federal Pell Grant Program- CFDA 84.063
Federal Direct Student Loans – CFDA 84.268
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants) – CFDA 84.379
Federal agency: U.S. Department of Education
Award year: 2016
Administered by: University of Rhode Island

SFA CLUSTER – UNIVERSITY OF RHODE ISLAND

Criteria - According to 34 CFR Section 685.309(b)(2): A school shall, unless it expects to submit its next student status confirmation report to the Secretary within the next sixty days, notify the Secretary within thirty days if it discovers that a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who:

i. Enrolled at that school but has ceased to be enrolled on at least a half-time basis;

ii. Has been accepted for enrollment at that school but failed to enroll on at least a half-time basis for the period for which the loan was intended; or

iii. Has changed his or her permanent address.

The Dear Colleague Letter GEN-12-6 issued by ED on March 30, 2012 states that in addition to student loan borrowers, Enrollment Reporting files will include two additional groups of students: Pell Grant and Perkins Loan recipients.

Condition - The Federal government requires the University to report student enrollment changes to the National Student Loan Data System ("NSLDS") within sixty days. Out of a sample of forty students with enrollment status changes, two student changes were not reported in a timely manner to the NSLDS and two student changes were not reported to the NSLDS at all. The two students were reported late to the NSLDS by 91 and 95 days.

Cause - The condition was caused by the following:

a. Management did not ensure that the proper reporting was made to the NSLDS for two students.

b. Another student was not reported as graduated to the NSLDS since they were previously reported as withdrawn in two consecutive reporting cycles. This combination of reporting statuses was not reported to the NSLDS by the National Student Clearinghouse.

c. Lastly, one student withdrew from the University through their academic administrator's office; however, the withdrawal information was not communicated to the Financial Aid Office in a timely manner.

Effect - Withdrawal dates were not reported correctly and within the required timeframe, which may result in the students entering repayment status later than the required timeframe.

Perspective - Our sample was not, and was not intended to be, statistically valid. Of 40 students selected for testing, four students or 10% of our sample, were determined to have a status change not reported timely to the NSLDS.

Questioned Costs: N/A

RECOMMENDATION

2016-052 We recommend that the University review the systems in place that ensure all status changes are reported and reported timely to the NSLDS to be sure that they are operating effectively. The University should also consider issuing a reminder to the Deans that they need to submit withdrawal forms timely.

Auditee views: *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2016-053 ***(significant deficiency – new finding)***

STUDENT FINANCIAL ASSISTANCE CLUSTER
Federal Pell Grant Program- CFDA 84.063
Federal agency: U.S. Department of Education
Award year: 2016
Administered by: University of Rhode Island

SFA CLUSTER – UNIVERSITY OF RHODE ISLAND

Criteria - 34 CFR 690.83(b) states:

(1) An institution shall report to the Secretary any change in the amount of a grant for which a student qualifies, including any related Payment Data changes by submitting to the Secretary the student's Payment Data that disclosed the bases and result of the change in award for each student. The institution shall submit the student's Payment Data reporting any change to the Secretary by the reporting deadlines published by the Secretary in the Federal Register.

(2) An institution shall submit, in accordance with deadline dates established by the Secretary, through publication in the Federal Register, other reports and information the Secretary requires and shall comply with the procedures the Secretary finds necessary to ensure that the reports are correct.

The ED Federal Register (Vol. 77, No.126) states: An institution is required to submit a disbursement record no later than 30 calendar days after the institution makes a disbursement or becomes aware of the need to make an adjustment to previously reported disbursement data.

Condition - Federal regulations require institutions to report to the Federal Government's Common Origination and Disbursement System (“COD”) payments to students for Federal Pell Grants within 15 days of disbursement to students. Out of a sample of 40 students, the College reported the disbursement of Pell Grant funds for one student late. The disbursement was reported 6 days past the required reporting date.

Cause - This finding occurred because management did not ensure that the error reports from the COD were corrected timely.

Effect - The College is not in compliance with the COD reporting regulations.

Perspective - Our sample was not, and was not intended to be, statistically valid. Of 40 students selected for testing, one student’s Pell disbursement, or 2.5% of our sample, was not reported to the COD timely.

Questioned Costs: N/A

RECOMMENDATION

2016-053 The University should create a process for review of the COD reports that check for any errors during the submission process in a time period that would allow for resubmission in time to meet the COD reporting deadline.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-054 **_(significant deficiency – new finding)_**

STUDENT FINANCIAL ASSISTANCE CLUSTER (SFA)

Federal Supplemental Educational Opportunity Grants - CFDA 84.007
Federal Work-Study Program – CFDA - 84.033
Federal Perkins Loan Program – Federal Capital Contributions – CFDA -84.038
Federal Pell Grant Program – CFDA -84.063
Federal Direct Student Loans – CFDA- 84.268
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants) – CFDA 84.379
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students – CFDA 93.342
Nursing Student Loans - CFDA 93.364
Federal agency: U.S. Department of Education
Award year: 2016

Administered by: University of Rhode Island

SFA CLUSTER – UNIVERSITY OF RHODE ISLAND

Criteria - 34 CFR 668.165(a) states:
(2) Except in the case of a post-withdrawal disbursement made in accordance with 34 CFR 668.22(a)(5), if an institution credits a student’s account at the institution with Direct Loan, Federal Perkins Loan, or TEACH Grant program funds, the institution must notify the student or parent of :

i. The anticipated date and amount of the disbursement;

ii. The student's or parent's right to cancel all or a portion of that loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement and have the loan proceeds or TEACH Grant proceeds returned to the Secretary; and

iii. The procedures and time by which the student or parent must notify the institution that he or she wishes to cancel the loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement.

(3) The institution must provide the notice described in paragraph (a)(2) of this section in writing – i. No earlier than 30 days before, and no later than 30 days after, crediting the student's ledger account at the institution, if the institution obtains affirmative confirmation from the student under paragraph (a)(6)(i) of this section; or
ii. No earlier than 30 days before, and not late than seven days after, crediting the student's ledger account at the institution, if the institution does not obtain affirmative confirmation from the student under paragraph (a)(6)(i) of this section.

Condition - The University did not send notification of fall 2015 disbursements until June 2016.

Cause - An error occurred in the integrated student financial aid software that sends out notification emails for disbursements. According to University management, no student received a fall semester loan disbursement notification.

Effect - The College is not in compliance with notification requirements.

Perspective - Our sample was not, and was not intended to be, statistically valid. Of 40 students selected for testing, no students received distribution notifications timely for the fall semester.

Questioned Costs: N/A

RECOMMENDATION

2016-054 The University should create a process to verify that email notifications have gone out before or after disbursement, and within the specified time period.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-055 **_(material weakness - repeat finding – 2015-050)_**

STATE PLANNING AND ESTABLISHMENT GRANTS FOR THE AFFORDABLE CARE ACT (ACA)'S EXCHANGES – CFDA 93.525
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2016
Federal Award Numbers: HBEIE0064A, HBEIE0086A, HBEIE0157A, HBEIE0182A, HBEIE0205A, HBEIE0194A, HBEIE0201A, and HBEIE0207A
Administered by: HealthSource RI – Department of Administration

CONTROLS OVER ALLOWABLE COSTS/COST PRINCIPLES

HealthSource RI (HSRI) can enhance its controls and related documentation supporting the allowability of costs reimbursed through the State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges program.

Improve Controls over Recording of Health Insurance Exchange (HIE) Expenditures by Funding Source

During fiscal 2016, the State initially recorded the majority of the expenditures relating to HIE activities to federal grant accounts in the State accounting system. HSRI would subsequently determine the amount that did not qualify for federal grant reimbursement and adjust those amounts to other available funding sources. Adjustments were not made in a timely manner, which delayed federal reimbursement and added complexity to the preparation of federal reports.

In fiscal 2016, most of the underlying purchase authorizations in the State's accounting system for HSRI's consultant and vendor payments remained linked to federal grant accounts even though a significant amount of program expenditures related to maintenance and operation were no longer eligible for reimbursement under the federal grant.

The misalignment of vendor purchase orders with the appropriate funding sources (general, restricted, and federal funds) resulted in HSRI charging expenditures to federal accounts upon disbursement. Additionally, most HSRI personnel expenditures were charged to federal accounts as the account linkage in the payroll system for those employees was not modified to reflect the correct funding source allocation for those expenditures. HSRI subsequently adjusted expenditures to the correct funding sources and quarterly reports reflected adjustments eventually recorded. However, controls over federal grant expenditures should be improved by aligning purchase authorizations and personnel costs with the appropriate funding sources at the time of disbursement. This would provide enhanced identification of costs allowable to the program and eliminate the delays and complexity associated with adjusting costs after disbursement.

Improve Documentation over the Allocation of Costs Associated with Design, Development, and Implementation (DDI), and Maintenance and Operation (M&O)

While HSRI improved its documentation allocating certain activities between DDI and M&O during fiscal 2016, documentation supporting the allocation of certain costs was still lacking to determine how those costs met federal guidelines for reimbursement. While HSRI provided explanations supporting the charging of certain contracts entirely to the federal grant, the level of contract and invoice documentation required to determine the allowability (DDI vs M&O) of specific activities performed by certain consultants and vendors was not consistently supported.

In the majority of instances, vendor invoice documentation did not include sufficient detail regarding the tasks performed by the vendor/consultant. In most instances, vendor support indicated the personnel and hourly rate charged but did not identify specific tasks. Similarly, contract documentation delineated tasks, but without the level of specification necessary to assess if the task met federal requirements regarding the DDI classification.

HSRI's charging of personnel to the federal grant also lacked sufficient supporting documentation. HSRI charged 85% of personnel costs to the federal grant for the period July 1, 2015 through December 31, 2015 and ceased the allocation of personnel costs beginning January 1, 2016. This allocation (while consistent with budgetary submissions to CMS) lacked specific activity reporting or other allowable documentation required by federal cost principles.

HSRI should improve its documentation of costs charged to federal programs through detailed activity reporting. Going forward, HSRI should implement detailed activity reporting to support activities relating to the continued DDI of the State's exchange activities versus those designed to be continued M&O. For vendors and consultants, it can be accomplished by identifying contract tasks between DDI and M&O activities and ensuring that consultant billings detail the specific activities performed. For exchange personnel costs, HSRI should implement detailed time sheet reporting that delineates activities between DDI and M&O functions.

Questioned Costs: Unknown

RECOMMENDATIONS

2016-055a Align budget and purchase authorizations for vendor payments to the appropriate funding sources within the State accounting system.

2016-055b Correct linkage of personnel costs to proper funding sources within the State payroll and accounting systems.

2016-055c Improve documentation to support the allocation of DDI and M&O for health exchange activities.

Auditee views: *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2016-056 ***(material noncompliance / material weakness – repeat finding- 2015-053)***

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Federal Award Agency: Department of Health and Human Services - Administration for Children and Families
Federal Award Years: 2013-2014 and 2014-2015
Federal Award Numbers – 2014G992201, 2014G995623, 2015G992201, 2015G995623
Administered by: Department of Human Services (DHS)

PERIOD OF PERFORMANCE AND FEDERAL REPORTING

DHS did not expend or obligate 90 percent of the federal fiscal year 2014 or 2015 LIHEAP awards by the close of the grant period as required. Controls must be improved to ensure compliance with the period of performance requirement and to improve related federal reporting for such requirements.

The period of performance for LIHEAP requires that at least 90 percent of block grant funds be expended or obligated in the fiscal year in which they are appropriated. Up to 10 percent of the funds payable may be held available (or "carried over") for obligation no later than the end of the following fiscal year. Funds not obligated by the end of the following fiscal year must be returned to the Administration for Children and Families (ACF) – Department of Health and Human Services. There are no limits on the time period for expenditure of funds (42 USC 8626).

We previously reported that DHS had not met the 90% expended or obligated requirement at September 30, 2014 for federal fiscal year 2014 awards. Only 66% had been expended or obligated – additional obligations totaling $5.4 million were required at that date. During our 2016 audit, we found that $3.9 million in proposed contract amendments had still not been made. Proposed amendments totaling $1.45 million to 2015 contracts had also not been executed, resulting in an over-reporting of obligations and failure to meet the 90% obligation requirement for the 2015 award.

DHS did not comply with the period of performance requirement for federal fiscal 2014 or 2015 awards (90% expended or obligated by September 30) based on guidance provided by the grantor regarding valid obligations.

Accounts have been established within the State's accounting system to segregate expenditures and obligations by specific federal grant award; however, DHS's controls and procedures to ensure compliance with the period of performance requirements can be improved by maintaining documentation of its compliance with the period of performance time limitations and ensuring the obligated amounts meet federal requirements.

Further, DHS should review its contracting/subaward processes and explore options to allow the timely reallotment to subrecipients and amendment of contracts/purchase orders when supplemental awards are received from the federal government.

Carryover and Reallotment Report

Grantees must submit a report, no later than August 1, indicating the obligated amount expected to be carried forward to the following fiscal year and the planned use of those funds. Funds in excess of the maximum carryover limit are subject to reallotment to other LIHEAP grantees in the following fiscal year, and must also be reported (42 USC 8626).

The same issues highlighted above relating to the support for amounts obligated also affected the reliability of amounts included in the Carryover and Reallotment report. Controls need to be enhanced to ensure the reliability of amounts included on the report.

Federal Financial Report (SF-425)

The State is required to prepare a Federal Financial Report (SF-425) for the LIHEAP block grant, and a separate SF-425 for LIHEAP funds carried over from the previous fiscal year. In accordance with LIHEAP Action Transmittal (AT) 2013-02, grantees must submit a report, within 90 days of the end of the fiscal year (45 CFR § 96.30(b)) with the dollar amount of the funds obligated by the grantee during the fiscal year and the date of the last obligation of funds for the fiscal year.

The unobligated balance of federal funds was incorrectly stated on both the SF-425 reports relating to the LIHEAP block grant funds grant years 2014 and 2015. Data used in these reports caused Lines 10.f through 10.h to be materially incorrect. This difference arose due to imprecise data sources being utilized to prepare the Carryover and Reallotment Report which is the source of unobligated balance reported on the SF-425.

Questioned Costs: $1,041,394 – FFY 2015 and $3,935,212 – FFY 2014 (due to failure to meet the 90% expended or obligated time limitation.

RECOMMENDATIONS

2016-056a Ensure that at least 90% of federal awards are expended or obligated before federal fiscal year end, consistent with federal guidelines for meeting period or performance requirements.

2016-056b Maintain documentation to support the calculations confirming compliance with period of performance requirements.

2016-056c Ensure that the Carryover and Reallotment Report is consistent with supporting documentation and strengthen controls over the preparation of the Carryover and Reallotment Report to ensure accurate detail is submitted. Submit revised Carryover and Reallotment Reports and SF-425 reports for the 2014 and 2015 grant awards as required.

Auditee views: *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2016-057 ***(significant deficiency – repeat finding - 2015-052)***

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Federal Award Agency: Department of Health and Human Services - Administration for Children and Families
Federal Award Years: 2012
Federal Award Numbers – 2012G992201, 2012G995623
Administered by: Department of Human Services (DHS)

EARMARKING

DHS must enhance its controls procedures to ensure compliance with LIHEAP earmarking requirements.

The LIHEAP block grants have several earmarking requirements, which include:

- Not more than 10 percent of the LIHEAP funds payable to the State for a federal fiscal year may be used for planning and administrative costs, including both direct and indirect costs. This limitation applies, in the aggregate, to planning and administrative costs at both the State and subrecipient levels (42 USC 8624(b)(9)(A); 45 CFR section 96.88(a)).

- Not more than 15 percent of the greater of the funds allotted or the funds available to the grantee for a federal fiscal year may be used for low-cost residential weatherization or other energy-related home repairs. The Secretary may grant a waiver, and the grantee may then spend up to 25 percent for residential weatherization or energy-related home repairs (42 USC 8624(k)).

- Not more than five percent of the LIHEAP funds payable to the State may be used to provide services that encourage and enable households to reduce their home energy needs and thereby the need for energy assistance. Such services may include needs assessments, counseling, and assistance with energy vendors (42 USC 8624(b)(16)).

Compliance with these earmarking requirements is measured on total program expenditures including expenditures incurred by subrecipients for administration, energy need reduction services, and weatherization. DHS identifies the specific purpose of funds allotted to subrecipients on purchase orders (e.g., administration, weatherization, etc.) and program personnel maintain off-line spreadsheets allocating payments to subrecipients into the appropriate category.

While DHS has made improvements to monitor the earmarking requirements, including tracking expenditures by each grant year, an adjustment to the 2012 weatherization account caused the state to exceed the 15% earmark for weatherization expenditures for that grant year as well as the total grant award amount. DHS should monitor all grant expenditures for the life of the grant and enhance control procedures to ensure the State complies with earmarking requirements including all amounts expended by subrecipients and the State.

Questioned Costs: None

RECOMMENDATION

2016-057 Implement control procedures and improve documentation to ensure compliance with LIHEAP earmarking requirements.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-058 ***(significant deficiency – repeat finding - 2015-054)***

TANF CLUSTER:
Temporary Assistance for Needy Families – CFDA 93.558
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Year 2014-2015
Federal Award Number: G1502RITANF
Administered by: Department of Human Services (DHS)

FEDERAL REPORTING - MAINTENANCE OF EFFORT

Controls need to be enhanced over the accumulation of data representing Maintenance of Effort (MOE) expenditures, particularly when estimates are applied to categories of expenditures to quantify those deemed TANF eligible.

The Department of Human Services' (DHS) control procedures require further strengthening to ensure the reliability of data reported on the ACF-204 (*Annual Report including the Annual Report on State Maintenance-of-Effort (MOE) Programs – OMB No. 0970-0248*). This annual report is submitted to the Administration for Children and Families, U.S. Department of Health and Human Services and contains information on the TANF program and the State Maintenance of Effort program(s). The same expenditure information is also reported on the ACF-196, TANF Financial Report.

Data needed to prepare these reports is accumulated from a variety of sources including other departments and agencies of state government. In general, DHS needs to further improve its documentation of such data and ensure that relevant source documentation is consistently retained and referenced to support amounts claimed. Further, documentation to support both the ACF-196 and ACF-204 reports, particularly in the case of MOE claimed expenditures, should reference qualifying regulations or other federal guidance for such expenditures.

Department of Children, Youth and Families (DCYF) residential service expenditures are one element used to meet the maintenance of effort requirement. DHS receives and mount provided by DCYF. DHS then reports expenditures in proportion to those that are low income, or "TANF eligible". DHS based this estimate on a sample of cases tested in preparation of the 2012 ACF 204 report. The data used to support the estimate of TANF eligible families should be updated to ensure it reflects current case information.

While the report reduced the dollars spent on services; the number of families served, another required element of the ACF 204 report, was not adjusted and consequently the number of families served in this area was over-stated.

Control procedures over the preparation and review of the ACF-196 and ACF-204 reports should be further enhanced to ensure that all necessary information is included in the report and the information is accurate and is supported by appropriate data and calculations.

Questioned Costs: None

RECOMMENDATION

2016-058 Enhance control procedures over the preparation of the ACF-196 and ACF-204 reports to ensure that all information included in the report is accurate and is supported by current data and appropriate methodology.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-059	***(material weakness – repeat finding 2015-056)***

TANF CLUSTER:
Temporary Assistance for Needy Families – CFDA 93.558
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2014-2015 and 2015-2016
Federal Award Numbers: G1502RITANF, G1602RITANF
Administered by: Department of Human Services (DHS)

ELIGIBILITY and REPORTING - CASE FILE DOCUMENTATION

Conversion and scanning of INRHODES case file data upon implementation of a new integrated eligibility system (RIBridges) caused certain physical case files to be unavailable for review. This limited our ability to validate case information within INRHODES and data included on the ACF-199 (TANF Data) Report.

The Department of Human Services (DHS) provides cash assistance and other services to eligible families in an approved employment plan of the State's Rhode Island Works Program (RI Works) which is funded by TANF.

Families apply for RI Works cash assistance using the DHS Application for Assistance and the Statement of Need forms. All RI Works applications are required to be submitted along with the documentation required to verify eligibility and the need for services.

Due to the conversion of the INRHODES eligibility system to RIBridges, all physical case documentation was sent to a contractor for scanning. Not all the case files were scanned but all files were moved to a central location. We selected 30 case files for testing. DHS was able to provide 21 physical case files (12 scanned in an electronic format and 9 paper files). Of the combined 21 physical case files we examined, only 12 were complete (e.g., DHS-2 application).

Case information entered in the INRHODES system supported eligibility for TANF benefits for the 30 cases selected for testing. When physical case file were unavailable, this limited our ability to validate case information within INRHODES and data included on the ACF-199 (TANF Data) Report. This report includes data from case files to demonstrate the state's compliance with work participation rates. Controls should ensure that sufficient documentation is maintained to support eligibility determinations and related federal reporting.

Effective September 2016 DHS implemented the RIBridges computer system to manage eligibility for multiple federal programs including TANF and accordingly we offer no recommendations as this process is no longer relevant to current operations.

Questioned Costs: Unknown

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-060	***(material weakness – repeat finding - 2015-057)***

TANF CLUSTER:
Temporary Assistance for Needy Families – CFDA 93.558
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years, 2014-2015 and 2015-2016
Federal Award Numbers: G1502RITANF and G1602RITANF
Administered by: Executive Office of Health and Human Services (EOHHS)

INCOME ELIGIBILITY AND VERIFICATION SYSTEM – SCOPE LIMITATION

Due to limitations resulting from incomplete archived data in the system used to determine TANF eligibility during fiscal 2016, we were unable to evaluate the state's compliance with the special test and provision regarding income eligibility and verification system.

The Department of Human Services (DHS) participates in the Income Eligibility and Verification System (IEVS) as required by Section 1137 of the Social Security Act as amended. Through this system, DHS coordinates data exchanges with other federally assisted benefit programs and utilizes the income and benefit information to determine individuals' eligibility for assistance and the amount of assistance.

Federal regulation (45 CFR 205.56) requires that the State agency review and compare the information obtained from data exchanges against information contained in recipients' case records to determine whether it affects the recipients' eligibility or the amount of assistance. The Department's INRHODES computer system received the information from the data exchanges and automatically included the data in the applicable case record. Within the INRHODES system caseworkers were electronically prompted about the receipt of new data and were required to investigate and resolve discrepancies.

Effective September 2016, DHS implemented the RIBridges computer system to manage eligibility for multiple federal programs including TANF. The previous system, INRHODES was archived; however, not all information was available in the archived version of the system. Specifically the "screens" that would indicate how an IEVS data-match was investigated and resolved were not archived. Accordingly, at the time of our audit fieldwork, we could not determine whether the data matches had been investigated and whether an appropriate determination of the effect on recipient eligibility or the amount of assistance had been made.

We offer no recommendations as this specific process is no longer relevant to current operations.

Questioned Costs: None

<u>Auditee views</u>: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-061	**(material weakness – repeat finding – 2015-059)**

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2014-2015 and 2015-2016
Federal Award Numbers: 1505RI1081 and 1605RI5021
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2014-2015 and 2015-2016
Federal Award Numbers: 05-1505RI5MAP and 05-1605RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

<u>CONTROLS OVER MEDICAID AND CHIP ELIGIBILITY DETERMINATION – SCOPE LIMITATION</u>

Due to limitations in the operation and documentation of specific controls over eligibility for the Medicaid and CHIP programs during fiscal 2016, we were unable to collectively evaluate the State's compliance with federal regulations regarding recipient eligibility. System access was insufficient to allow us to assess the appropriateness of eligibility determinations and certain other designed system features intended to serve as controls over eligibility.

During fiscal 2016, the Unified Health Infrastructure Project (UHIP) was used to determine eligibility for most, but not all Medicaid and CHIP applicants in addition to supporting the State's Health Insurance Exchange. Approximately 68% of Medicaid and 70% of CHIP eligible individuals at June 30, 2016 had been processed through UHIP, which uses the modified adjusted gross income (MAGI) rules allowed under the Affordable Care Act (ACA). Eligibility for the aged, blind, and disabled and special populations (Non-MAGI) was determined through the State's INRHODES system for fiscal 2016. UHIP was expanded in September 2016 as a unified client application process and eligibility determination system for "complex" Medicaid (Non-MAGI) and other federal programs including TANF, Child Care, and SNAP and is now known as RIBridges.

We obtained an understanding of the uniform application process (which remained largely consistent from the prior year under Phase 1 of UHIP) and system controls designed within UHIP and attempted to review a sample of Medicaid and CHIP test cases to evaluate the underlying supporting documentation of eligibility during the audit period. Our tests of eligibility were limited during fiscal 2016 due to the following:

1. We did not have sufficient access to the UHIP system to view all relevant information supporting the determination and documentation of recipient eligibility.

2. We were unable to evaluate individual eligibility determinations during our audit period due to the lack of historical case data in UHIP/RIBridges. This limited information did not allow for determination of household income and other key eligibility criteria at the time the corresponding eligibility determination was made by the system.

3. The State generally suspended redeterminations of Medicaid and CHIP eligibility with the implementation of UHIP/RIBridges. Our case work revealed that periodic eligibility redeterminations for Medicaid and CHIP were not being performed as required by program

regulations. The majority of our sample cases did not have a Medicaid or CHIP eligibility redetermination performed during our 12-month audit period according to system dating.

We could not find documentation of timely eligibility redeterminations for 42 of 104 Medicaid (including some individuals categorically eligible due to SSI eligibility which may not have required redetermination) and 32 of 60 CHIP cases included in our samples. Several of these cases appeared to be significantly overdue for redetermination. In addition, the level of information available in UHIP made it difficult to determine when case information was updated during our audit period and whether applicant information had been revalidated through system interfaces. Responses to follow-up questions regarding eligibility redeterminations on specific cases were either incomplete or limited to explanations from the system contractor or DHS personnel without system support.

4. Both the INRHODES and UHIP systems include automated processes designed to verify applicant information provided in support of eligibility determinations. INRHODES utilized an integrated eligibility verification system (IEVS) to validate applicant information against external data sources. UHIP utilizes a periodic eligibility verification (PEV) process to validate applicant information against external data sources. Both processes are designed to serve as controls over eligibility by detecting changes in an applicant’s situation between the initial application and redetermination dates. We found that IEVS notifications in the INRHODES system were not being consistently worked by case workers during our audit period. In addition, PEV in UHIP was operational for only part of our fiscal year and our auditor system access did not allow us to determine whether PEV had subsequently verified applicant data in cases where eligibility redeterminations had not been updated for our audit period.

5. Transmission of eligibility data between UHIP/RIBridges to the MMIS has resulted in a significant volume of data mismatches between the systems. This results in uncertainties regarding Medicaid eligibility and potentially incorrect payments to providers and managed care organizations. The causes are still being investigated and resolution is likely to be time consuming and labor intensive. (See Finding 2016-063)

6. Responses to questions regarding eligibility for test cases could only be provided by the UHIP system contractor because they required research in the underlying system databases. Responses or explanations, when provided, were often incomplete and did not include supporting documentation.

7. Most of the State’s Medicaid Eligibility Quality Control Pilot projects remained incomplete because the State has not developed suitable corrective actions to the issues cited in the pilots. In many instances, development of corrective actions requires further response from the system contractor. (See Finding 2016-062)

Based on the above limitations, we were unable to obtain sufficient audit evidence to evaluate if recipient eligibility determined for fiscal 2016 materially complied with federal regulations.

There is an ongoing effort between the State and the system contractor to stabilize system functionalities. These efforts should include ensuring that designed controls over eligibility are fully functioning.

<u>Questioned Costs:</u> Unknown

RECOMMENDATIONS

2016-061a Ensure that designed UHIP system controls become fully operational over Medicaid and CHIP eligibility determinations.

2016-061b Evaluate and address the system access limitations that affect performance of quality control reviews, audit testing, and routine case evaluation as necessary components of effective program operation.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-062	***(material weakness - repeat finding – 2015-065)***

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2014-2015 and 2015-2016
Federal Award Numbers: 1505RI1081 and 1605RI5021
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2014-2015 and 2015-2016
Federal Award Numbers: 05-1505RI5MAP and 05-1605RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

MEDICAID ELIGIBILITY QUALITY CONTROL (MEQC) PROGRAM

The MEQC program must be adequately supported so that it can meet its control monitoring responsibilities over Medicaid eligibility. CMS-mandated quality control pilot projects required by the implementation of the federal Affordable Care Act were adversely impacted by unresolved question regarding eligibility processing within UHIP/RIBridges and challenges in obtaining required information from the State's new Medicaid eligibility determination system.

MEQC is one of several requirements with which States must comply to ensure overall compliance with Medicaid recipient eligibility. 42 CFR 431.800 establishes State Plan requirements for a Medicaid Eligibility Quality Control (MEQC) program that must be designed to reduce erroneous expenditures by monitoring eligibility determinations and claims processing operations. The regulations require that federal financial participation (FFP) be disallowed for erroneous Medicaid payments due to ineligibility and recipient liability errors as detected through the MEQC program. The agency must collect and verify all information necessary to determine the eligibility status of each individual included in the State's MEQC sample. 42 CFR 431.812 requires that the agency perform both active and negative case reviews in accordance with terms defined in the regulations. Active cases include individuals that participate in the Medicaid program. Negative cases include individuals that were denied, suspended, or terminated from the Medicaid program. EOHHS, the State Medicaid agency, has delegated the operation of the MEQC program to the Department of Human Services (DHS).

Due to the changes in Medicaid and CHIP eligibility resulting from the Affordable Care Act, the Centers for Medicare and Medicaid Services (CMS) issued guidance to State Medicaid Directors on the implementation of the Patient Protection and Affordable Care Act of 2010 (Pub. L. No. 111-148), as amended by the Health Care and Education Reconciliation Act of 2010 (Pub. L. No. 111-152) (collectively referred to as the Affordable Care Act). The guidance discusses how to perform eligibility reviews under the Payment Error Rate Measurement (PERM) and the Medicaid Eligibility Quality Control (MEQC) programs. All states are required to participate in the Medicaid and CHIP Eligibility Review Pilots to provide more targeted, detailed information on the accuracy of eligibility determinations.

States have been required to complete five pilot studies over the three year period and to report their results to CMS at various dates through June 30, 2017. The State's MEQC program's final pilot project reports to CMS for rounds two, three, and four are well overdue because corrective action plans remain incomplete. EOHHS requires additional input and research from the contractor to develop corrective action plans. EOHHS informed us their intent is to have outstanding corrective action plans completed by December 31, 2017. The MEQC staff continues to have difficulty accessing information needed to evaluate eligibility due to on-going RIBridges implementation problems.

In addition to the five required pilot studies, the State is required to process four test samples provided by CMS over the three year period through its new eligibility system. The State has been unable to provide final reports to CMS on any of its four test data projects due to ongoing eligibility system implementation challenges.

The MEQC staff must have the training and resources necessary to ensure that processes and control procedures are operating as designed. MEQC staff must also have access to data that allows them to confidently conclude on the correctness of eligibility determinations. UHIP/RIBridges currently does not provide the MEQC staff with the access to comprehensive information to complete their eligibility quality control reviews.

In addition to not meeting the federally required timeline for reporting the eligibility pilot review results, failure to timely identify needed corrective actions in UHIP /RI Bridges stalls efforts to ensure the newly implemented system is operating as intended and providing the necessary controls to ensure compliance with federal requirements.

<u>Questioned Costs:</u> Unknown

<u>RECOMMENDATIONS</u>

2016-062a Evaluate the MEQC unit's UHIP/RIBridges system access requirements to ensure it can properly administer its duties.

2016-062b Finalize outstanding MEQC pilot studies by completing the corrective action plans for outstanding pilot projects. Complete CMS-mandated test cases and report the test results to CMS.

2016-062c Ensure that RIBridges can provide historical eligibility data that is sufficiently transparent to MEQC staff so that they can perform appropriate eligibility evaluations in accordance with federal guidelines.

<u>Auditee views</u>: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-063 ***(material weakness – new finding)***

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2014-2015 and 2015-2016
Federal Award Numbers: 1505RI1081 and 1605RI5021
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2014-2015 and 2015-2016
Federal Award Numbers: 05-1505RI5MAP and 05-1605RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

INCONSISTENCY OF ELIGIBILITY DATA BETWEEN UHIP AND MMIS

Data discrepancies exist between the systems used to determine eligibility for Medicaid and CHIP and the claims/capitation payments system. The volume of differences continues to increase and the underlying causes have not been sufficiently determined. This impacts controls to ensure payments are only made on behalf of eligible individuals and increases the risk that duplicate capitation payments could be made to managed care organizations.

Medicaid and CHIP eligibility is determined independent of the Medicaid Management Information System (MMIS), which serves as the Medicaid and CHIP claims/capitation payment system. Eligibility data is transmitted daily between the eligibility and claims payment systems. The use of two systems within the State's Medicaid and CHIP programs has always necessitated a reconciliation of reported eligibility data to ensure that the eligibility coding in the MMIS is consistent with the State's eligibility system of record.

During fiscal 2016, the State used both INRHODES and UHIP/RIBridges as the eligibility systems of record for Non-MAGI (complex Medicaid) and MAGI eligible individuals, respectively, as the State prepared for transition of all Medicaid and CHIP eligibility to UHIP in fiscal 2017.

Since the inception of Phase 1 UHIP in fiscal 2015, the State has experienced a host of implementation issues impacting the reliability of eligibility data reported to the MMIS. The State, in conjunction with its contractors, designed a number of error reports that highlight the eligibility data inconsistencies between the eligibility and claims payment systems. We reviewed examples of daily exception reports that were provided for July 31, 2016 (Phase 1 UHIP) and December 31, 2016 (RIBridges) to evaluate the extent of inconsistent data between the two systems.

The types of data inconsistencies identified by these exception reports include cases that are known to the MMIS yet have no corresponding eligibility determination record in UHIP/RIBridges. This may result from case information in the previous INRHODES system that did not convert or migrate to UHIP/RIBridges. The system issues which cause the data mismatches are still being investigated. In excess of 15,000 cases were identified in exception reports at July and December 2016. Any overpayments of capitation to managed care organizations resulting from these discrepancies cannot be reliably estimated at this time but could be significant.

Other data variances between the systems includes transactions from UHIP rejected by the MMIS for reasons including potential invalid social security number, invalid head of household identification number, and the new eligibility segment already overlapping with the existing MMIS eligibility period. In many instances, it appears that UHIP/RIBridges is communicating information already identical to what is reported in the MMIS when communication should only be made when there is a change to the recipient's eligibility.

Based on the volume of exceptions currently being reported and the resources available to research and resolve the possible discrepancies between the systems, controls over eligibility have been significantly impacted since the implementation of the UHIP system. The State needs to identify the underlying causes for the large number of exceptions generated between the systems and formalize a corrective action plan to ensure reliable communication of eligible Medicaid and CHIP case information to the MMIS.

Questioned Costs: Unknown

RECOMMENDATIONS

2016-063a Identify and resolve the underlying causes of eligibility data discrepancies between the MMIS and UHIP (RIBridges) systems.

2016-063b Determine the necessary corrective action and resources needed to eliminate the current backlog of system exceptions and future mismatches between the two systems.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-064 ***(material weakness – repeat finding – 2015-062)***

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2014-2015 and 2015-2016
Federal Award Numbers: 1505RI1081 and 1605RI5021
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2014-2015 and 2015-2016
Federal Award Numbers: 05-1505RI5MAP and 05-1605RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

UHIP NEWBORN ENROLLMENT DELAYS RESULTING IN INTERIM PROVIDER ADVANCES

Delays in the enrollment of Medicaid eligible newborns within UHIP have resulted in significant related delays in claims adjudication and payments to managed care organizations (MCOs) and other providers. EOHHS had advanced $6.5 million in capitation to MCOs covering newborns at June 30, 2016 whose eligibility was still pending.

The implementation of UHIP has resulted in delays in newborns being enrolled in Medicaid and CHIP. The previous eligibility system, INRHODES, allowed newborns to be added by workers as soon as the birth was verified. This allowed for more timely enrollment and eligibility acknowledgment in the MMIS. If needed, caseworkers could assign a temporary identification number to the newborn pending the award of the child's social security number.

UHIP requires the applicant to initiate and enter changes in household composition such as the birth of a child. This has resulted in significant delays in enrollment and backlogs of claims and capitation for newborns. The enrollment issues have also resulted in advances of capitation payments to MCOs that are immediately covering the children of Medicaid-eligible mothers.

EOHHS had advanced $6.5 million in capitation to MCOs covering newborns at June 30, 2016 whose eligibility was still pending. Advances prior to Medicaid eligibility being determined weaken program controls and require subsequent manual reconciliation once eligibility has been established. This issue commenced with the implementation of Phase 1 UHIP in fiscal 2015 and now requires reconciliation of outstanding amounts to ensure that MCOs were not reimbursed in excess for newborn capitation and that MCO contract settlements appropriately accounted for capitation and claims for pending newborns. EOHHS should identify and implement the corrective actions needed to resolve the delays in the enrollment of newborns and discontinue MCO advances.

Questioned Costs: Unknown

RECOMMENDATIONS

2016-064a Implement a long-term solution to minimize the delay in getting eligible newborns enrolled in Medical Assistance.

2016-064b Reconcile outstanding provider advances and discontinue further advances to MCOs upon resolution of the backlog of newborn claims.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-065 *(significant deficiency – repeat finding – 2015-067)*

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2014-2015 and 2015-2016
Federal Award Numbers: 1505RI1081 and 1605RI5021
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2014-2015 and 2015-2016
Federal Award Numbers: 05-1505RI5MAP and 05-1605RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

UHIP PROJECT MANAGEMENT AND GOVERNANCE

Governance for the UHIP development project must be enhanced to ensure contractual requirements are met by the lead development vendor and others and also to ensure that system defects and other implementation issues are identified, prioritized and corrected on a timely basis.

A complex project governance structure exists for the UHIP development project due to the scope of the project and the multiple state agencies involved (EOHHS, DHS, HealthSource RI, and Department of Administration).

System implementation issues are expected, to a degree, in any project of this complexity and duration. There is a considerable amount of contract compliance and "quality control" type information about the system in development available to the project governance team from the following sources:

- Independent Validation and Verification ("IV&V") vendor – contracted to provide independent validation and verification services to the State regarding evaluation of the contract deliverables, contract compliance, systems security, adherence to "best practices", etc.

- User acceptance testing – resources dedicated to testing the system functionalities as they are developed and before being put into production. User acceptance testing is also performed by the State in determining readiness to implement the system.

- Federally required eligibility test samples (e.g., MEQC, PERM, Single Audit testing).

While we found that there was a comprehensive project management structure in place, the IV&V vendor continued to note numerous issues in fiscal 2016 which appear to remain unresolved for extended periods. These issues present risks to the proper functioning of the UHIP system, system response time, system integration testing, and the viability of the system in the event of a system failure or disaster. Specifically, the IV&V vendor noted concerns during fiscal 2016 where:

- User acceptance testing (UAT) was deficient, including 1.) test script design described as being "disorganized", 2.) UAT results and findings not properly triaged and addressed as phase 2 implementation approached, and 3.) software release delays impacting the timing and quality of UAT;

- Inadequate planning to ensure the completion of regression testing prior to certain software releases being placed into production;

- Functional Design Documentation (FDD) is lacking or incomplete;

- The UHIP contractor was making changes in system design without State approval;

- Only 21 of the originally designed 156 system interfaces were identified as of May 15, 2016, a month and a half before the planned July 2016 go-live date. (eventually delayed until September 13, 2016);

- change management processes were not being adhered to; and

- Disaster recovery planning and testing continued to be delayed as was noted in our fiscal 2015 audit.

In addition, the federal government has required large test samples of cases to demonstrate adherence to the new MAGI based eligibility requirements as well as adherence to the system design documentation which the federal government approved. As more fully detailed in Finding 2016-1, the process of concluding on some of the sample case testing results has been limited by the Phase 1 system functionalities which do not facilitate review of system and worker activities that led to Medicaid eligibility. Nonetheless, the test samples did provide relevant and valuable information about the actual functioning of the system.

The project governance team must react appropriately to this high volume, time sensitive information to ensure timely resolution of issues and to also ensure that IT risks and additional costs are avoided.

While reacting appropriately and timely to all this information is clearly a challenge, it is critically important in a project of this scope and dollar investment (anticipated at nearly $400 million in aggregate project development costs). Phase II of the project went live on September 13, 2016 and has experienced significant operational issues that may have been avoided if some of the detailed warnings above had been addressed more timely and consistent with proper project management for a system of this size and complexity. The State has recently reorganized the project personnel within the system governance structure to address the significant design and operational issues that have been identified since implementation.

Questioned Costs: None

RECOMMENDATION

2016-065 Re-evaluate the current project management and governance structure to ensure prioritization and resolution of critical systems issues when identified.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-066	***(material weakness - repeat finding – 2015-066)***

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2014-2015 and 2015-2016
Federal Award Numbers: 1505RI1081 and 1605RI5021
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2014-2015 and 2015-2016
Federal Award Numbers: 05-1505RI5MAP and 05-1605RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

CONTROLS OVER MANAGED CARE CAPITATION PAYMENTS AND CONTRACT SETTLEMENTS

EOHHS lacks strong oversight procedures regarding fiscal monitoring and contract settlement for its managed care organizations (MCOs). Capitation payments to MCOs represent nearly 75% of all Medicaid outlays. EOHHS needs to develop a comprehensive risk assessment and monitoring plan to ensure that managed care expenditures are validated and settled each contract period. More stringent audit and financial monitoring procedures should be employed.

During fiscal 2016, the State paid nearly $1.5 billion in capitation payments to participating MCOs covering 257,081 Medicaid eligible individuals (as of June 2016) (approximately 85% of total Medicaid enrollees). These capitations payments related to the following managed care programs within the State's Medicaid program:

Program Name	Enrollment (June 2016)	Expenditures (in millions)
Rite Care (Core, CSHCN, Foster Care)	149,771	$560
Rhody Health Partners (certain adults with disabilities)	15,188	$212
Rhody Health Options (long-term care population)	26,910	$304
Medicaid Expansion (newly eligible due to ACA implementation)	65,212	$390
Total	**257,081**	**$1,466**

Each of these programs has different population eligibility characteristics, capitation rate structures, and covered in-plan services. These programs, however, operate under similar contract structures for purposes of financial settlement with Medicaid.

Due to the materiality of Medicaid and CHIP expenditures relating to managed care, we have identified the following three areas where the State can improve control and oversight over managed care expenditures:

1.) ***Enhance controls over determination of MCO program eligibility and assignment of proper capitation rates*** – the assignment of individuals to managed care coverage under the Rhody Health Partners and Rhody Health Options programs involves monthly queries (performed by contractors) to identify individuals eligible for the program as well as changes in the status of current enrollees. Although Rhody Health monthly capitation is paid through the MMIS, identification of eligible individuals and the determination of capitation payment levels are not coded into the MMIS as they are for Rite Care. Controls should be enhanced to ensure that program assignment and related monthly capitation amounts are properly performed by the State. Managed care program assignment determined through the State's eligibility system at the time that eligibility for Medicaid is determined would improve control over the manual processes currently employed.

2.) ***Improve oversight of MCO contract settlements*** - each managed care program contract defines the dates of service included in the contract period and a defined settlement period (usually one year after the contract end date) to allow for submission of all provider claims. The State relies extensively on its managed care consultant to evaluate and finalize amounts owed to or due from the State's participating managed care organizations for each separate program and contract period (usually a year or less).

    Final MCO contract settlements involve a comparison of the medical component of the capitation payment received with the underlying medical expenses relating to the contract period. Controls do not currently exist to validate all aspects of the final settlement calculation. The medical component of the capitation payment received is difficult to validate due to timing differences between when the payment is reported by the State and MCOs. The State relies extensively on its consultant to manually reconcile and validate capitation reported by the MCOs with amounts reported by the MMIS. Medical expenses are equally difficult to validate because although the State receives detailed encounter data from the HMOs for services rendered, this data is not always complete or does not always provide a complete accounting of medical expenses incurred by the HMO. The State's contractor was unable to reconcile $64.5 million in medical expenses for all MCO contract settlements for periods ended June 30, 2015. This represents 5.3% of reported medical expenses totaling approximately $1.2 billion and results because the encounter data was not provided or provided and rejected by the MMIS for a variety of reasons. Other less significant settlement items such as provider recoveries and other expense and revenue adjustments reported by the HMO also cannot be completely validated.

The State needs to address the programmatic and technical challenges that currently prevent complete and efficient settlement of managed care contracts. The current processes are manually intensive and lack sufficient validation of a significant portion of the contract activity. Since the MCO contract settlement process is performed solely by a contractor, EOHHS staff need to provide more oversight.

Due to the significance of managed care capitation expenditures and the complexity of the contract provisions present in the State's managed care contracts, the State needs to develop a comprehensive risk assessment and monitoring plan to ensure that managed care expenditures are validated and settled each contract period. This plan should, at a minimum, include the following:

- Identification of all significant components involved in the managed care settlement process and the specific validation procedures performed to ensure accuracy;

- The degree to which adjudicated encounter data (837 formatted claim data) can be reliably utilized to validate reported medical expenses by the MCOs;

- Detailed procedures to ensure that capitation payments are recorded consistently between the State and the MCOs to ensure validation of this important settlement amount;

- Identification of other settlement considerations where independent third party validation may be required (as the most efficient manner to achieve that objective). For example, audits may be required to identify MCO recoveries or other recoveries relating to medical expenses incurred under specific State contracts. The State may need to contract for an audit of these types of contract items or require the HMOs to submit audited schedules of such amounts to the State; and

- For managed care programs (Rhody Health Partners and Options) where program enrollment and capitation assignment are dependent on manual or ad-hoc processes external to designed MMIS coding, implement controls to ensure the accuracy of such determinations.

An independent audit should be required for selected controls employed by the MCOs as well as the overall medical and administrative costs measured under the contracts as a key component of the comprehensive plan. The State's contract with its managed care providers includes a provision that "the contractor shall collaborate with EOHHS and/or its designees(s) to develop specific audit procedures to ensure the Contractors' reported medical expenses, as detailed in risk share financial statements, are accurate and compliant with medical expenses as defined in the Agreement."

Lastly, EOHHS must validate all aspects of the comprehensive plan and managed care contract settlement process even when components are performed by or delegated to contractors and consultants.

3.) ***The growing complexity of Medicaid program operations adds to the challenge of accurately accounting for all Medicaid program related financial activity within the State's financial statements.***

The complexity of the Medicaid program has continued to increase each year through the federal Affordable Care Act (ACA) provisions and various State initiatives that have changed how services are delivered and providers are reimbursed. New program initiatives have changed the way services are reimbursed through the program. Program changes are often implemented through managed care coverage increasing an already significant segment of Medicaid that is being administered outside of EOHHS's direct financial systems and controls. New eligibility systems have resulted in claim processing problems that have resulted in estimated payments to providers in advance of the actual claims or capitation payments being processed.

For example, in accordance with ACA, Medicaid reimbursements to primary care physicians (PCP) were increased for the purpose of improving access to primary care with the federal government generally reimbursing States for 100% of the increase. These increases applied to Medicaid primary care services paid on a fee-for-service basis or through managed care organizations. Since these additional reimbursements were not reflected in the original capitation rates for these MCOs, additional amounts owed to the MCOs were paid through settlements separate from the normal capitation settlement process. We found the State overpaid one of the MCO's $2.3 million for the PCP reimbursement during our audit - the State was invoiced for an incorrect amount that was subsequently paid. While this overpayment was recovered from the MCO in fiscal 2017 after being identified, it demonstrates the continued weakness in controls over reimbursements to MCOs and the lack of oversight and validation procedures by EOHHS.

The significance of Medicaid and CHIP expenditures and the continued trend of providing more services through capitation necessitate an examination of how the State ensures control over financial reporting and federal compliance for these program activities. Due to the heavy reliance on contractors to manage and analyze this financial activity, control processes should be evaluated and documented delineating contractor and EOHHS responsibilities and how overall financial and programmatic control objectives are met.

Questioned Costs: Unknown

RECOMMENDATIONS

2016-066a Develop a comprehensive risk assessment and monitoring plan to ensure that managed care expenditures are validated and settled each contract period.

2016-066b Improve the adjudication of MCO encounter data to provide a more complete determination of the medical expenditures incurred during managed care contract periods. Disallow any costs from the contract settlement process that cannot be fully adjudicated.

2016-066c Require an independent audit of selected controls employed by the MCOs as well as the overall medical and administrative costs measured under the contracts.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-067 ***(significant deficiency – repeat finding – 2015-073)***

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2014-2015 and 2015-2016
Federal Award Numbers: 05-1505RI5MAP and 05-1605RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

SURVEILLANCE AND UTILIZATION CONTROL REVIEWS

EOHHS must improve compliance with the timeliness of required Surveillance and Utilization Control Reviews by allocating sufficient resources to identify, investigate, and refer suspected fraud and abuse cases. The SURS unit (operated by the State's fiscal agent) had sixty-two (62) Level III investigations dating back to 2009 still pending at June 30, 2016.

42 CFR 455.1 establishes State plan requirements for the identification, investigation, and referral of suspected fraud and abuse cases. The regulations require that the State report fraud and abuse and have a method to verify whether services reimbursed by Medicaid were actually furnished to beneficiaries. Federal regulations also require that the agency conduct a preliminary investigation to determine whether there is sufficient basis to warrant a full investigation if the agency receives a complaint of Medicaid fraud or abuse from any source or identifies any questionable practices. If the findings of a preliminary investigation give the agency reason to believe that an incident of fraud or abuse has occurred in the Medicaid program, the agency must refer the case to its Medicaid Fraud Control Unit.

EOHHS relies upon its fiscal agent's Surveillance, Utilization and Review System (SURS) unit to coordinate much of its Utilization Control and Program Integrity program. The SURS unit is responsible for conducting regular reviews of provider claims and recipient program utilization while also conducting special projects and targeted queries to follow up on instances of suspected fraud or to monitor high fraud risk providers and/or services. Cases are assigned Level I/II status during the initial stages of an investigation. Cases are advanced to Level III if there appears to be evidence of program abuse or fraud.

The SURS unit had sixty-two (62) Level III investigations dating back as far as 2009 still open at June 30, 2016 due to insufficient personnel resources to meet the additional demands imposed on the unit by the State. Supplemental work (special projects and audits), in addition to its regular SURS activities, is regularly assigned to the SURS unit, which impacts the unit's ability to close Level III investigations that pose the highest probability of abuse and/or fraud. Claims payments continue to be made to vendors included in the Level III case backload unless there is clear and convincing evidence of fraud before the case has been officially closed.

While overall staffing and case progress were improved during fiscal 2016, the inability of the SURS unit to resolve Level III cases in a timely manner represents a weakness in internal control over the State's Medicaid Program. The State should ensure that sufficient SURS resources are employed to ensure timely compliance with federal regulations relating to this vital program integrity function.

A federal HHS Office of the Inspector General review of the State Medicaid Fraud Control Unit in fiscal 2015 (reported dated September 2015) included a recommendation to work with the State Medicaid agency to increase referrals to the Unit. Level III cases are those most likely to require referral to the Medicaid Fraud Control Unit. More timely completion and referral of SURS cases by the State Medicaid Agency would improve the overall utilization and effectiveness of the Medicaid Fraud Control Unit as key integrity controls over program activities.

Questioned Costs: Unknown

RECOMMENDATION

2016-067 Ensure that sufficient resources are employed by the State to fully comply with Medicaid surveillance and utilization review program regulations in a timely manner.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-068 ***(significant deficiency - repeat finding – 2015-074)***

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2014-2015 and 2015-2016
Federal Award Numbers: 05-1505RI5MAP and 05-1605RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

CONTROLS OVER HOME AND COMMUNITY BASED SERVICES

Controls should be enhanced over claims for home and community based services by (1) eliminating "span billing" thereby improving system controls to identify incompatible service dates and (2) requiring matching of authorized to billed services.

Medicaid eligible individuals may receive necessary home-based medical and support services (home and community based waiver services outlined in the State's Global Consumer Choice Section 1115 Waiver) with the goal of minimizing more expensive care provided within skilled nursing facilities. These services include homemaker, nursing services, meal preparation, residential support, respite care services, etc. and are reimbursed by Medicaid through both fee-for-service claiming and capitated coverage with managed care organizations. Many of these services require prior authorization by insurers as a means to control the type and duration of service provided.

Controls over home and community based services have been deficient in the RI Medicaid program due to the billing convention ("span billing") utilized by the majority of home and community based medical service providers and the lack of a prior authorization system that was integrated with the MMIS. In many instances, home-based service claims covered a period (or "time span" when service is provided) of service (e.g., a month) rather than a specific date for each unit of service provided. This lack of claim detail (e.g., specific service dates) made it impossible to determine whether incompatible services were paid in these instances. These weaknesses have resulted in an inability to identify when claims are submitted for periods when the recipient of certain home and community based services was actually hospitalized (or in another residential setting such as hospice or nursing facilities) and therefore unavailable to receive home services. The lack of an integrated prior authorization system prevented Medicaid from only paying for services that had been preauthorized for payment in accordance with Medicaid policies and procedures.

EOHHS has begun implementing additional controls over the claim processing of home and community based services. EOHHS's implementation of an electronic visit verification (EVV) system and the interface of the State's prior authorization system with the MMIS in June 2016 represent the initial phase of EOHHS's corrective actions to improve controls over the billing of these services. In fiscal 2017, EOHHS is transitioning home and community based service providers to the EVV system for billing to the MMIS. Under EOHHS's new process for home and community based services, providers are limited to billing for a maximum service period of one week to minimize the effect of span billing on evaluating for incompatible services.

Questioned Costs: None

RECOMMENDATION

2016-068 Continue implementation of the EVV system to all providers to ensure that home and community based service providers are only reimbursed for preauthorized services.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-069	***(significant deficiency – repeat finding- 2015-075)***

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2014-2015 and 2015-2016
Federal Award Numbers: 05-1505RI5MAP and 05-1605RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

CONTROLS OVER INPATIENT HOSPITAL AND LONG-TERM CARE FACILITY RATE SETTING

Current Medicaid reimbursement methodologies for inpatient hospital and long-term care facilities in RI establish fixed rate reimbursements to providers. Hospital and nursing facility claim reimbursements are determined by applying certain acuity based factors to an underlying base rate. The State has not fully complied with State plan provisions relating to annual review (of rate components stipulated in the State Plan) and provider audit requirements outlined within these approved methodologies.

42 CFR section 447.250 requires that the State Plan provide for payment for hospital and long-term care facility services through the use of rates that the State determines are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated facilities to provide services in conformity with State and Federal laws and regulations. The State initiated its DRG methodology for inpatient hospital services as an amendment to its approved Section 1115 Global Medicaid Waiver (and through approval of a State Plan Amendment in fiscal 2016) in fiscal 2011. The State's implementation of a RUG methodology for nursing facility providers was submitted via a State Plan amendment and implemented in fiscal 2014 (with CMS approval received in June 2015).

Inpatient Reimbursement

EOHHS reimburses hospitals using a Diagnosis Related Groups (DRG) methodology that replaced the traditional cost reimbursement rate setting model requiring settlements with providers based on filed cost reports. The methodology produces a fixed reimbursement rate by applying multipliers to an approved base rate. The multipliers applied depend upon diagnosis, acuity, and other factors. The DRG payment methodology serves to reimburse hospitals based on the underlying illness rather than the length of the patient stay to promote efficient and effective patient treatment.

The State Plan amendment relating to the DRG reimbursement methodology includes a requirement for annual reviews of the payment method. This requirement indicates that the "scope of the annual review will include at least the DRG algorithm version, the DRG relative weights, the DRG Base Price(s), the outlier thresholds, outlier payment parameters, policy adjustors, and the age adjustors. With respect to the DRG Base Price, the department will take into consideration at least the following factors in deciding what change, if any, to implement: changers or levels of beneficiary access to quality care; the Centers for Medicare and Medicaid Services National CMS Prospective Payment System (IPPS) Hospital Input Price Index; technical corrections to offset changes to DRG Relative Weights or policy adjustors; changes in how hospitals provide diagnosis and procedure codes on claims; and budget allocations."

EOHHS has made annual adjustments to the base rate for inflation and State budget factors and has updated the DRG software for new releases. However, it has not conducted a comprehensive review reflecting all the elements outlined in the scope of the review as described in the State plan. EOHHS should conduct these required annual methodology reviews, to ensure that established inpatient hospital rates are in compliance with federal regulations.

Due to the significance that provider coding has on the amount reimbursed under the new methodology, EOHHS should also consider procedures to ensure that hospital providers are appropriately coding hospital claims in compliance with federal requirements. Such procedures should be designed to detect provider "upcoding" and could include periodic provider audits, surveillance utilization review detection analytics, or special projects performed by the Medicaid program integrity unit.

Nursing Facility Reimbursement

EOHHS adopted a full Resource Utilization Groups ("RUG") system for long-term care reimbursement on June 1, 2013. Under the RUG system, each long-term care facility has a base per diem rate that applies to all residents that is comprised of direct nursing care and other direct care costs, indirect care, fair rental value, property taxes, direct care and gain/loss policy adjustors, and a provider assessment. Each long-term care resident is assigned a RUG score that reflects each individual's expected resource utilization. A RUG score multiplier adjusts the provider base rate to a recipient-specific per diem rate to reflect the anticipated costs of caring for each resident.

Before the adoption of the full RUG method, EOHHS reimbursed its long-term care facilities using a facility-specific per diem rate based upon annual cost reports submitted by each nursing facility. Facilities were assigned an interim per diem rate pending EOHHS Rate Setting Unit desk or field audit. The Rate Setting Unit performed annual desk audits and occasional field audits through fiscal 2010. Unaudited 2010 cost reports were utilized as the base costs in the new full RUG method.

The CMS-approved RUG methodology included a requirement that the EOHHS conduct a rate review every three years beginning in fiscal 2016 to determine if the original cost components used to establish the base rates are still appropriate. In addition, the State Plan amendment requires audits of the financial and statistical records of each participating provider in operation. EOHHS had not yet complied with these requirements for provider rates determined for fiscal 2016. EOHHS has indicated that it has begun a rate review during fiscal 2017 based on unaudited nursing home cost report data, and plans to utilize the updated data for prospective reimbursement rates.

EOHHS needs to formalize the specifics of its periodic reviews of the nursing facility RUG methodology. This process should ensure that underlying facility data utilized to reevaluate the established rates is accurate and consistently reported by all facilities.

Questioned Costs: None

RECOMMENDATIONS

2016-069a Comply with annual review requirements to ensure that inpatient hospital reimbursement rates are consistently updated in accordance with the approved State plan.

2016-069b Formalize the process for conducting periodic reviews (including procedures to address audit requirements) of the nursing facility reimbursement rates in accordance with the approved State plan.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-070 ***(material weakness - repeat finding – 2015-076)***

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2014-2015 and 2015-2016
Federal Award Numbers: 05-1505RI5MAP and 05-1605RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

CONTROLS OVER DISPROPORTIONATE SHARE PAYMENTS

EOHHS lacks controls to ensure the accuracy of uncompensated care data provided by the hospitals in support of Medicaid uncompensated care reimbursements made to such hospitals.

Section 1923 of the Social Security Act (the "Act") requires that States make Medicaid Disproportionate Share Hospital (DSH) payments to hospitals that serve a disproportionately large number of low-income patients. The Omnibus Budget Reconciliation Act of 1993 limits these payments to the annual costs incurred to provide services to Medicaid and uninsured patients less payments received for those patients. Each state is required to administer DSH payments in accordance with the requirements outlined in their CMS-approved Medicaid State plan.

EOHHS made DSH payments totaling $141 million (federal share - $70.3 million) in fiscal 2016 to hospitals meeting the requirements outlined in the Act. The majority of DSH payments are determined based on the proportion of each qualifying hospital's uncompensated care to the total uncompensated care costs for all qualifying hospitals. Each hospital is required to certify the amount of uncompensated care costs incurred from providing services to low-income patients. EOHHS does not currently have controls in place to ensure the accuracy of the uncompensated care data provided by the hospitals.

Section 1923 (j)(2) of the Act requires States to submit to the Secretary an independent certified audit that verifies various DSH-related information. During fiscal 2016, the audit for the federal fiscal year ended September 30, 2012 was filed by EOHHS. The State's DSH auditor noted that one of the State's smaller hospitals was unable to provide data in support of its uncompensated care (accepting only a certification by the provider that it incurred uncompensated care costs in excess of its Medicaid DSH payment). The 2012 DSH audit results continued to show improvement in the uncompensated care data submitted by the State's hospitals as evidence that the DSH audit process has resulted in greater data consistency over time as providers have become educated through the process. The State Medicaid Agency, however, still relies on DSH audits to confirm DSH payments through post audit as opposed to annual monitoring procedures to ensure that the DSH hospitals are maintaining complete and accurate data and records to support the calculation of these limits.

EOHHS still needs to implement controls to ensure that all hospitals have uncompensated care costs supporting DSH payments in advance of disbursement. The significance of DSH expenditures within the Medicaid program merit that controls are in place to ensure that hospitals can document claimed uncompensated care prior to disbursement by the State.

Questioned Costs: None

RECOMMENDATION

2016-070 Improve controls over Medicaid DSH payments by implementing controls to ensure that all hospitals have uncompensated care costs supporting DSH payments in advance of disbursement.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-071	**(significant deficiency - repeat finding –2015-071)**

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2014-2015 and 2015-2016
Federal Award Numbers: 05-1505RI5MAP and 05-1605RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

COSTS NOT OTHERWISE MATCHABLE (CNOM)

Controls need to be enhanced over the determination of individuals eligible for CNOM services since these processes are separate from other system eligibility controls. Processes implemented to provide a post-eligibility review should be completed timely.

In January 2009, the Centers for Medicare and Medicaid Services (CMS) approved the State's request to operate its entire Medicaid program under a single Section 1115 Demonstration Waiver called the Global Consumer Choice Demonstration ("Global Waiver"). The federal approval authority exists within Section 1115(a) of the Social Security Act, which includes a provision for certain expenditures that would not otherwise be claimable as Medicaid program expenditures "to the extent and for the period prescribed by the Secretary". Consistent with the Section 1115 Demonstration Waiver, the State has identified various "CNOM" claiming populations and services deemed to represent "at risk" segments of the State's population.

The State claimed $16.2 million (federal share - $8.2 million) in CNOM expenditures during fiscal 2016, an increase $1.6 million from the prior year. These included early intervention services to young children, community support services for the elderly, as well as children not in the custody of the State that receive services through the State's Department of Children, Youth and Families (DCYF), as examples.

The majority of CNOM expenditures were disbursed through the State's Medicaid Management Information System (MMIS); however, recipient eligibility was either determined manually (independent of eligibility systems) or by the service provider. Consequently, determination of recipient eligibility for CNOM expenditures lacks the comprehensive controls over eligibility for Medicaid enrollees. We observed the following control weaknesses over the determination of eligibility for CNOM services:

- The Executive Office of Health and Human Services (EOHHS) adopted policies and procedures that require the State agencies (DHS, DCYF, BHDDH, etc.) responsible for the administration of the respective CNOM programs to document and validate eligibility determinations made by provider agencies. These requirements for fiscal 2016 had not been fulfilled for the majority of CNOM expenditures, and thus, specific post review controls designed to validate CNOM claiming within the Medicaid program were not effective. Only the Department of Children, Youth and Families had reviewed CNOM expenditures (totaling $5.2 million) during fiscal 2016 and were determining the percentage of ineligible claiming at the time of our audit.

- Certain CNOM claiming populations (representing approximately 34% of CNOM expenditures) were not paid through the MMIS and thus were not subjected to the control edits inherent in that system. The payment of Medicaid benefit expenditures external to the MMIS exposes the State to the risk of paying duplicate claims for the same service.

- Certain CNOM populations relate to services provided to individuals that do not qualify for Medical Assistance yet still have defined eligibility criteria. The eligibility criteria (income, in most instances) for these individuals are not being processed through the State's eligibility determination systems. These systems, designed with specific applicant income verification interfaces, are designed to validate the representations made by the individuals that are ultimately claimed to Medicaid. Decentralizing the Medicaid eligibility determination process throughout the program weakens overall controls over eligibility, and will require a more extensive monitoring and post audit process to ensure that CNOM eligibility requirements are met.

- Provider eligibility requirements must be met for Medicaid eligible services. The State utilizes centralized provider eligibility procedures employed by its fiscal agent to ensure that licensure and suspension and debarment requirements are met. Processing CNOM claims external to the MMIS circumvents the program's provider eligibility controls and creates a risk that claims could be reimbursed for services performed by ineligible providers or unlicensed clinicians.

CNOM claiming should be subject to the same claims processing and eligibility control processes (MMIS and INRHODES systems) in place over all Medicaid claims to ensure adequate control over these claim groups. Respective departments need to complete all claiming reviews relating to fiscal 2016 (and prior years, if applicable) CNOM expenditures and credit the federal government for amounts determined to be ineligible. In the future, EOHHS should ensure that all CNOM claiming processes are fully operational prior to claiming these expenditure populations to the Medicaid program.

<u>Questioned Costs</u>: Unknown

<u>RECOMMENDATIONS</u>

2016-071a Subject all CNOM claiming to the system edits and eligibility control processes (MMIS and INRHODES systems) in place over all Medicaid program expenditures.

2016-071b Ensure that adopted standards and practices, including claiming reviews, are completed for all CNOM expenditures claimed during the fiscal year and credit the federal government for any amounts claimed in error.

2016-071c Ensure that all future CNOM claiming processes are fully operational prior to claiming expenditures to the Medicaid program.

<u>Auditee views</u>: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-072	***(significant deficiency – repeat finding – 2015-069)***

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services (DHHS)
Award Years: Federal Fiscal Years 2014-2015 and 2015-2016
Federal Award Numbers: 1505RI1081 and 1605RI5021
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2014-2015 and 2015-2016
Federal Award Numbers: 05-1505RI5MAP and 05-1605RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

COMPREHENSIVE DEPARTMENTAL AUTOMATED DATA PROCESSING (ADP) RISK ANALYSIS AND SYSTEM SECURITY PROGRAM

EOHHS and DHS must enhance systems security oversight over systems used to administer multiple federally funded programs. The plan must be sufficiently comprehensive and include timely reaction to and consideration of identified security issues and risk factors.

Federal regulation (45 CFR section 95.621) requires State agencies to review the ADP system security of installations used in the administration of DHHS programs on a biennial basis or when a significant change to the security or system(s) occur. At a minimum, State agencies must establish and maintain an ADP security plan and implement a program for conducting periodic risk analyses to ensure that appropriate, cost-effective safeguards are incorporated into new and existing systems. While EOHHS and DHS accumulate documentation in support of system security considerations, the departments do not currently formalize an annual plan that meets the compliance requirement of a risk assessment and documented approach to ensure compliance with federal requirements for ADP Risk Analysis and System Security Review.

EOHHS and DHS are charged with managing and securing ADP systems, which process and administer various federal DHHS and State programs (Medicaid, TANF, etc.). In fiscal 2016, these programs had eligibility, benefit determinations, and payments processed through three different systems – INRHODES, MMIS and UHIP. Since each of these systems was involved with the administration of DHHS programs, the State agencies were required to determine appropriate ADP security requirements based upon recognized industry standards for each system, optimally within a comprehensive plan.

EOHHS and DHS largely utilize independent service organization control (SOC) reports to meet their security and risk monitoring activities. However, the ADP system security plan should be improved by (1) ensuring that the coverage provided by the SOC reports is supplemented with other monitoring procedures as required, and (2) developing a comprehensive plan encompassing all systems which meets the required federal components. Additionally, any deficiencies noted in the SOC reports must be evaluated timely to determine if they affect any of the required controls over federal program administration. Such consideration should be documented. For example, in one of the SOC reports for fiscal 2016, the auditors modified their opinion on the effectiveness of certain internal control procedures and highlighted issues requiring resolution. EOHHS and DHS should act promptly to (1) consider the significance of these issues and impact on the State's internal controls procedures for the administration of the affected federal programs, and (2) require corrective action by the applicable contractor with appropriate follow-up to ensure the matter was resolved.

Due to the significance of these systems (UHIP and MMIS) to a variety of federal programs administered by the State, it is critical that adequate information systems security practices are continuously employed over these systems. The State must further its compliance efforts by developing a single, integrated ADP security plan and IT risk assessment process that meets federal requirements.

Questioned Costs: None

RECOMMENDATION

2016-072 Enhance compliance with federal ADP Risk Analysis and System Security Review requirements by creating a comprehensive, integrated plan for UHIP and the MMIS.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2016-073 *(significant deficiency - repeat finding – 2015-070)*

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2014-2015 and 2015-2016
Federal Award Numbers: 1505RI1081 and 1605RI5021
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2014-2015 and 2015-2016
Federal Award Numbers: 05-1505RI5MAP and 05-1605RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

FEDERAL REPORTING

Controls should be improved over the quarterly reporting of Medicaid and CHIP expenditures by improving the alignment of information reported by the MMIS and the State's accounting system. Timing differences between when Medicaid administrative expenditures are claimed on federal reports and when reported in the State's accounting system should also be resolved.

Federal regulations require that expenditures for the Medical Assistance Program (Medicaid) be reported on Form CMS-64. Expenditures for the Children's Health Insurance Program (CHIP) are also reported on Form CMS-64 for the basic children's population with all other eligible CHIP populations reported on Form CMS-21. While most of the information regarding claims paid is provided through the MMIS operated by the State's fiscal agent, RIFANS, the State's accounting system, is the official record for reported federal expenditures.

Quarterly Statements of Expenditures- Program Expenditures

Controls should be improved over the preparation of the quarterly reporting of Medicaid and CHIP expenditures. The processes required to accumulate information needed to prepare federal reports continue to be complex and require extensive manual effort. Although total program expenditures reported for both federal programs were able to be reconciled to RIFANS for fiscal 2016, RIFANS does not include the same level of Medicaid service detail that is available in the MMIS. This requires that financial management staff perform significant manual computations to derive amounts required for the preparation of the CMS-64 and CMS-21 reports. This often requires that estimated federal expenditures be reported on the federal financial report, Form SF-425, which must be filed within 30 days after the end of each quarter. Significant delays in recognizing CHIP eligible claiming also complicates federal reporting for both federal programs as expenditures often need to be adjusted on federal reports through adjustments to prior periods.

Although the reconciliation and reporting of Medicaid and CHIP program expenditures has improved in recent years, the overall process could be streamlined by better aligning the account structure within the State's accounting system to accommodate the categories of expenditure data generated by the MMIS and required for preparation of the CMS-64. Better alignment of accounts and coding would facilitate the preparation of the CMS-64 as well as the reconciliation of data reported by the fiscal agent which ultimately is recorded in the State's accounting system.

Quarterly Statements of Expenditures- Administrative Expenditures

EOHHS reports administrative expenditures claimed by other State agencies (DEA, DOH, BHDDH, DCYF) based on certifications filed by these departments or transactions recorded in the State's accounting system. For certain administrative expenditure categories, EOHHS imputes State matches for federal expenditures certified by other State agencies to derive total costs reported on the CMS-64. Based upon agreements with other State agencies, all Medicaid claiming initiated by other departments should be recorded in authorized accounts within the State accounting system demonstrating the appropriate state/federal shares of the expenditures. Agency compliance with this mandated accounting would allow EOHHS to completely reconcile administrative expenditures reported in the State's accounting system with those reported on cost certifications filed by those agencies and ultimately on Form CMS-64.

During fiscal 2016, Medicaid administrative expenditures reported on Form CMS-64 totaled $215.5 million (federal share - $159.4 million) while expenditures reported in the State's accounting system totaled $199.6 million (federal share - $143.6 million). Most of the difference is attributable to administrative expenditures for other State agencies which often are not claimed on federal reports in the same quarter that they are recorded in the State accounting system. Federal reimbursement of administrative expenditures is drawn when recorded in the State accounting system, thus administrative expenditures should only be recorded in Medicaid accounts when agencies have determined their eligibility for Medicaid reimbursement.

While EOHHS reconciles reported program expenditures to amounts recorded in the State's accounting system, no reconciliation is performed for administrative expenditures to explain reporting differences. Adopting policies that align the timing of when administrative expenditures are recorded in the State accounting system, drawn for federal reimbursement, and reported on federal reports would significantly enhance EOHHS's ability to reconcile administrative expenditures reported on federal reports with those reported in the State accounting system.

Questioned Costs: None

RECOMMENDATIONS

2016-073a Align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS.

2016-073b Align the timing of when administrative expenditures are recorded in the State accounting system, drawn for federal reimbursement, and reported on federal reports.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Corrective Action Plan

(prepared by the State's management)

Finding 2016-001 - corrective action plan

We will engage a contract consultant to assist in developing a strategic plan. A mini bid will be developed to determine scope of the plan and to assist in the development of the plan.

Anticipated Completion Date: 120 days from contractor's start.

Contact Person(s): Chris Antonellis / Jonathan Womer
DoIT/OMB
Phone: 401.462.2185 / 401.222.2280

Finding 2016-002 - corrective action plan

We will develop a program to better inform financial management about internal controls. In addition, subject to funding availability, we will engage a partner and implement SOX-like internal control reviews for 4 key statewide processes-financial reporting, procure to pay, human resources/payroll and revenue recognition.

Anticipated Completion Date: June 2019

Contact Person: Jennifer Pate, Administrator, Financial Management
Phone: 401.222.5098

Finding 2016-003 - corrective action plan

As noted by the Auditor, this is a repeat finding from prior fiscal year audits and Treasury management largely agrees with the Auditor's recommendations.

The lack of a state-wide deployment and system limitations in the state's RIFANS ERP system have necessitated that the Office of the General Treasurer perform certain accounting transactions to meet stringent timelines for funds transfers and also to ensure the timely recording of transactions generated by subsidiary accounting systems within other state agencies.

Since being initially advised of this finding in the FY 2014 audit, Treasury Management has taken a number of actions to improve controls and executed on a strategy to improve segregation in light of systemic constraints. These improvements include requesting modifications to permissions in the RIFANS system and making substantial changes to the process by which the state handles RDI (Returned Deposit Items).

In July of 2016 Treasury contracted with a public accounting firm to assist in developing a plan to further improve the design of certain workflows, processes, and control activities over cash receipts, NSF checks and re-deposits, recording of deposits to the general ledger, initiation and approval of related journal entries, and bank account reconciliations and to communicate recommendations to assist the Treasurer in (i) designing controls in areas in which there is an absence of appropriate controls, and (ii) enhancing the existing design of controls.

In February of 2017, Treasury staff finalized a plan of action and Treasury is committed to implementing the plan in collaboration with the Office of Accounts and Control by the end of fiscal year 2017. Specific action items in the plan include: development of additional workflow restrictions in RIFANS to further improve segregation, change of certain personnel responsibilities, development of new transaction types with custom routing and approval limits, and routing of certain RIFANS transaction types to Accounts and Controls for approval.

Anticipated Completion Date: June 2017

Contact Person: Lisa Churchville, Chief Operating Officer - Treasury
Phone: 401.378.4886

Finding 2016-004 - corrective action plan

The Division of Purchases on behalf of the Office of Management and Budget's Grants Management Office issued an RFP to identify a vendor to provide and implement a COTS SaaS Grants Management System. The end-to-end grants management system will automate and administer the grants management business process across state agencies turning disparate systems, data sources, files, and processes into a single, centralized repository for use by all state agencies. The system will integrate with state's financial, budget, and time and attendance systems and will automate workflow to improve efficiency and promote transparency. The planned grants management solution includes functionalities that will result in the fulfillment of the statutory responsibilities outlined in Chapter 35-1.1-5.

The vendor is expected to start in March 2017. The first release (release 0) will establish and configure the statewide functional aspects of the Grant Management System, including improved functionality within RIFANS, and will be completed by March 2018. The system will be rolled out to the 30 agencies in a series of releases over the subsequent three years with full implementation completed February 28, 2021.

Anticipated Completion Date: February 2021

Contact Person: Laurie Petrone, Director of Grants Management
Office of Management and Budget
Phone: 401.574.8423

Finding 2016-005 - corrective action plan

Newly created reports are being modified to identify changes made to sensitive data elements by privileged users. In addition, procedures are being developed for these reports to be reviewed to identify any questionable or incorrect changes that have been recorded.

Anticipated Completion Date: June 30, 2017

Contact Person: Peter Hodosh, Assistant Director for Special Projects
Phone: 401.222.6404

Finding 2016-006 - corrective action plan

Will review feasibility of recording Taxation and Court receivables through a monthly recording in RIFANS and implement, if deemed practical.

Anticipated Completion Date: Taxation - December 2017, Courts - June 2018

Contact Person: Peter Hodosh, Assistant Director for Special Projects
Phone: 401.222.6404

Finding 2016-007 - corrective action plan

Refer to Corrective Action Plan Finding 2016-004

Anticipated Completion Date: February 2021

Contact Person: Laurie Petrone, Director of Grants Management
Office of Management and Budget
Phone: 401.574.8423

Finding 2016-008 - corrective action plan

Implementation of this recommendation to convert services currently billed via the mirror account process to an internal service funds requires approval by the General Assembly. We will begin an initiative to obtain this approval and convert these services to internal service funds.

Anticipated Completion Date: June 2019

Contact Person: Bernard Lane Jr., Administrator, Management Services
Phone: 401.574.8594

Finding 2016-009 - corrective action plan

Effective January 1, 2014, the Affordable Care Act (ACA) allowed states to expand Medicaid eligibility to adults up to 138% of the federal poverty level. The State of Rhode Island covered this new population using managed care plans. Initially, the assumptions used to develop the Medicaid Expansion capitation rates recognized that all persons eligible would not be covered immediately on January 1, 2014, and that coverage would not reach a mature state until December 31, 2014. The State used risk corridors and risk-sharing arrangements around the rates to limit the contract partners' exposure and to mitigate the risk of over-adequacy or under-adequacy in the rates.

Capitation rates were set for the first six months of CY 2014 and the second set of rates applied to the 12-month period from July 1, 2014 through June 30, 2015. The division of the contract period into two rate periods allowed the State to recognize the anticipated selection bias during the initial rollout of the Medicaid Expansion program in the rates and to align with other managed care contract periods. The Medicaid Expansion capitation rates were later revised for FY 2015, resulting from reconsideration of the original assumptions used in the previous rate calculations. In addition, capitation rates for FY 2016 for the Medicaid Expansion group were further refined based on the MCOs' financial statements related to the risk-sharing reporting. Certain enrollment-driven assumptions were also updated to reflect 2016 enrollment projections as were other assumptions, including pent-up demand, adverse selection, and adverse risk margin based on the MCOs' financial statements. For each capitation rate revision period, the capitation rates were compiled in accordance with Title 42 CFR 438.6 and 438.60, and reviewed and approved by CMS.

In December 2014, when it was observed, based on monthly risk/gain share financial reports, that the MCOs were incurring and reporting medical expenses that were significantly less than the medical portion of the capitation dollars paid to the MCOs, the State began recouping a portion of the MCOs gain share. The State then received notice from United Healthcare disputing the State's actions to recoup these monies, stating that, per the contract, "Final settlement is based on review of the complete experience for the contract period following the full twelve-month run out … ". The State then acted to address this situation by amending the MCOs' contracts to allow for interim payments and recoupments when the over- or under-risk/gain share payment amounts are significant.

The State then recouped all of the remaining FY 2015 gain-share dollars from the MCOs for the Medicaid Expansion population by October 2016. Based on the current contract with MCOs, the FY 2016 gain-share dollars will be recouped by September 30, 2017, after the one-year claims runout period ends on June 30, 2017.

Per the Recommendations of the State Auditors, 2016-009, by using the newly effective and enhanced contract provisions, the State has recouped all of the gain-share dollars from the MCOs for the Medicaid Expansion FY 2015 contracts.

Anticipated Completion Date: October 31, 2016

Contact Person: Deborah Florio, Deputy Medicaid Director - EOHHS
Phone: 401.462.0140

Finding 2016-010 - corrective action plan

EOHHS acknowledges the complexity and challenges of the Medicaid Program given the various State initiatives that have changed how services are delivered and providers are compensated.

Per the Recommendations of the State Auditors, EOHHS recognizes the need for and engages in continuous improvements in the oversight of the State's managed care expenditures and contract settlements, particularly with their increased share of Medicaid expenditures overall. EOHHS continues to ensure that claims data is received from the MCOs and that this claims data is reconciled to the MCOs' contract settlements before the final settlements of the risk/gain share contracts. In addition, EOHHS' contracts with the MCOs mandate that the MCOs require their independent auditors, in their annual audited statements, to comment on the accuracy of the contractual financial arrangements that the MCOs have with the State.

EOHHS will continue to probe areas where focused scrutiny could provide additional support as to the appropriateness and accuracy of these expenditures. Under new leadership as of February 2017, EOHHS is currently working, in coordination with the Office of Management and Budget, to assess overall financial and program capacity, and develop a comprehensive action plan to strengthen state-led reporting and oversight.

In addition, EOHHS will explore the feasibility and expense of procuring the services of an independent auditor for those areas of MCO contracting with the State that are not currently subject to systematic review under the MCOs' mandatory external audit program.

Anticipated Completion Date: June 30, 2018

Contact Person: Robert Farley, Associate Director Management Services EOHHS
Phone: 401.462.6259

Finding 2016-011 - corrective action plan

DoIT will engage a partner via the bid process to get a full security assessment proposal from an outside firm. This assessment should include a standard type health checks with penetration testing, internal server checking and all the "normal" items a firm might offer. DoIT's next step is to develop the bid and engage a partner for the testing.

Anticipated Completion Date: 60 days from contractor start.

Contact Person: Kurt Huhn, Assistant Director for Special Projects - DoIT
Phone: 401.462.4706

Finding 2016-012 - corrective action plan

DoIT will increase its efforts on the upgrade of the existing backup and DR process for mission critical systems and will engage the current vendor to complete the DR testing by July 2017.

Anticipated Completion Date: July 2017

Contact Person(s): Tony Lupinacci / Frank Pate
Assistant Directors for Special Projects DoIT
Phone: 401.462.4710 / 401.462.8540

Finding 2016-013 - corrective action plan

DoIT has decided to implement an ITIL change control process. DoIT will obtain feedback on costs to implement and resources required.

Anticipated Completion Date: Dependent on software and FTE.

Contact Person(s): Tom O'Donnell, Assistant Director Central Information Management Services - DoIT
Frank Pate, Assistant Director for Special Projects DoIT
Phone: 401.462.4701 / 401.462.8540

Finding 2016-014 - corrective action plan

2016-014a: The Division of Taxation will continue to work with the Division of Information Technology to complete the tasks relating to this finding.

Anticipated Completion Date: March 31, 2017 (per DoIT)

2016-014b: DoIT has addressed this finding and encryption has been purchased. We are currently verifying that encryption has been enabled on the encryption of the ACH/Bank Files.

The Division of Taxation will continue to work with the Division of Information Technology to complete the tasks relating to findings 2016-014b by creating ftp processes that are automated and manual intervention will only be required for files containing incorrectly formatted records.

Anticipated Completion Date: May 31, 2017

2016-014c: The Division of Taxation will continue to work with the Division of Information Technology to complete the tasks relating to this finding by creating automated notification.

Anticipated Completion Date: May 31, 2017

Contact Person(s): Kurt Huhn, Assistant Director for Special Projects - DoIT
Phone: 401.462.4706

Dan Clemence, Division of Taxation
Phone: 401.574.8732

Finding 2016-015 - corrective action plan

The impact of the IT system implementation was consistent with ordinary expectations related to transition from a 40 year old legacy mainframe to a web-based software system necessary to keep up with:

- demands for audit efficiencies/controls
- security needs
- increasing and evolving methods of fraud
- dynamic external IT technologies and advancements
- consumer needs/demands

The extended filing processes were a result of a combination of factors including but not limited to:

- automated scanning technology that prevented manual corrections by data entry staff (an audit/control enhancement)
- taxpayer/vendor noncompliance (prior errors corrected by manual intervention)
- resource limitations in staffing
- reasonable experience delays related to first year implementation
- scanning deficiencies that came to light during processing

Further, the tying of processing of returns/refunds to an impact on financial reporting may be overstated given that the Division of Taxation has well over 20 years of data on refunds/returns by weekly count and amount. Additionally, the Division had processed 90% of all refunds by June 30, 2016 (compared to 94% by June 30, 2015, 91% by June 30, 2014, 92 % by June 30, 2013). The 94% processing rate in 2015 was in anticipation of resource limitations due to system testing/training in the summer of 2015 and implementation of Personal Income Tax into STAARS in November 2015. The processing rate/volume of refunds in FY 2016 was consistent with prior years.

Throughout the tax season, in anticipation of transitional impacts on processing, the Division staff worked to monitor, address, and correct issues consistent with sound processing and review standards to ensure first year system integrity. The Division monitored the queues and had on-site vendors monitoring and correcting issues as the issues came to light. The Division shifted staff as necessary to processing and personal income tax and as indicated above maintained consistent processing levels by the end of the fiscal year. Additionally, the Division independently with its vendors, engaged in constant evaluation of suspended returns and implemented corrections and adjustments where appropriate. The Division also engaged the Office of Revenue Analysis to sample the error queues that provided further guidance on allocation of resources.

2016-015a - A substantial amount of the scanning errors were caused by lack of compliance with form requirements by third party tax software vendors and taxpayer noncompliance.

The Division of Taxation has worked with its vendor, third party tax software vendors and performed outreach to tax professionals and taxpayers to enhance scanning reliability both internally and externally. The Division of Taxation has been and continues its monitoring of all scanning issues on a daily basis. The Division will continue to monitor, assess, and respond
to all scanning issues.

Anticipated Completion Date: February 28, 2017

2016-015b - The Division of Taxation has been actively assessing and refining system edits throughout the 2016 tax season and will continue to review and assess all queues to determine and achieve processing efficiency.

Anticipated Completion Date: February 28, 2017

2016-015c - The Division of Taxation is using advanced analytical tools to prioritize resolution efforts to reduce the items on the posted exception report and is also using that analysis to apply system resolutions to groups of returns.

Anticipated Completion Date: February 28, 2017

2016-015d - The Division of Taxation has taken the following steps to prepare for the 2017 personal income tax season:

Adding staff to both the Processing and Personal Income Tax Sections. Processing staff are cross-trained across multiple tasks including mail, scanning preparation, scanning, and data entry.

Communication with Stakeholders (Tax professionals, vendors, taxpayers) to enhance compliance with forms and returns and expedite processing.

Improved processing protocols in the preparation of documents into the scanner, tracking of returns/refunds into the scanner, tracking of employee responsible for task (to troubleshoot training issues)
Daily evaluation of all suspended returns both in the IBML, Qmodules (Fairfax/Scanner) and STAARS to identify and correct issues.

Daily evaluation of all queues IBML, Qmodules (Fairfax/Scanner) and STAARS to ensure efficiency and control over volume/rate of processing and to address any staffing gaps as necessary.

Daily evaluation of output of Scanner, Fairfax, STAARS to ensure consistent production.

Performance of additional analytics/confirmation to ensure fraud and error queues do not have valid returns.

Anticipated Completion Date: January 31, 2017

Contact Person: Neena S. Savage, Tax Administrator
Phone: 401.574.8922

Finding 2016-016 - corrective action plan

The Division of Taxation agrees with this finding and resolution of this finding is outside the Division of Taxation's control. The Division will work with the Office of Digital Excellence and the Department of Information Technology to ensure that all digital back-ups are stored consistent with best practices to ensure sufficient disaster recovery and ensure business continuity.

Anticipated Completion Date: The implementation of this corrective action is outside the control of the Division of Taxation; however, the Division will monitor this issue and work toward resolution over the next year.

Contact Person: Neena S. Savage, Tax Administrator
Phone: 401.574.8922

Finding 2016-017 - corrective action plan

The Division of Taxation has established consistent criteria for recognition of revenue and receivables across all tax types in its integrated tax system (STAARS). The criteria have been provided to the Auditor General and Office of Accounts and Controls.

Anticipated Completion Date: November 14, 2016

Contact Person: Neena S. Savage, Tax Administrator
Phone: 401.574.8922

Finding 2016-018 - corrective action plan

The Division of Taxation agrees with this finding and is meeting with the Office of Accounts and Control to review data relied upon for estimates and assess the data for validity and appropriateness.

Anticipated Completion Date: July 31, 2017

Contact Person: Neena S. Savage, Tax Administrator
Phone: 401.574.8922

Finding 2016-019 - corrective action plan

The Division of Taxation completed its review of system access for all STAARS users during the Summer of 2016. The Division has designated DoIT staff to monitor access. The Division created a new Chief role and shifted certain Superuser access to view only. Roles and access will continue to be modified and refined as business processes change.

Anticipated Completion Date: July 31, 2017

Contact Person: Neena S. Savage, Tax Administrator
Phone: 401.574.8922

Finding 2016-020 - corrective action plan

This finding was communicated confidentially.

Finding 2016-021 - corrective action plan

2016-021a - The overall goal is to work at better aligning the two accounting systems used by RIDOT. In order to better align the two accounting systems, both short term and long term goals have been identified.

Short-term goals: FMS was upgraded in the fall of 2016 which better aligned FMS more closely with RIFANS to allow for more accurate reconciliation reports to be developed. Reports are currently being developed to eliminate most of the manual intervention when reconciling the two systems and allow for a more automated approach. DOT has procured the services of the technical consultant that assisted in the upgrade and he will remain with DOT until the end of 2017. His main role is to assist in developing various reports.

Anticipated Completion Date: December 31, 2017

Long-term goals: Due to resources and funding, the Department does not see the ability or the benefit to merge to one system. As resources and funding becomes available, the Department would be willing to revisit this evaluation.

Anticipated Completion of Reviews: Review Complete

2016-021b - DOT has procured the services of the technical consultant that assisted in the upgrade and he will remain with DOT until the end of 2017. The consultant along with IT staff are working on modifying the report to ensure mapping of natural accounts between the systems is accurate.

Anticipated Completion Date: December 31, 2017

Contact Person: Loren Doyle, DOT Chief Financial Officer
Phone: 401.222.6590 X4524

Finding 2016-022 - corrective action plan

2016-022a - During FY 2016, RIDOT has implemented a process for reconciling fund balance. During this process fund activity is reconciled by RIFANS line items for all Federal accounts to ensure accuracy and consistency. Any inconsistencies found are adjusted at that time. The reconciliations are done on a monthly basis. During FY 2017 and 2018, RIDOT will expand the reconciliation process to include not only RIFANS line items for all Federal accounts but also all other RIFANS line items. The loss of staff resources has delayed the expansion of the process into FY 2018.

Anticipated Completion Date: June 30, 2018

2016-022b - During FY 2016, RIDOT communicated with DMV to begin to coordinate a process where RIDOT will go to DMV throughout the fiscal year and complete sample audits of amounts being transferred to RIDOT. RIDOT will also follow up with DMV on the status of their new computer system and work on developing electronic documentation that will be provided to RIDOT on a monthly basis once the system is in place. Since the new DMV system is not in place, DOT will continue to go out and conduct sample reviews.

Anticipated Completion Date: August 31, 2017

2016-022c - Improvements to Controls Currently Implemented: RIDOT has amended the policy to be any payable or receivable over $200,000 received after the July cut off but prior to the August deadline and related to the fiscal year being closed will be booked. RIDOT also coordinates with other agencies such as DEM, RIPTA and the RI Historical Society to ensure transfers being reported as accruals are accurate.

Anticipated Completion Date: Complete

Contact Person: Loren Doyle, DOT Chief Financial Officer
Phone: 401.222.6590 X4524

Finding 2016-023 - corrective action plan

2016-023a - Phase 1: RIDOT now uses PTS ID numbers as unique tracking numbers for each project. These numbers have been integrated into RIDOT's financial system. The use of the numbers will allow all costs associated with a project to be linked which is something that was a manual process in the past. This will improve the reporting of infrastructure assets however older projects that consisted of comingled costs may still require some manual processing until they are closed.

Anticipated Completion of Phase 1: Complete

Phase 2: RIDOT will begin to identify each project in the FMS Oracle system with the proper infrastructure categorization code which is currently a manual process.

Anticipated Completion of Phase 2: December 31, 2017

Phase 3: Once all projects have PTS ID numbers and infrastructure categorization codes assigned in the FMS Oracle system, RIDOT will begin working with IT to develop reports that will assist with the reconciliation of infrastructure expenditures between RIDOT FMS and RIFANS. The reports will replace the manual reconciliation that is currently being done.

Anticipated Completion of Phase 3: December 31, 2017

2016-023b - By implementing the corrective action for finding 2016-024a, finding 2016-024b will also be accomplished therefore the corrective action for both findings will be the same.

Phase 1: RIDOT now uses PTS ID numbers as unique tracking numbers for each project. These numbers have been integrated into RIDOT's financial system. The use of the numbers will allow all costs associated with a project to be linked which is something that was a manual process in the past. This will improve the reporting of infrastructure assets however older projects that consisted of comingled costs may still require some manual processing until they are closed.

Anticipated Completion of Phase 1: Complete

Phase 2: RIDOT will begin to identify each project in the FMS Oracle system with the proper infrastructure categorization code which is currently a manual process.

Anticipated Completion of Phase 2: December 31, 2017

Phase 3: Once all projects have PTS ID numbers and infrastructure categorization codes assigned in the FMS Oracle system, RIDOT will begin working with IT to develop reports that will assist with the reconciliation of infrastructure expenditures between RIDOT FMS and RIFANS. The reports will replace the manual reconciliation that is currently being done.

Anticipated Completion of Phase 3: December 31, 2017

2016-023c - RIDOT will review the criteria for impairment of assets and from there develop a policy and a procedure for determining if any of the State's transportation infrastructure assets have been impaired.

Anticipated Completion Date:	December 31, 2017
Contact Person:	Loren Doyle, DOT Chief Financial Officer Phone: 401.222.6590 X4524

Finding 2016-024 - corrective action plan

2016-024a - Currently Implemented. RIDOT worked with IT about two years ago to review the progress payment file transfer process. Critical points were identified where ideally automated controls could be implemented however due to limitations of both the FMS Oracle system and the Project Management Portal (PMP) the automated controls could not be done. Nonetheless, while automated controls were unable to be implemented, RIDOT did implement other compensating controls. A process was put in place where a screen shot of the payment prior to manual intervention was taken and a screen shot after manual intervention was taken so that the Supervisor could sign off to ensure accuracy. A tracking sheet is also maintained of all payments brought into FMS from PMP and changes are indicated where necessary. Throughout all this manual intervention, the dollar amount of a progress payment is never being changed. While the corrective action is not the ideal solution, it ensures controls are in place and due to system limitations automation is not feasible at this time.

Anticipated Completion Date: Implemented

2016-024b - Approval hierarchies in FMS were implemented in accounts payable through the R12 Oracle upgrade process in the fall of 2016.

Anticipated Completion Date: Complete

2016-024c - Currently Implemented. RIDOT has discussed at lengths with IT automating the federal billing process to include transferring files without modification and it has been determined that FMS Oracle does not have the capability. However, compensating controls have been put in place to ensure the accuracy of the federal billing process. Any payment file that is modified is signed off by a supervisor prior to being transferred to the federal government for processing. While it is not the ideal automated control that was implemented, the compensating controls accomplishes the same result which is that the federal billing file is properly being transmitted.

Anticipated Completion Date: Implemented

2016-024d - Currently Implemented. This is a system limitation; FMS is unable to have multiple funding source award numbers linked to one Federal Aid Project. RIDOT has discussed with IT who has also consulted with Oracle to determine if this was something that could be done and it was determined it could not be so compensating controls were put in place.

Anticipated Completion Date: Implemented

Contact Person: Loren Doyle, DOT Chief Financial Officer
Phone: 401. 222.6590 x4524

Finding 2016-025 - corrective action plan

Management will correct the material weakness by ensuring adequate staffing including training the processes and software involved, appropriate controls related to authorization and review of recorded transactions, and timely recording of transactions and reconciliations.

Finding 2016-026 - corrective action plan

Management will correct the noted significant deficiencies by hiring a third party to complete an inventory of all capital assets. Management will then incorporate this information into the financial software system.

Finding 2016-027 - corrective action plan

Early in the 2016 fiscal year, The Met reviewed all monthly bank reconciliations as far back as June 2013 and found that said variance was there in all prior periods. The Met made every effort to resolve however, given internal programmatic flaws in the SunGard financial system, The Met could not discover the reason for the variance. In fact, we believe it was an issue with the way SunGard was posting and clearing accounts payable. The Met requested assistance from its auditors on how to account for the matter so that moving forward the prior year variance would not remain an issue.

In addition, The Met has implemented a process where monthly reconciliations are performed by the Chief Accountant once bank statements for the prior month have been received. The Met also requires that monthly reconciliations be signed off by the Business Manager in order to insure timeliness and accuracy.

Finding 2016-028 - corrective action plan

Due to the unexpected turnover and resignation of key associates, there were not enough associates and/or associates that were too new to complete certain tasks in a timely manner during this fiscal year. Both venues are currently hiring and training associates in order to reconcile all bank accounts in a timely manner.

Finding 2016-029 - corrective action plan

A more structured month end close process is currently being implemented.

Finding 2016-030 - corrective action plan

The Authority will fund the Operating Reserve and Renewal Replacement components noted above, provided there is sufficient cash flow.

Finding 2016-031- corrective action plan

2016-031a – Effective with fiscal year 2017, the Office of Accounts and Control refined RIFANS so that agencies designate state and federally-funded sub-recipient relationships in the system using dedicated natural account numbers. Agencies received training on the new tool and the new codes. A memo summarizing the changes was sent to Agency CFOs. Given these changes, reports can now be generated from RIFANS by entity and the sub-recipient natural account.

Anticipated Completion Date: Complete

2016-031b – The Office of Accounts and Control will communicate to Agency CFOs the need to properly identify all federal awards added to the financial management system each year, helping to ensure during the setup process that the Budget Office assigns the correct source code, line sequence, and CFDA number.

Anticipated Completion Date: September 30, 2017

Contact Person: Jennifer Findlay, Office of Accounts and Control

Finding 2016-032 - corrective action plan

Since October 2016, the subrecipient providing SNAP training services has operated on a direct cost basis and requires their vendors to provide documentation of in kind match expenditures. This change in operating procedures is the result a new request for proposals with language requiring documentation of in kind match expenditures. Will obtain in-kind matching documentation and resubmit federal reports if necessary.

Anticipated Completion Date: October 1, 2016

Contact Person: Margaret Farrish, Associate Director, Financial Management
Phone: 401.462.1586

Finding 2016-033 - corrective action plan

Completed. The error noted in the finding was due to entries made by the Department of Administration (DOA) in one of the SNAP mirror accounts. DOA has aligned the SNAP mirror accounts in the State accounting system, RIFANs with the corresponding CFDA so the correct match will be reported going forward.

Anticipated Completion Date: March 2017

Contact Person: Margaret Farrish, Associate Director, Financial Management
Phone: 401.462.1586

Finding 2016-034 - corrective action plan

While multiple agencies are involved in the processing of invoices submitted relative to the CDBG program, OHCD has attempted to schedule the federal drawdown to the actual time State funds are disbursed. It appears, however, funds may have in some instances been received prior to the actual disbursement, particularly on occasions where OHCD had efficiently processed invoices.

To resolve this matter, State invoice tracking sheets have been modified to include the invoice date and “Net 30” anticipated payment date. This spreadsheet will guide when approval of federal disbursement should occur to assure the State is minimizing the time elapsing between disbursement of funds at the federal and State level.

Anticipated Completion Date: Implemented immediately

Contact person: Michael Tondra, Chief

Finding 2016-035 - corrective action plan

It is essential that Office of Housing and Community Development's subrecipient monitoring procedures are sufficient to verify compliance with program requirements. OHCD is currently evaluating restructuring options and staff work plans and will implement changes that increase program monitoring staff time and oversight of staff.

In addition, the Office of Housing and Community Development has created a new internal position of "Assistant Administrator, Financial Management". This position will provide staff support for fiscal matters associated with the federal grant programs. One responsibility assigned this staff will be to collect, review and track municipal audits as recommended by the audit.

Anticipated Completion Date:	Interim steps (fiscal position) taken by April 30th; Staff plan (restructuring) finalized by end of fiscal year (June 30th); Full implementation to occur in first quarter of following fiscal year.
Contact person:	Michael Tondra, Chief

Finding 2016-036 - corrective action plan

HUD communications indicate State Community Development Block Grant (CDBG) grantees are not required to submit the FFR (Federal Financial Report, SF-425). Regulations at 24 CFR Part 85 generally stipulate that such requirements apply to government grants except the block grants authorized by the State's Program of CDBG. The Office of Housing and Community Development understood this limitation similarly applied to CDBG, Disaster Recovery allocations. The State will consult with its federal oversight agency to verify the applicability of this reporting requirement and complete forms as necessary. Please note electronic reporting systems and quarterly reports made available to HUD generally include the data referenced on this form.

In August, 2015 HUD's Office of Fair Housing and Equal Opportunity (FHEO) relaunched the Section 3 Performance Evaluation and Registry System (SPEARS) for the submission of annual summary reports pursuant to Section 3. While there were some technical issues with using the reporting system, Section 3 documentation has been compiled and will be submitted to HUD through hard-copy or electronic means.

Anticipated Completion Date:	Implemented within 30 Days (by April 30th)
Contact person:	Michael Tondra, Chief

Finding 2016-037 - corrective action plan

Programming has been completed for the 15% Penalty imposition on overpayments due to fraud but it needs to be reviewed and tested. Procedures have been written for the Non-Relief of Charges due to Employer Fault. Implementation of corrective action has been postponed due to other Unemployment Insurance service center priorities, primarily the work being performed on the development of the new unemployment insurance application system. Data migration is underway for the new system and any new programming would negatively impact the migration process. It would also likely delay our implementation date and increase the development cost to our state.

RI submitted a written request to the federal grantor for a waiver from the retroactive application of the requirements. The federal Office of Unemployment Insurance (OUI) acknowledges the effort that would be required to retroactively apply these requirements as well as the concerns over the fairness of applying them to employers and claimants well after the fact. The OUI is deferring to the State on this matter.

Anticipated Completion Date: Spring 2019

Contact Person: Kathy Catanzaro, Chief of Program Operations
Phone:401.462.8405

Finding 2016-038 - corrective action plan

A new supervisor was assigned to the BAM unit in August, 2015. Immediately upon assignment, new policies and practices were implemented. Included in those were the requirement for verification documents for all items reviewed during the BAM audit, as well as supervisory sign-off of his/her review of the audit. No BAM case is signed by the supervisor until it is complete and accurate, including all necessary documentation and accurate application of UI statute and rule. Also included in implementations in 2015 was the requirement that all BAM cases for non-exempt UI claimants include documentation to the file of three verifiable contacts for work, and/or notes to indicate that the individual did not provide three verifiable contacts. The Department has implemented the corrective action.

Contact Person: Kathy Catanzaro, Chief of Program Operations
Phone: 401.462.8405

Finding 2016-039 - corrective action plan

The Department of Labor and Training has implemented both recommendations in State fiscal year 2017. A new monitoring unit was established in July 2016 to address this weakness.

Contact Person: Sarah Blusiewicz, Assistant Director – Workforce Development
Phone: 401.462.8712

Finding 2016-040 - corrective action plan

The Department of Labor and Training has implemented a new process of reviewing subrecipient requests which includes documenting of appropriate follow-up action. Corrective action has been implemented during State fiscal year 2017.

Contact Person: Sarah Blusiewicz, Assistant Director – Workforce Development
Phone: 401.462.8712

Finding 2016-041 - corrective action plan

The Department of Labor and Training performed reconciliations through the quarter ended March 31, 2016. Severe staff shortages precluded the Department from performing the fiscal year end reconciliations. DLT is in the process of ramping up staff and in the cash management area and will perform the reconciliations for the June 30, 2016 time period when the process is completed. Corrective action will be implemented before June 30, 2017.

Contact Person: Denise Paquet, Administrator, Financial Management
Phone: 401.462.8178

DLT has implemented a new policy that requires subrecipients to submit more adequate supporting documentation for expenditures reported. Internal control processes are currently being developed to ensure that a thorough review of the documentation provided is being performed by DLT prior to reporting. Estimated date of completion is by June 30, 2017.

Contact Person: Bob Garofano, Administrator, Financial Management
Phone: 401.462.8149

Finding 2016-042 - corrective action plan

2016-042a - RIDOT has worked hard over the years to continuously improve its procedures. The department has increased the use of item numbers on test results. Item numbers are included on test forms when supplied by Construction, and an item numbers field is now included on all test forms. Some materials, such as concrete sand/aggregate/sand, are used for multiple item numbers on the same project, so it is not always possible and/or practical to know the item number at the time of sampling.

RIDOT's Materials section has also been coordinating with the MIS section to develop an electronic procedure for distributing test results that would include a naming convention that makes the identification of scanned test results more uniform.

Anticipated Completion Date: Ongoing

Contact Person: Jose Lima, Materials Management
Phone: 401.222.2524 X4113

2016-042b - A subcommittee headed by Construction Management has updated and instituted a new PURK manual. The new manual is available in the Project Management Portal.

Anticipated Completion Date: Completed

Contact Person: George Ley, Acting Manager of Construction Management
Phone: 401.222.2524 X4549

2016-042c - RIDOT has weekly meetings between Construction and Materials supervisors to discuss work for the coming week, issues and policies. We also discuss policies with Design before TACs/TAPEs are sent out. RIDOT believes this has been accomplished.

Anticipated Completion Date: Completed

Contact Person: Jose Lima, Materials Management
Phone: 401.222.2524 X4113

2016-042d - RIDOT has worked consistently and diligently with MIS to increase the use of IT over the years by providing scan documents to the Residents, and most recently going to implement test reports sent to the Residents electronically through electronic signatures. In addition, RIDOT is constantly working to improve its database in the materials laboratory. Although the department has worked diligently in this area, progress has been impacted by the numerous demands on limited MIS resources.

Anticipated Completion Date: On-going

Contact Person: Jose Lima, Materials Management
Phone: 401.222.2524 X4113

2016-042e - Throughout the year and specifically during the winter months RIDOT reviews items related to the Materials Quality Assurance Program (Acceptance Testing, Process Control and Independent Assurance). We also continuously review our documentation filing and retrieval system to monitor for errors and improve wherever possible.

Weekly meetings including both Materials and Construction staffs are held to discuss any issues. RIDOT's Materials section also implemented staff trainings and both Materials and Construction Staff are encouraged to take certification courses in Construction Inspection and Materials Testing. When needed, policy memos are sent out to RIDOT staff to inform them of new or changes to existing policies. Every year RIDOTU holds winter development training on numerous construction and materials topics open to all RIDOT employees.

Anticipated Completion Date: On-going

Contact Person: Jose Lima, Materials Management
George Ley, Acting Manager of Construction Management
Phone: 401.222.2524

Finding 2016-043 - corrective action plan

The files that were randomly selected were mostly older files from the early 2000's and full documentation was not available for those files. However, within the past couple of years the Utility Section has been under new management and all issues were eliminated for current projects. Files since the new management assumed responsibility are in full compliance with all the federal requirement. RIDOT will continue to evaluate process to see if additional improvements can be made.

Anticipated Completion Date: December 31, 2017

Contact Person: David Fish, Acting Administrator
Division of Project Management
Phone: 401.222.2492

Finding 2016-044 - corrective action plan

The Department will further enhance its existing policies, procedures, and controls to ensure compliance with the Value Engineering analysis requirements contained in 23 CFR 627. An updated Value Engineering policy has been drafted and comments from the various RIDOT sections have been received and incorporated. The development of procedures and controls to ensure compliance are being developed based on the new policy. Overall, the Department believes it is in compliance with Value Engineering requirements and can document its efforts in this area.

Anticipated Completion Date: December 31, 2017

Contact Person: David Fish, Acting Administrator, Division of Project Management
Phone: 401.222.2492

Finding 2016-045 - corrective action plan

Controls will be put in place to ensure expenditure refunds are identified in a timely manner so that FHWA is credited in a timelier manner. Procedures will be developed and put in place.

Anticipated Completion Date: July 31, 2017

Contact Person: Loren Doyle, Chief Financial Officer
Phone: 401.222.6590

Finding 2016-046 - corrective action plan

2016-046a - Financial Management has updated the procedures so that part of the process is documenting changes to employee classifications.

Anticipated Completion Date: Complete

2016-046b - Financial Management will further enhance its existing policies, procedures, and controls to ensure all changes in methodologies is documented along with the reason for the change.

Anticipated Completion Date: November 30, 2017

Contact Person: Loren Doyle, Chief Financial Officer
Phone: 401.222.6590

Finding 2016-047 - corrective action plan

The Office of Transit has coordinated a plan to integrate this project's review process into the Office of Transit's pre-established controls to ensure compliance with the Wage Rate requirement. At present all projects managed by the Office of Transit undergo strict scrutiny with regards to federal requirements. Wage Rate requirement compliance is reviewed by RIDOT's Quality Compliance and Review section. This section will prepare a memorandum outlining the results of their review and any corrective action necessary. This memorandum will serve as documentation to support compliance monitoring. The Office of Transit will withhold approval of each invoice until receiving assurance that the contractor has complied with federal regulations regarding prevailing wage rates.

Anticipated Completion Dates: September 30, 2017

Contact Person: Steve Devine, Administrator Office of Transit
Phone: 401.222.4203

Finding 2016-048 - corrective action plan

Enhancements through National Student Clearinghouse (NSC) implemented on December 31, 2015 addresses the issue with enrollment reporting. Students who were previously on the College's roster and who are now actively enrolled at our institution will automatically be added to our SSCR by NSC. The Community College will develop and run a weekly edit report to ensure the last date of attendance and the reported effective date of withdrawal are the same.

Anticipated Completion Date: The Community College plans to implement the corrective action plan by January 31, 2017.

Contact Person: Joel Friedman, Director of Financial Aid

Finding 2016-049 - corrective action plan

The Community College has assigned a financial aid officer to ensure scheduled break days of five or more consecutive days are included in the withdrawal calculations. During the semester a random sample of withdrawal calculations will be selected and reviewed to ensure scheduled break days of five or more consecutive days were included in R2T4 calculations.

Anticipated Completion Date: The Community College implemented the corrective action plan November 1, 2016.

Contact Person: Joel Friedman, Director of Financial Aid

Finding 2016-050 - corrective action plan

The $117 of late paid wages will be returned to the Department of Education. An additional training program will be developed for all supervisors of Federal Work-Study students. The training will include the process of timely timesheet submission. The College will amend work study contract to emphasize the requirement to submit timesheets by published deadline to ensure students are paid within thirty days of work completed.

Late timesheets will be reviewed by the Payroll Office to ensure students are paid within thirty days of work completed.

Anticipated Completion Date: The Community College implemented the corrective action plan December 31, 2016.

Contact Person: Joel Friedman, Director of Financial Aid

Finding 2016-051 - corrective action plan

The College will work with the Career Development Center to establish a policy governing obligations of non-institution employers. Our current policies ensure students are paid in a timely manner, in accordance with Federal Work Study regulations, as soon as the College is notified of hours worked. In order for the College to ensure timely payment, non-institution employers should submit notice of employment of a FWS student at the time employment is agreed to. The College and the Career Development Center will notify all non-institution employers of the new policy once approved to ensure timely communication and notice of employment.

Anticipated Completion Date: The College plans to implement the corrective action plan by June 30, 2017.

Contact Person: Stephen J Nedder Jr., Controller

Finding 2016-052 - corrective action plan

On October 27, 2016, the Office of Enrollment Services – Registrar area, completed a one day mandatory training for the academic colleges and the graduate school. The timely processing of Leave of Absence, Withdrawals and Degree Conferrals / Program Completion were specific topics reviewed and discussed with the Academic Deans and their support staff. Training materials and deadlines were distributed and are available on a dedicated training and information site hosted on the University Learning Management system (SAKAI). All Academic Deans and their support staff have been provided training on how to access these documents. Also, beginning with the fall 2016 semester, specific reminders regarding Leave of Absence and Withdrawal deadlines will be sent to the academic colleges and graduate school at the beginning of each semester. Reminders regarding degree conferral will continue to be sent in late November early December for December graduation, April 1 for May graduation and July/August for August graduation.

Anticipated Completion Date: This training will continue to be done annually through monthly Enrollment Services Advisory Committee meetings and other training opportunities (all Academic Deans are members of this committee). The confirmation by the Academic Deans of graduation lists with adherence to specific deadlines will continue to be a point of emphasis. Review and follow-up by Enrollment Services – Registrar area, staff will also be emphasized as a mechanism to proactively identify coding issues related to student degree completion with an expectation for direct and immediate follow-up with the respective Deans Office to rectify any discrepancies. The institution will also continue to work with the National Student Clearinghouse to better understand reporting errors and the necessary business process and technical changes needed to reduce and/or eliminate late reporting issues.

Contact Person: Bonnie Saccucci, Senior Associate Director, Enrollment Services

Finding 2016-053 - corrective action plan

We have implemented an additional process to our action plan to ensure that we stay within a 15 day reporting window for disbursement of Pell Grants. We have begun running an additional report via PeopleSoft which identifies, for our review, all disbursements that are rejected by the COD. We plan to continue to run this report weekly in addition to completing our monthly reconciliation process.

Anticipated Completion Date:	Our corrective action has been implemented as of October 21, 2016.
Contact Person:	Bonnie Saccucci, Senior Associate Director, Enrollment Services

Finding 2016-054 - corrective action plan

For the correction action plan, a random sample of disbursements will be selected each month and checked to confirm that an email was sent to each recipient within the required timeframe.

Anticipated Completion Date:	This random sample procedure was implemented in May of 2016 and it will continue every month.
Contact Person:	Bonnie Saccucci, Senior Associate Director, Enrollment Services

Finding 2016-055 - corrective action plan

2016-055a – HSRI will work closely with appropriate state agencies to better align budget and purchase authorizations with funding sources within the State accounting system. This work is in addition to the clear instructions regarding funding source that was submitted as part of the state budgeting process in the fall of 2016. State accounting system limitations will continue to impact HSRI's ability to fully eliminate this issue; however, in working closely with state partners and ensuring that internal controls over expenditure reviews are performed timely, this issue can be controlled and mitigated to ensure timely and accurate reporting.

2016-055b – HSRI has undertaken an effort in conjunction with State payroll officials to ensure that personnel costs are properly linked to funding sources within the State payroll and accounting systems.

2016-055c – Fiscal year 2015 was the first year HSRI's grants contained a requirement to differentiate between design and development (DDI) and maintenance and operations (M&O) costs. That year, HSRI took proactive steps to identify, catalogue, and qualify allowable expenses. Specifically, written communication with CMS explained HSRI's financial transition to a M&O stage from one that had been focused on DDI since inception. The understanding and segregation of M&O costs from DDI required considerable analysis and discussion, but HSRI's approach was reinforced by CMS' published Frequently Asked Questions, which were consistent with HSRI's prior communication.

As HSRI continued its transition –in fiscal 2016— to a stabilized sustainable enterprise, we continued to work with CMS to ensure that costs charged to the grants were appropriate and allowable. Further, HSRI worked to implement more standardized, detailed, and thorough documentation regarding the breakdown of cost allocation. Evidence of these efforts are most apparent in new contracts that were signed during fiscal 2016 as these were designed to ensure a clearer delineation between DDI and M&O in the scope of work.

HSRI has now begun to focus attention on improving documentation of DDI and M&O assessments that were previously performed on older contracts by providing a more standardized documentation format.

Anticipated Completion Date: Effective immediately

Contact Person: Lindsay Lang, Chief of Staff and Legal Counsel, HealthSource RI
Phone:401.462.3594

Finding 2016-056 - corrective action plan

Currently to meet the 90% obligated requirement a tracking sheet is kept to monitor the grant award amount compared to expenditures and obligations. Effective April 2017, this tracking sheet will be updated on a monthly basis. Contract amendments will also be tracked via this spreadsheet as to verify that all the projected amendments have been fully executed. The 90% obligated tracking spreadsheet will the primary source document when filing the Carryover and Reallotment report. The spreadsheet is scanned and attached when the Carryover and Reallotment report is submitted to U.S. Department of Health and Human Services through the Grant Solutions portal. This process will correct any inconsistencies with the SF-425 data as well.

Anticipated Completion Date: April 30, 2017

Contact Person: Lewis Babbitt, Chief Program Development
Phone: 401.462.6424

Finding 2016-057- corrective action plan

Currently to meet the 15% earmarking requirement a tracking spreadsheet is maintained totaling the State HHS WAP expenditures including payroll and Weatherization current contract amounts with the Community Action agencies. Effective April 2017, this tracking sheet will also include any journal entries posted to this account. This was not the case in the past. All current earmarking requirements will be tracked on this spreadsheet (Administration costs 10%, Weatherization costs 15% (without a waiver) and Assurance costs 5%). LIHEAP program staff will update the spreadsheet on a monthly basis and will reconcile on a quarterly basis with help from the DHS Fiscal office.

Anticipated Completion Date: April 30, 2017

Contact Person: Lewis Babbitt, Chief Program Development
Phone: 401.462.6424

Finding 2016-058 - corrective action plan

The TANF program is seeking a vendor to analyze and revise the MOE calculation for the entire ACF-204 report. During the 2017 calendar year, the vendor will review the FFY 2016 submitted report and prepare the FFY 2017 report. The FFY 2016 ACF-204 has already been completed and submitted to meet the ACF December 31, 2016 deadline. According to ACF guidelines, DHS will not be able to re-submit the 2016 ACF-204. Going forward, DHS will used the enhanced control procedures to ensure updated analysis and methodology will be used to calculate MOE to ensure accuracy of future reporting.

Anticipated completion date: November 2017

Contact Person: Kimberly Rauch, Acting Administrator, TANF
Phone: 401-462-0138

Finding 2016-059 - corrective action plan

The paper files from the old INRHODES system need to be electronically stored in RIBridges. The State is in the process of identifying a vendor to scan and index case files so that they are easily retrievable.

Finding 2016-060 - corrective action plan

The paper files from the old INRHODES system need to be electronically stored in RIBridges. The State is in the process of identifying a vendor to scan and index case files so that they are easily retrievable. There are a number of interfaces that are in the process of being tested with a goal of implementation in July 2017.

Finding 2016-061 - corrective action plan

2016- 061(a) - The RIBridges eligibility system determines eligibility for the Medicaid and CHIP programs, based on the approved business rules. Deloitte has been directed to conduct a comprehensive review of Medicaid and CHIP determinations. State policy personnel will also be engaged in this review process to ensure proper guidance and oversight.

2016 - 0611(b) - RIBridges provides system access based on roles. Establishing the exact roles for audit and QC purposes has not yet been completed. Deloitte has been directed to fully establish these roles.

Currently, RIBridges allows a user to view the history of changes, but does not offer quality control review functionalities. The State has directed Deloitte to create a proper querying tool and environment to enable quality control and audit testing.

Anticipated Completion Date: June 30, 2017

Contact Person: Tom DeQuattro
Phone: 401.462.1501

Finding 2016-062 - corrective action plan

2016 - 062(a) - The Medicaid Quality Control unit's access issues will be reviewed by the UHIP team and resolved by June 30, 2017.

2016-062(b) - The State will complete CMS-mandated test cases and report the test results to CMS by June 15, 2017.

2016-062(c) - The State will ensure that RIBridges or the legacy environment can provide historical eligibility data that is sufficiently transparent to MEQC staff so appropriate eligibility evaluations can be performed in accordance with federal guidelines.

Anticipated Completion Date: August 15, 2017

Contact Person: Kim Merolla-Brito
Phone: 401.462.6238

Finding 2016-063 - corrective action plan

2016 - 063(a) - The State has developed a plan with Deloitte and expects resolution by the end of April.

Anticipated Completion Date: April 28, 2017

2016 - 063(b) - The corrective action plan will be completed by April 28, 2017, and the anticipated date for resolving the issue is July 31, 2017.

Anticipated Completion Date: July 31, 2017

Contact Person: Tom DeQuattro
Phone: 401.462.1501

Finding 2016-064 - corrective action plan

2016-064(a) - The State has designated a team to add newborns to Medicaid and this has been successful in enrolling newborns in a timely manner. Further, the State has implemented new procedures for the MCOs when enrolling newborn children in Medicaid. The MCOs are required to submit monthly reports detailing complete information about the mother and the child's birth to the State. It is also required that MCOs reconcile newborn members and report to the State all discrepancies resulting from this reconciliation.

2016-064(b) - The State no longer provides advances to the MCOs for backlogs of newborn claims payments. Work is ongoing to resolve the backlog of newborn claims by using reconciliation files provided by the MCOs for newborn eligibility.

Anticipated Completion Date: Ongoing

Contact Person: Deborah Florio
Phone: 401.462.0140

Finding 2016-065 - corrective action plan

2016-065(a) - Beginning in early 2017, a revamped UHIP project management and governance structure was established to provide executive and operational management to the recovery effort and future development, maintenance and operation of RIBridges. Initial governance meeting charters, roles and responsibilities, and schedules have been established and implementation underway. Meetings have commenced, focusing on areas such as Maintenance Planning, Change Review, Data Review, etc. to carry out the overall governance. These meetings and processes have been established in accordance with ITIL standards.

Addressing IV&V concerns with Deloitte, specifically in the area of System Integration Testing (SIT), has already resulted in benefits to the State, specifically by mandating improved SIT results and expanding the timelines of testing phases, which will reduce the reliance of testers in User Acceptance Testing and produce better products.

Anticipated Completion Date: April 15, 2017

Contact Person: Tom DeQuattro
Phone: 401-462-1501

Finding 2016-066 - corrective action plan

2016–066(a) - Since 2009, EOHHS has had a monitoring plan in place that is updated on an annual basis. To supplement the existing monitoring plan, EOHHS will develop a comprehensive risk assessment tool.

2016–066(b) - EOHHS requires MCOs to reconcile the claims data that supports their final risk/gain share financial statements to their risk/gain share financial statement prior to submitting their risk/gain share financial statement to EOHHS for final settlement. The claims data provided by the MCOs' is also reconciled to the final risk/gain share financial statement prior to the final settlements of the risk/gain share contracts. EOHHS will continue ongoing work with the MCOs to improve encounter data.

2016– 066(c) - EOHHS' contracts with the MCOs mandate that the MCOs require their independent auditors, in their annual financial statements, to comment on the accuracy of the balance sheet activities and the contractual financial statements that the MCOs have with the State. The feasibility and expense of procuring the services of an independent auditor for those areas of MCO contracting with the State that are not currently subject to systematic review under the MCOs' mandatory external audit program will be assessed and a decision will be made about moving forward.

Anticipated Completion Date: June 30, 2018

Contact Person: Deborah Florio
Phone: 401-462-0140

Finding 2016-067- corrective action plan

2016-067(a) -The SUR Unit has been fully staffed for two years. The Unit has been able to open new cases, as well as perform two major audits with recommended recoupments of more than $1.2 million. In addition, the Unit started a third major audit in March 2017, generated numerous special projects, and closed several older Level III reviews.

Anticipated Completion Date: October 1, 2017

Contact Person: Ralph Racca
Phone: 401.462.1879

Finding 2016-068 - corrective action plan

2016-068(a) - On May 23, 2016, the Community Supports Management system (CSM) was connected to MMIS. The system will now only pay up to the authorized units in CSM. Electronic Visit Verification (EVV) was successfully launched on June 1, 2016. Service level authorizations are for one (1) year. Each prior authorization is divided into 52 weekly authorizations from Sunday through Saturday, thereby eliminating the practice of span billing over weeks and months.

Anticipated Completion Date: Completed

Contact Person: Ralph Racca
Phone: 401.462.1879

Finding 2016-069 - corrective action plan

2016-069(a) - Consistent with the approved State Plan, reviews of inpatient hospital payment rates are conducted on an annual basis, taking into consideration such items as hospital market basket inflation increases, policy adjustors, budget allocations and access to care. EOHHS recently completed a comprehensive review of outlier thresholds, outlier payment parameters and policy adjustors. A State Plan Amendment to update these items has been drafted and is expected to be submitted by the end of SFY 2017.

2016-069(b) - A comprehensive and detailed Upper Payment Limitation demonstration is completed and submitted by EOHHS to CMS annually. This demonstration shows that Rhode Island's Medicaid rates for nursing facilities are significantly below rates paid by Medicare for similar services. EOHHS conducts a triennial review of actual nursing facility costs and compares them to the applicable reimbursement rate components, but EOHHS will now. conduct such reviews on an annual basis.

Anticipated Completion Date: Ongoing

Contact Person: Lawrence Ross
Phone: 401-462-6025

Finding 2016-070 - corrective action plan

2016-070(a) - EOHHS has thoroughly reviewed the recommendations of the recently completed DSH audit for 2013 and is working with both the DSH auditor and the Hospital Association of Rhode Island to ensure compliance, and where necessary, improve processes and controls.

Anticipated Completion Date: Ongoing

Contact Person: Lawrence A. Ross
Phone: 401.462.6025

Finding 2016-071- corrective action plan

2016-071(a) - EOHHS will subject all CNOM claiming to the system edits and eligibility control processes embedded in the MMIS and INRHODES (now RIBridges) systems.

2016-071(b) - EOHHS will ensure that adopted standards and practices, including claiming reviews, are completed for all CNOM expenditures claimed during the fiscal year. The Federal share of any amount claimed in error is always returned to the federal government once the erroneous payment has been recouped.

2016- 071(c) - EOHHS expects that once RIBridges is fully functional, the control weaknesses cited by the Auditors will be substantively addressed.

Anticipated Completion Date: Ongoing

Contact Person: Robert Farley
Phone: 401-462-6259

Finding 2016-072 - corrective action plan

2016-072(a)

MMIS

MMIS is in compliance with 45 CFR section 95.621. 45 CFR section 95.621 does not require an "annual formal annualized plan." The MMIS has an ADP security plan and has implemented a program for conducting periodic risk analyses to ensure that appropriate, cost-effective safeguards are incorporated into new and existing systems.

In addition to the annual SOC report that incorporates a review of the nine (9) possible controls and their subsections covered under a SOC review, EOHHS and its fiscal agent HPE have quarterly security meetings to discuss issues that may have occurred in the prior quarter and review in detail any corrective action that has been taken. 42 CFR 95.621(f)(3) only requires "State agencies shall review the ADP system security of installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices."

An integrated plan for MMIS and UHIP may not be achievable, as one is a financial system and the other an eligibility system, with each system requiring different controls.

UHIP

UHIP is committed to compliance with the Minimal Acceptable Risk Standards for Exchanges (MARS-E v2). The catalog of MARS-E v2 controls is consistent with the specifications of privacy and security requirements contained in the Department of Health and Human Services ACA Regulations(45 CFR 155.260 and 155.280). In addition, MARS-

E v2 communicates revised IRS requirements from IRS publication 1075. New security and privacy controls contained in NIST 800-53 Rev 4 are also included in MARS-E v2.

The requirements of 45 CFR 95.621 are addressed through the UHIP System Security Plan, Continuous Monitoring Plan, Annual Attestation, Third-party Security Assessment Report, Information Security Risk Assessment and the Safeguards Security Report. There is security oversight by the State Chief Information Security Officer, UHIP security team, and the privacy and security workgroup.

Comprehensive Integrated Plan for MMIS and UHIP

MMIS and UHIP are physically separated and maintained systems, but share PII and PHI data. This data sharing also occurs through many other interfaces to and/or from RIBridges. It would make sense to analyze the security and privacy oversight of the overall system and develop a plan describing the processes, such as incident reporting, penetration testing, and risk management that would be more effective on the full system instead of the individual parts.

It is estimated that it will take six months to develop the plan with the existing required participants (i.e., legal, security, privacy).

Anticipated Completion Date: September 30, 2017

Contact Persons: Ralph Racca
Phone: 401.462.1879
Phil Silva
Phone: 401.222.6352

Finding 2016-073 - corrective action plan

2016- 073(a) - EOHHS will ensure that accounts and coding are aligned within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS. Effective July 1, 2014, EOHHS, working with the State Controller and its fiscal agent Hewlett Packard Enterprise (HPE), put a process in place that interfaces MMIS transactions with the State's accounting system (RIFANS) and facilitates the reconciliation of expenditures reported on the CMS 64 and the State's accounting system. EOHHS will continue to evaluate additional enhancements for aligning RIFANS to MMIS and also to the CMS-64.

2016-073(b) - EOHHS will ensure, to the greatest extent possible, that the timing of when expenditures are recorded in the State accounting system (i.e., RIFANS), drawn for federal reimbursement, and reported on CMS-64 are aligned. The reporting of administrative expenditures is not always timely because of the reconciliations and adjustments that occur at other agencies, as well as the recent implementation of a new cost allocation plan (CAP) in which expenditure data for a given quarter are not entered into the CAP system until the following month, which creates an inherent timing difference.

Anticipated Completion Date: Ongoing

Contact Person: Robert Farley
Phone: 401.462.6259

Summary Schedule of Prior Audit Findings

(prepared by the State's management)

Summary Schedule of Prior Audit Findings
Table of Prior Findings by Federal Program

Program Title	CFDA Number	Findings included in Previous Single Audit Reports
Financial Statements	N/A	15-001, 15-002, 15-003, 15-004, 15-005, 15-006, 15-007, 15-008, 15-009, 15-010, 15-011, 15-012, 15-013, 15-014, 15-015, 15-016, 15-017, 15-018, 15-019, 15-020, 15-021, 15-022, 15-023, 15-024, 15-025, 15-026
Supplemental Nutrition Assistance Program (SNAP) Cluster:		
State Administrative Matching Grants for SNAP	10.561	14-028, 15-029, 15-030
Child Nutrition Cluster:		
School Breakfast Program	10.553	15-028
National School Lunch Program	10.555	15-028
Special Milk Program for Children	10.556	15-028
Summer Food Service Program for Children	10.559	15-027, 15-028
Unemployment Insurance	17.225	15-031, 15-032, 15-033, 15-034, 15-035
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	15-036, 15-037, 15-038, 15-039
Federal Transit Cluster:		
Federal Transit – Capital Investment Grants	20.500	15-040, 15-041
Federal Transit – Formula Grants	20.507	15-040, 15-041
Student Financial Assistance Cluster:		
Federal Work-Study Program	84.033	15-048
Federal Direct Student Loans	84.268	15-046, 15-047
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	14-052, 15-042, 15-043, 15-044, 15-045
ARRA - Race to the Top – Early Learning Challenge	84.412	15-049
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	15-050
Temporary Assistance for Needy Families	93.558	14-061, 15-054, 15-055, 15-056, 15-057
Low-Income Home Energy Assistance Program	93.568	15-051, 15-052, 15-053
CCDF Cluster:		
Child Care and Development Block Grant	93.575	15-056, 15-058
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	15-056, 15-058
Foster Care - Title IV-E	93.658	14-065, 14-066
Social Services Block Grant	93.667	14-061
Children's Health Insurance Program	93.767	15-057, 15-059, 15-061, 15-064, 15-066, 15-067, 15-068, 15-069, 15-070
Medicaid Cluster:		
Medical Assistance Program	93.778	14-065, 14-066, 15-057, 15-059, 15-060, 15-061, 15-062, 15-063, 15-065, 15-066, 15-067, 15-068, 15-069, 15-070, 15-071, 15-072, 15-073, 15-074, 15-075, 15-076

Finding 2014-028 – CFDA 10.561 *(Reported Initially in Finding 2012-042)*

DHS can improve its controls over federal reporting to ensure that SNAP program expenditures are reported in the appropriate period and for the applicable grant award.

2014-028a Improve controls to ensure expenditures are reported in the appropriate period and are applied to the applicable grant award. Determine if previously submitted reports require amendment.

2014-028b Request the subgrantee (URI) report all of their expenditures to DHS prior to the closeout of the grant. Ensure that current expenditures do not exceed the grant award.

2014-028d Consider additional cost centers or accounts to simplify SNAP expenditure reporting.

Status: Implemented.

Finding 2014-052 – CFDA 84.126

The Office of Rehabilitation Services (ORS) must immediately review the system access of all users within its automated case management system to limit the number of individuals with system administrator access roles and to ensure appropriate segregation of duties.

2014-052a Implement formal procedures to request, review, and approve user system access.

2014-052c Perform periodic reviews of user access rights.

Status: Implemented.

Finding 2014-061 – CFDA 93.558; 93.667 *(Reported Initially in Finding 2012-064)*

DHS needs to improve it subrecipient monitoring procedures, specifically those related to receipt and review of subrecipient audit reports. DHS should also ensure that when grant funds are allocated for expenditure by other State departments, all applicable and appropriate subrecipient monitoring procedures are performed.

2014-061a Obtain and review subrecipient audit reports. Issue timely management decisions on any audit findings and ensure that the subrecipients take appropriate corrective action. Ensure that all federal funds passed through the State are included in the subrecipient's audit report. Modify the contract language to require the timely submission of audit reports.

Status: Partially implemented. During FY 2016 and 2017, OHHS established a work group that obtained audit reports from all subrecipients receiving $500,000 or more, reviewed those audit reports and issued management decisions on audit findings.

Finding 2014-065 – CFDA 93.658; 93.778

The Department of Children, Youth and Families must implement controls to ensure that federal claims for reimbursement are reconciled and adequately supported to aggregate payments made to "system of care" network providers.

2014-065a Implement controls to support federal claims for reimbursement resulting from aggregate payments to "system of care" network providers.

2014-065b Reconcile the direct child care costs of the "system of care" providers to the "shadow claims" created in RICHIST to enable child specific claiming.

2014-065c Implement audits and other monitoring of the "system of care" providers to periodically validate census data and to ensure the propriety of rates used to build the RICHIST "shadow claims".

Status: No longer valid. The "system of care" provider network is no longer in place.

Finding 2014-066 – CFDA 93.658; 93.778

The Department of Children, Youth and Families can improve controls over the monitoring of its cost allocation plan which is administered by a vendor to ensure that costs distributed to various programs by the cost allocation process are appropriate and consistent with the federally approved cost allocation plan.

2014-066a Enhance procedures for reviewing the quarterly cost allocation to obtain reasonable assurance that the cost allocation plan is operating as designed.

2014-066b Develop more robust procedures for monitoring the costs incurred for the two "system of care" network providers and the residential care providers.

Status: Implemented: a.; No longer valid. The "system of care" provider network is no longer in place.

Finding 2015-001 – Financial Statement Finding

Certain duties performed by the Office of the General Treasurer are not adequately segregated resulting in control deficiencies.

2015-001a Reorganize accounting responsibilities currently performed by the Office of the General Treasurer to the Office of Accounts and Control to ensure proper segregation of duties over cash receipt and disbursement functions is maintained.

2015-001b Redirect workflows for certain accounting transaction types so that adequate segregation of duties over cash receipts and disbursement functions is maintained.

Status: Partially implemented. See corrective action for finding 2016-003.

Finding 2015-002 – Financial Statement Finding

Medicaid managed care organizations (MCOs) were overpaid more than $200 million due to overstated capitation rates for the Medicaid expansion population.

2015-002a Amend contracts with the managed care organizations to allow interim recoupment of overpayments that exceed normal risk share / gain share amounts.

2015-002b Reexamine the assumptions underlying the determination of capitation rates to ensure the rates do not result in significant overpayments to the managed care organizations.

Status: Partially implemented. See corrective action for finding 2016-009.

Finding 2015-003 – Financial Statement Finding

Statewide accounting controls over receivables can be enhanced.

2015-003 Evaluate the effectiveness of the pilot Oracle E-Business Suite revenue/receivables module implementation and assess the need to explore other ERP integrated system options to enhance statewide general ledger controls over receivables.

Status: Partially implemented. See corrective action for finding 2016-006.

Finding 2015-004 – Financial Statement Finding

The State needs to improve controls over recording federal revenue to ensure (1) amounts are consistent with the limitations of grant awards from the federal government and (2) claimed expenditures on federal reports are consistent with amounts recorded in the State's accounting system. Further, statewide accounting functionalities within the ERP system should be implemented to support time reporting/payroll, grants management, and cost allocation – all functionalities that are integral to controls over the management of federal programs.

2015-004a Improve functionality with the statewide ERP system to facilitate federal grant administration (grants management, cash management, and cost allocation).

2015-004b Build statewide processes over federal grant administration within the Office of Management and Budget to supplement accounting controls within RIFANS accounting system.

Status: Partially implemented. See corrective action for finding 2016-007.

Finding 2015-005 – Financial Statement Finding

Due to an error by the State's trustee, the State missed a scheduled debt service payment which resulted in a technical event of default.

2015-005 Review the existing debt service payment process to ensure adequate safeguards are in place to prompt timely remittance of all required debt service.

Status: *Implemented.*

Finding 2015-006 – Financial Statement Finding

The State did not perform a recommended test of its disaster recovery plan during fiscal 2015 due to funding limitations.

2015-006 Perform an off-site disaster recovery exercise at the State's designated disaster recovery site on at least an annual basis.

Status: *Not implemented. See corrective action for finding 2016-012.*

Finding 2015-007 – Financial Statement Finding

The State does not follow uniform enterprise-wide program change control procedures for the various IT applications operating within State government.

2015-007a Reassess the use of a standard software package to determine the appropriate combination of operational, procedural and/or technical adjustments required to use the package in a manner that results in adequate program change control for the entire enterprise.

2015-007b Develop and implement procedures detailing specific requirements for program change control and disseminate and train DoIT support staff in its proper execution

Status: *Partially implemented. See corrective action for finding 2016-013.*

Finding 2015-008 – Financial Statement Finding

The State can enhance certain system access controls within the RIFANS statewide accounting system.

2015-008a Review activities of privileged users (system administrators) on a scheduled basis to ensure that additions, modifications, and deletions initiated by them are appropriate.

2015-008b Improve control over RIFANS access by developing the reporting functionality necessary to allow for periodic monitoring of user access for instances of unauthorized changes to user access and/or noncompliance with policies relating to delegated user access

Status: *Partially implemented. See corrective action for finding 2016-005.*

Finding 2015-009 – Financial Statement Finding

Certain Division of Motor Vehicles' revenues/receipts were not recorded during fiscal 2015. Monitoring and reconciliation procedures should be enhanced to ensure timely recording of all revenues and cash receipts

2015-009 Enhance controls by monitoring and reconciling all receipts deposited in the lockbox temporary collection account. Link all bank accounts to the general ledger.

Status: *Implemented.*

Finding 2015-010 – Financial Statement Finding

The Division of Taxation should strengthen controls over taxes receivable balances reported by its systems.

2015-010 Improve controls over the tax receivable systems to ensure accurate reporting of tax receivable balances.

Status: *Implemented.*

Finding 2015-011 – Financial Statement Finding

Electronic data received by Taxation should be encrypted and then uploaded to Taxation's systems through automated processes which do not require manual intervention or present an opportunity for manipulation. If changes are required to data files, tracking of the specific changes and the individual performing the changes should be controlled and documented.

2015-011a Implement a mechanism to encrypt data classified as "sensitive" automatically consistent with DoIT policies.

2015-011b Secure all electronic files containing taxpayer information residing on the Division of Taxation's network to ensure data integrity.

2015-011c Control all electronic files that contain taxpayer information by requiring the file format to be secure and configured to the computer system in order to allow automatic transmission without any manual intervention.

2015-011d Develop monitoring and reporting procedures to ensure the proper upload of data files.

Status: Partially implemented: a. Not implemented: b, c, and d. See Corrective Action for Finding 2016-014.

Finding 2015-012 – Financial Statement Finding

Certain critical Division of Taxation back-up data files are not stored off-site – a recommended disaster recovery best practice.

2015-012 Ensure that digital backups are stored off-site for disaster recovery and business continuity purposes.

Status: Partially implemented. See corrective action for finding 2016-016.

Finding 2015-013 – Financial Statement Finding

The Division of Taxation does not reconcile receipts posted to its system with receipts reported in the RIFANS accounting system.

2015-013 Develop the reporting capability to facilitate reconciliation of receipts reported by Taxation's systems with RIFANS.

Status: Implemented.

Finding 2015-014 – Financial Statement Finding

A finding concerning the administration of the personal income tax system was communicated confidentially due to the potential impact on taxpayer compliance.

Status: Not implemented. Issue recommunicated confidentially in 2016.

Finding 2015-015 – Financial Statement Finding

Controls can be improved over the preparation of financial statements to ensure consistent and accurate reporting of fund activity in accordance with generally accepted accounting principles.

2015-015a Improve controls over financial reporting by updating the RIFANS hierarchy to include RIDOT in all journals posted to the IST Fund and lower the dollar threshold requiring journal entries to be reviewed and approved to an amount that could not materially misstate the financial statements. Ensure RIFANS requiring review and approval of journal entries in accordance with established hierarchies.

2015-015b Improve controls over the recording of pollution remediation projects, to ensure the amount reported as liabilities are adequately supported by documentation and calculations.

2015-015c Ensure the transactions identified through the analysis of each activity and/or funding source within the IST Fund are booked to the general ledger. Also improve controls over the categorization and reporting of fund balance components. Vest responsibility for maintaining the fund balance accounts with RIDOT.

2015-015d Strengthen control procedures over the fees collected by the Division of Motor Vehicles (DMV) and transferred to RIDOT to ensure compliance with General Law chapter 39-18.1.

2015-015e Improve controls over financial reporting to ensure payables, receivables and transfers are properly recorded in the State's accounting system and financial statements.

Status: Implemented: a & b. Partially implemented: c, d, and e. See corrective action for finding 2016-022.

Finding 2015-016 – Financial Statement Finding

Controls should be improved over the process used to accumulate reported transportation infrastructure assets, the State's most material capital asset category, to ensure accurate reporting of such investments.

2015-016a Develop controls over the identification of project expenditures (to include construction costs, design costs, internal payroll, subtotaling of project expenditures, categorization of projects and reconciling between RIDOT FMS and RIFANS) to be recorded as infrastructure investment in the State's financial statements.

2015-016-b Explore ways that capitalized infrastructure outlays could be accumulated through an automated systems approach rather than the inefficient and error-prone spreadsheet approach currently used.

2015-016c Evaluate and document the consideration of whether any of the State's transportation infrastructure has been impaired consistent with the criteria outlined in generally accepted accounting principles applicable to governmental entities

Status: Partially implemented. See corrective action for finding 2016-023.

Finding 2015-017 – Financial Statement Finding

Controls should be enhanced to ensure that data integrity is maintained over key data files used to process vendor payments and to draw federal funds for the Intermodal Surface Transportation (IST) Fund.

2015-017a Review the progress payment file transfer process to identify critical pints where automated controls could be implemented to eliminate the need for manual intervention.

2015-017b Create and implement appropriated approval hierarchies. Automatically identify RIFANS/FMS payment discrepancies for review.

2015-017c Improve controls over the RIDOT federal billing process to include transferring files without modification.

2015-017d Modify the Financial Management System to allow for multiple funding source award numbers (FSAN) to be linked to one Federal Aid Project.

Status: Not implemented. See corrective action for finding 2016-024.

Finding 2015-018 – Financial Statement Finding

User password access controls and defined user access roles are not adequate within Unemployment Benefit computer application.

2015-018a Implement reasonable interim IT security control procedures to mitigate the known weaknesses in the unemployment benefit system until the new application is implemented.

2015-018b Ensure the new unemployment insurance benefit application being developed meet DoIT security policy requirements.

2015-018c Implement an IT security awareness and training program in accordance with *DoIT policy 10-06 Section 3* and industry best practices.

Status: Implemented.

Finding 2015-019 – Financial Statement Finding

RI Turnpike and Bridge Authority – Certain transactions were not recorded in the Authority's books and records in the period in which the underlying transaction occurred or consistent with the financial elements of the underlying transactions.

2015-019a We recommend that management design and implement a process which includes a review of transactions occurring shortly after each reporting period to determine whether all transactions were recorded in the proper period, are properly classified, and to adjust previously recorded transactions based on the most recent information available.

2015-019b We also recommend that a person independent of the person responsible for identifying and recording such transactions review available financial information and approve recorded transactions to determine whether all transactions were properly recorded during the period to which they relate based on the substance of the underlying transaction.

Status: Implemented.

Finding 2015-020 – Financial Statement Finding

The Met – During the performance of our audit of the Met's financial statements, we noted the following:

(a) The monthly reconciliation of the operating cash account included large unidentified variances that were not researched or resolved in a timely manner. The June 2015 operating back reconciliation originally provided to us contained a variance of $53,681. The updated reconciliation still contains a variance of $6,306.

(b) The Met had difficulty in providing a detailed accounts payable schedule due to limitations in its financial management system. The detailed payable schedule as of June 30, 2015 was $18,513 more than the balance in the general ledger.

2015-020 Policies and procedures should be developed and implemented by the Met's management to ensure that appropriate internal controls are enforced

Status: Not implemented. See corrective action for finding 2016-027.

Finding 2015-021 – Financial Statement Finding

Central Falls School District – During our audit we noted that there is a lack a segregation of duties being performed by personnel in the finance department. We noted instances where finance personnel responsible for reconciling monthly bank accounts were also responsible for collecting and depositing receipts, preparing billing for certain benefits, and maintaining the general ledger. We also noted that certain personnel had the ability to generate and post journal entries to the general ledger accounting system without first obtaining an approval of those entries.

2015-021 We recommend that the District establish a committee to review the current staffing of the finance department as well as the roles and responsibilities of all finance personnel. We further recommend that this committee be charged with developing formal policies and procedures governing the roles and responsibilities should focus on maintaining adequate segregation of duties and also rotation of those duties on a periodic basis so that all employees are properly trained. In addition, the policies should require that all bank reconciliations be reviewed and signed as approved on a monthly basis by the finance director or another management official if the reconciliations are being completed by the finance director.

Status: Not implemented. See corrective action for finding 2016-025.

Finding 2015-022 – Financial Statement Finding

Central Falls School District – During our review of the general journal entries we noted that entries often lack proper approval by a responsible employee. All journal entries should be accompanied by full explanations and referenced to verifiable supporting data and contain a signature of proper approval by someone other than the person responsible for preparing and posting the entry.

2015-022 We recommend that the District implement internal controls and policies and procedures for posting of journal entries to the District's general ledger. We recommend the individual journal entries be approved by the Finance Director and/or another management official prior to posting and approval be documented on paper copy of entries filed in journal entry binders. We also recommend journal entries contain supporting documentation as well as affected account descriptions and purpose of entry. This will ensure a verifiable trail for transactions posted to the general ledger and ultimately the District's financial statements. In addition, we recommend that on a periodic basis a journal entry report be generated from the general ledger and that the report be provided to the Board of Trustees for review and approval. This approved report should be signed and maintained with the minutes to the Board meeting as evidence of the procedure being performed.

Status: Not implemented. See corrective action for finding 2016-025.

Finding 2015-023 – Financial Statement Finding

Central Falls School District – During our audit testing we became aware of several bank accounts which were not reported in the general ledger accounting records of the District. Although the balances in those accounts were not significant, the District should have adequate procedures in place to ensure that all accounts are properly reflected in the general ledger accounting records.

2015-023 We recommend that the District establish policies and procedures to ensure that all financial activity is properly reported in the general ledger accounting records. All periodic bank statements should be reconciled to the general ledger accounting records and signed by someone independent of the person preparing the reconciliation as evidence that the procedures were performed. Any bank of investment statement that is received by the District but which cannot be traced to the general ledger should be provided to the Superintendent of Schools for review.

Status: Implemented.

Finding 2015-024 – Financial Statement Finding

Central Falls School District – During our audit we noted instances where the District did not properly report receipts and receivables.

2015-024 We recommend that management review the current policies and procedures for recording the financial activity to ensure that all financial activity is recorded in a timely manner and in the proper period. Procedures should be implemented to ensure that all revenue, expenditures, and expenditure reimbursement activity is reported in the proper period.

Status: Implemented.

Finding 2015-025 – Financial Statement Finding

Central Falls School District – The District does not currently have procedures for maintaining the capital asset records on a perpetual basis or for taking a physical inventory of these assets. In addition, the District does not have a system in place for identifying capital assets acquired with federal grant funds.

2015-025 We recommend that the District implement an integrated software package that will enable capital assets to be recorded when the asset is acquired rather than being captured at year end. We further recommend that the capital asset inventory be updated to include the location of the asset and a code to identity all assets that are acquired with federal funds. Management should utilize this capital asset inventory listing, as well as controllable asset listing, to conduct periodic inventories of the assets.

Status: Not implemented. See corrective action for finding 2016-026.

Finding 2015-026 – Financial Statement Finding

RI Convention Center Authority – During the year ended June 30, 2015, the Rhode Island Convention Center Authority was unable to fund the Operating Reserve and Renewal and Replacement components of its restrictive covenants pursuant to the bond indentures.

Status: Not implemented. See corrective action for finding 2016-030.

Finding 2015-027 – CFDA 10.559

The Rhode Island Department of Education RIDE needs to ensure that it performs complete reviews of all Summer Food Service Program sponsors as required by federal regulations.

2015-027 Conduct complete reviews of all Summer Food Service Program sponsors as required by federal regulations.

Status: Implemented.

Finding 2015-028 – CFDA 10.553; 10.555; 10.556; 10.559 *(Reported Initially in Finding 2013-030)*

The Department of Corrections (DOC), which has responsibility for the state warehouse used to store and distribute USDA-Donated Foods, needs to improve accountability to ensure that it complies with federal regulations governing the receipt, distribution and inventory of these commodities.

2015-028 Improve the inventory system used to account for USDA-Donated Foods to ensure compliance with federal regulations.

Status: Partially implemented. A company was brought in to perform changes that were designed to make corrections to the inventory system. Further reporting discrepancies were discovered. An internal DOC review team met to develop a list of problems associated with the reporting function of the inventory system. Following this action, a requisition was submitted to contract with a new consultant to address required programming changes to optimize the system's operation.

Finding 2015-029 – CFDA 10.561

The Department of Human Services can improve monitoring of its subrecipient contracted to provide Supplemental Nutrition Assistance Program (SNAP) Employment and Training services to ensure third-party in-kind matching expenditures are documented.

2015-029a Obtain adequate supporting documentation for third-party in-kind matching expenditures already reported or submit corrected federal reports.

2015-029b Obtain documentation supporting in-kind match from subrecipients each time payment is requested to ensure amounts included on federal reports are adequately supported.

Status: Partially implemented. DHS obtained adequate supporting documentation from one of its two subrecipients for third party in-kind match. Since October 2016, the second vendor submits documentation of in-kind matching. See corrective action for finding 2016-032.

Finding 2015-030 – CFDA 10.561

DHS can improve its controls over federal reporting to ensure that SNAP program expenditures are reported in the appropriate period and for the applicable grant award.

2015-030 Enhance controls to ensure expenditures are properly matched and reported.

Status: Partially implemented. See corrective action for finding 2016-033.

Finding 2015-031 – CFDA 17.225 *(Reported Initially in Finding 2010-045)*

The Department of Labor and Training can enhance controls over preparation of the TAPR performance report required for the Unemployment Insurance Program by reconciling similar data included on multiple reports prior to submission.

2015-031 Reconcile expenditures between the TAPR and related ETA 9130 reports before submission to ensure data agrees to supporting information systems and is reasonable.

Status: Implemented.

Finding 2015-032 – CFDA 17.225

DLT did not make the necessary changes to its system to allow the imposition of penalties on overpayments due to fraud, and to prohibit relief from charges to an employer's UC account when the overpayment was the result of the employer failure to respond timely or adequately to a request for information.

2015-032 Adopt procedures to: (1) impose and collect a 15% penalty on benefit overpayments of claimants who commit fraud (RIGL 28-42-62.1(a)(4)) and (2) prohibit providing relief to an employer account when an overpayment is the result of the employer's failure to respond timely or adequately to a request for information by the State agency (RIGL 28-43-3(2)(viii)). Implement these procedures on benefit payments retroactive to October 1, 2013.

Status: Not implemented. See corrective action for finding 2016-037.

Finding 2015-033 – CFDA 17.225

DLT did not return income promptly to the Unemployment Trust Fund (UTF) as required.

2015-033 Implement control procedures to ensure the timely identification and deposit of the Reed Act share of rental income to the State's UTF account as required by applicable federal regulations.

Status: Implemented.

Finding 2015-034 – CFDA 17.225 *(Reported Initially in Finding 2014-034)*

An alleged fraud included potential continuation of unemployment insurance benefits beyond allowable timeframes and diversion and theft of benefits.

Status: On October 13, 2016, a former DLT employee plead guilty before a judge in US District Court for the District of Rhode Island to three counts of fraud relating to his employment at DLT. The defendant plead guilty to 1 count of Conspiracy to Commit Mail Fraud (18 U.S.C. § 1349), 1 count of Theft of Government Funds (18 U.S.C. § 641) and 1 count of Accessing a Protected Computer to Commit Fraud (18 U.S.C. § 1030(a)(4)) for his role in a scheme to defraud the State of Rhode Island's Department of Labor and Training of at least $508,691. The defendant will be sentenced on April 3, 2017 in the U.S. District Court for the District of Rhode Island at which time the details of his punishment will be determined. The amount of restitution and any prison sentence will be determined by the court at that time. The criminal investigation is still ongoing and law enforcement will announce other charges if warranted.

Finding 2015-035 – CFDA 17.225

User password access controls and defined user access roles are not adequate within the Unemployment benefit computer application.

Status: Implemented.

Finding 2015-036 – CFDA 20.205 *(Reported Initially in Finding 2006-033)*

RIDOT should further enhance its quality assurance program to ensure that required materials tests are performed and documented consistent with federal regulation and RIDOT policy.

2015-036a Enforce existing policies designed to better link testing results to projects and contract items by requiring resident engineers to provide RIC and material item numbers; and establish a uniform file naming convention for test results shared on the RIDOT network.

2015-036b Update the Procedures for Uniform Record Keeping (PURK) manual to include all current policies and procedures. Maintain and distribute the PURK manual electronically.

2015-036c Enhance coordination among the three sections of RIDOT that have shared responsibility for the overall operation of the Department's Quality Assurance Program.

2015-036d Consider employing additional information technology resources to the Quality Assurance Activity to enhance the timeliness, reliability, and availability of materials test results to the Resident Engineers and to enhance overall departmental efficiencies.

2015-036e Train all project related staff, design through closeout, as to the requirements of 23 CFR 637.205 and the Department's related policies, procedures and controls. Establish a plan of self-testing (e.g., internal audit) of the Department's policies, procedures and controls to ensure compliance with the required Quality Assurance Program.

Status: Partially implemented. See corrective action for finding 2016-042.

Finding 2015-037 – CFDA 20.205 *(Reported Initially in Finding 2008-054)*

RIDOT can enhance its monitoring of subrecipients as required by federal program requirements.

2015-037a Identify all federal awards passed through to subrecipients by project.

2015-037b Enhance written policies and procedures over subrecipient monitoring. Document the Department's monitoring plan and document monitoring being performed.

Status: Implemented: a. Partially implemented: b. Going forward RIDOT will not structure projects funded with federal Highway Planning and Construction program funds as passed-through to subrecipients.

Finding 2015-038 – CFDA 20.205 *(Reported Initially in Finding 2013-042)*

RIDOT has not documented and sought FHWA approval of its Utility Accommodation Policy (UAP) as required by federal regulation 23 CFR 645.215. Documentation of required utility accommodation requirements for projects should be enhanced.

2015-038a Finalize the draft Utility Accommodation Policy and obtain FHWA approval.

2015-038b Improve Utility Accommodation file documentation to demonstrate compliance with federal requirements.

Status: Implemented: a. Partially implemented: b. See corrective action for finding 2016-043.

Finding 2015-039 – CFDA 20.205 *(Reported Initially in Finding 2012-053)*

RIDOT can improve compliance with federal requirements relating to value engineering analyses by including all the required elements in its value engineering policy. RIDOT's value engineering policy does not include 22 of the 28 required elements as outlined in 23 CFR 627.

2015-039 Enhance policies, procedures, and controls to ensure compliance with Value Engineering analysis requirements contained in 23 CFR 627.

Status: Partially implemented. See corrective action for finding 2016-044.

Finding 2015-040 – CFDA 20.500; 20.507 *(Reported Initially in Finding 2014-042)*

RI Public Transit Authority – During our testing of internal controls, we noted that one CMAQ service reimbursement to RIPTA's operating fund was not adequately documented. RIPTA was unable to provide certain supporting documentation, including the vehicle statistic and cost factor reports, used to prepare its reimbursement worksheets. RIPTA attempted to reconstruct the supporting documentation, but the reimbursement worksheets did not agree to the information provided in all cases.

2015-040 We recommend that RIPTA properly maintain all supporting documentation used to prepare CMAQ service reimbursements in accordance with OMB Circular A-87.

Status: Implemented.

Finding 2015-041 – CFDA 20.500; 20.507

RI Public Transit Authority – RIPTA uses State of Rhode Island master price agreements (MPA) to procure goods and services funded with FTA grants. The State of Rhode Island does not include the required FTA contract clauses in its MPA contracts. As a result, MPA transactions are not in compliance with procurement requirements.

2015-041 We recommend that RIPTA properly document compliance with FTA contract clause requirements prior to purchasing goods and services using State of Rhode Island MPAs.

Status: Implemented.

Finding 2015-042 – CFDA 84.126 *(Reported Initially in Finding 2014-051)*

The Office of Rehabilitation Services (ORS) should follow up and take appropriate action upon checking the System for Award Management (SAM) system for vender related exclusions – specifically those related to suspended and debarred parties.

2015-042a Seek guidance and/or training from the federal government regarding proper use of excluded party information and document the required procedures.

2015-042b Take appropriate and timely action upon checking SAM system for vendor related exclusions.

Status: Implemented.

Finding 2015-043 – CFDA 84.126

ORS must implement procedures to identify, control and monitor expenditures meeting federal requirements for the mandated 15 percent pre-employment transition services (PETS) to students with disabilities who are eligible, potentially eligible, for vocational rehabilitation services.

2015-043 Implement procedures to accumulate, control, and monitor expenditures meeting federal requirements for the mandated PETS earmark.

Status: Implemented.

Finding 2015-044 – CFDA 84.126 *(Reported Initially in Finding 2014-054)*

We found that revisions to federal reports for FFY 2013 increased the amount of noncompliance with MOE requirements for the VR program for that year, as previously identified by the federal Department of Education. ORS did not document its monitoring of compliance with the MOE requirements for FFY 2014.

2015-044 Implement controls to ensure that the required MOE calculation is performed and documented in a timely fashion on various occasions during the period of performance for each grant award, including after any revisions to previously submitted reports when applicable.

Status: Implemented.

Finding 2015-045 – CFDA 84.126 *(Reported Initially in Finding 2014-053)*

The Office of Rehabilitation Services (ORS) should further improve controls over the preparation of federal reports.

2015-045a Review all SF425 federal financial reports previously submitted for the FFY 2014 and 2015 grants. Submit revised reports as necessary.

2015-045b Implement controls to ensure proper review of report data prior to submission to the federal government.

2015-045c Reconcile the RSA-2 report date to the SF-425 reports for the corresponding periods as a control over both federal reports.

2015-045d Re-examine the process for accumulating data for preparation of the RSA-2 report to determine if there is a more efficient way to obtain the necessary information from the state accounting system.

2015-045e Consult with RSA to determine the proper categorization of certain personnel salary costs on the RSA-2. Submit a revised FFY 2014 RSA-2 report, if required.

Status: Implemented.

Finding 2015-046 – CFDA 84.268

Community College of Rhode Island – One of the underlying assertions regarding the student status report is the timely reporting of the information as it relates to the student's effective status. Our testing revealed 5 of 29 students did not have the proper effective status reported timely. The reporting of these status changes occurred between 19 to 87 days after the due date.

2015-046 We recommend that the Community College review and update its policies and procedures for transmitting information to the National Student Clearinghouse on enrollment changes.

Status: Partially implemented. The prior year recommendations were not fully implemented for the entire current fiscal year, which led to the isolated instances identified in the schedule of findings and questioned costs.

Finding 2015-047 – CFDA 84.268 *(Reported Initially in Finding 2014-047)*

University of Rhode Island – The Federal Government requires the University to report student enrollment changes to the National Student Loan Data System (NSLDS) within sixty days. Out of a sample of forty students with enrollment status changes, fifteen of the students' status change dates were not reported within the appropriate time frame to the NSLDS. The timeframe for reporting the change in status for the students was between 10 to 38 days late. Four students were not reported to the NSLDS at all.

2015-047 We recommend that the University review and update its policies and procedures for transmitting information to the National Student Clearinghouse on enrollment changes.

Status: Implemented.

Finding 2015-048 – CFDA 84.033

Rhode Island College – Federal Work Study Program testing procedures included a review of documentation to determine if the institution maintained adequate time records to support amounts students worked and were paid for.

2015-048 We recommend that management strengthen their oversight of off-campus agencies associated with the College's Federal Work Study Program. The College should require all student hours be supported with time records indicating the hours worked in clock time sequence or the total hours worked per day.

Status: *Implemented.*

Finding 2015-049 – CFDA 84.412 *(Reported Initially in Finding 2014-056)*

RIDE can improve the monitoring of activities of Participating State Agencies (PSA) utilizing funding from the Early Learning Challenge grant to ensure all PSA costs incurred are reasonable and necessary and comply with federal cost principles.

2015-049 Ensure documentation supporting all ELC disbursements meets the minimum standards established by federal cost principles and RIDE policies. Improve controls over reimbursements for cash advances.

Status: *Implemented.*

Finding 2015-050 – CFDA 93.525 *(Reported Initially in Finding 2013-057)*

HealthSource RI can enhance its controls and related documentation supporting the allowability of costs reimbursed through the State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges program.

2015-050a Develop enhanced documentation, including activity reporting for State personnel and contractor services, to support the identification of costs as design, development, and implementation related compared to those costs deemed maintenance and operation activities which are not reimbursable from the federal grant.

2015-050b Enhance controls to ensure amounts reimbursed from the federal grant are adequately supported and documented at the time of payment to ensure compliance with federal requirements.

Status: *Implemented: b. Partially implemented: a. See corrective action for finding 2016-055.*

Finding 2015-051 – CFDA 93.568

DHS can improve controls over cash management for LIHEAP to limit federal cash drawn to its immediate needs.

2015-051 Enhance controls over cash management to ensure compliance with 31 CFR Part 205, Subpart B. Utilize the Cash Resources Report to determine the amount and timing of draws of federal funds.

Status: *Implemented. DHS utilizes the cash resources report for all federal drawdowns.*

Finding 2015-052 – CFDA 93.568

DHS must enhance its controls procedures to ensure compliance with LIHEAP earmark requirements.

2015-052 Implement design control procedures and improve documentation to ensure compliance with LIHEAP earmarking requirements.

Status: *Not implemented. See corrective action for finding 2016-057.*

Finding 2015-053 – CFDA 93.568

DHS did not expend or obligate 90 percent of the federal fiscal year 2014 LIHEAP awards by the close of the grant and period and therefore did not comply with that requirement. Controls must be improved to ensure compliance with the period of performance requirement and to improve federal reporting related to such requirements.

2015-053a Ensure that amounts are expended or obligated before federal fiscal year end, consistent with federal guidelines for meeting period of performance requirements.

2015-053b Maintain documentation to support the calculations confirming compliance with period of performance requirements.

2015-053c Ensure that Carryover and Reallotment Report is consistent with supporting documentation and strengthen controls over the preparation of the Carryover and Reallotment Report to ensure accurate detail is submitted.

2015-053d Submit a revised Carryover and Reallotment Report for the 2014 grant awards as required.

2015-053e Complete a revised SF-425 financial report for both block grant funds in accordance with the requirements outlined in the LIHEAP Action Transmittal No. LIHEAP-AT-2013-02, dated 12/21/12.

Status: *Not implemented. LIHEAP reporting is completed annually. DHS was unable to update the federal report. See corrective action for finding 2016-056.*

Finding 2015-054 – CFDA 93.558 *(Reported Initially in Finding 2014-062)*

Controls need to be enhanced over the accumulation of data representing Maintenance of Effort (MOE) expenditures, particularly when estimates are applied to categories of expenditures to quantify those deemed TANF eligible.

2015-054 Enhance control procedures over the preparation of the ACF-196 and ACF-204 reports to ensure that all information included in the report is accurate and is supported by current data and appropriate methodology.

Status: *Not implemented. See corrective action for finding 2016-058.*

Finding 2015-055 – CFDA 93.558 *(Reported Initially in Finding 2014-059)*

DHS can improve controls over federal reporting to ensure that TANF program expenditures are accurately reported in the appropriate grant period.

2015-055a Reassess existing reconciliation procedures designed to ensure that accounting system amounts are consistent with amount reported on federal reports.

2015-055b Resubmit corrected federal reports as necessary.

Status: *Partially implemented. DHS has updated procedures for establishment of new RIFANS accounts to ensure all accounts are included in cost allocation and reported accurately on federal financial reports. Federal financial reports will be corrected as necessary.*

Finding 2015-056 – CFDA 93.558; 93.575; 93.596 *(Reported Initially in Finding 2005-063)*

Controls can be further strengthened to ensure eligibility determinations are sufficiently documented consistent with department policy. Cases not subject to time-limit closures should be removed from monthly reports.

2015-056 Strengthen controls to ensure adherence to procedures requiring agency personnel maintain and properly utilize required documentation to update electronic case file records prior to determining eligibility and payment amounts.

Status: *Not implemented. To be addressed in RIBridges. See corrective action for finding 2016-059.*

Finding 2015-057 – CFDA 93.558; 93.767; 93.778 *(Reported Initially in Finding 2003-041)*

Controls over eligibility can be enhanced by timely resolution of IEVS data match information posted to recipient case records. While timely resolution has improved compared to prior years, IEVS data match data in 10 out of 40 case files in our sample was not resolved timely.

2015-057a Strengthen control procedures to ensure that discrepancies resulting from data matches are promptly resolved and utilized to determine recipient eligibility and the amount of assistance.

2015-057b Maintain documentation supporting the resolution of data match discrepancies and initiate modifications when discrepancies affect eligibility and/or amount of benefits.

Status: *Not implemented. See corrective action for finding 2016-060.*

Finding 2015-058 – CFDA 93.575; 93.596 *(Reported Initially in Finding 2013-064)*

Controls over fraud detection and repayment within the CCDF Cluster can be enhanced by referring potential child care fraud or overpayment cases to the Front-End Detection (FRED) Unit on a timely basis.

2015-058a Review active Child Care cases referred by other units for possible overpayments and take appropriate action to recover any overpayments found.

2015-058b Strengthen controls over the FRED database to enable the Department to access Child Care case information.

2015-058c Strengthen record retention controls to enable retrieval of case files containing documentation supporting FRED Unit Child Care cases.

Status: Not implemented. FRED Unit moved to DOA effective 7/1/2016. .

Finding 2015-059 – CFDA 93.767, 93.778 *(Reported Initially in Finding 2014-067)*

Controls over Medicaid eligibility determined through UHIP were weakened during fiscal 2015 due to system design and implementation issues and ineffective oversight of eligibility determination activities.

2015-059a Implement specific controls (e.g., monthly sampling of interface data to ensure that it has updated timely and accurately in UHIP) to ensure that critical data interfaces are operating as intended.

2015-059b Reevaluate the policies and procedures relating to the resolution of system interface discrepancies tasked in UHIP. Consider tighter policies regarding documentation deemed acceptable for task resolution, additional worker training to improve compliance with established policies and procedures, subsequent review and monitoring of worker actions (e.g., require supervisory review and approval of task resolutions performed by case workers either before system acceptance or on a post review basis by worker supervisors) and mandating the attachment of supporting documentation to the UHIP case record as enhancements to current practice.

2015-059c Reconsider the UHIP design feature that allows applicants to provide reasonable explanations for reported discrepancies with system interfaces. This prevents tasks notifying case workers of the discrepancy from being created and resolved by a worker. This coupled with requiring applicants to provide substantive documentation of terminated employment would enhance controls over eligibility and prevent applicants from circumventing interface detection.

2015-059d Program UHIP to show eligibility case workers more detail regarding discrepancies with external sources relating to income to allow workers better information to clear tasks (e.g., how many jobs an applicant has, what previous interface matches indicate, etc.).

2015-059e Require that specific mandated supporting documentation be submitted in support of all deductions to income attested to by Medicaid applicants. Required documentation of income deductions should be submitted and validated by caseworkers as a standard part of eligibility determinations process.

2015-059f Ensure that UHIP Phase II functionality and available departmental resources are adequate to allow for timely follow-up on issues identified by quality control (IV&V, MEQC, PERM), program integrity, and federal audit (CMS and OAG) oversight groups.

Status: Not implemented. See finding 2016-061 for current year update and recommendations.

Finding 2015-060 – CFDA 93.778

Federal regulations require annual redeterminations of Medicaid eligibility. For cases processed through INRHODES, fourteen (14) of seventy-nine (79) cases reviewed found untimely redeterminations that, in some instances, were years overdue.

2015-060 Identify and remedy the factors that are preventing redeterminations (and resolution of IEVS notifications of data discrepancies identified within specific cases) from being performed timely.

Status: Not implemented. See finding 2016-061 for current year update and recommendations.

Finding 2015-061 – CFDA 93.767; 93.778

A reconciliation by EOHHS and its contractors of individuals reported as Medicaid eligible in the MMIS compared to those eligible in UHIP detected that approximately 1,900 individuals had been deemed Medicaid eligible when in fact they were eligible to purchase health insurance through the State's Health Exchange. Preliminary research suggests a UHIP coding defect caused the dual classification; however, further investigation is required to determine the actual cause, impact on Medicaid eligibility, and amount of resulting ineligible program costs.

2015-061a Require the UHIP contractor to determine the exact cause and timing of this issue to ensure that all potentially impacted cases have been identified.

2015-061b Consider whether deficiencies in system integration testing by the system contractor contributed to the system issue going undetected and address those issues to minimize the risk of significant system issues in future releases during the UHIP implementation.

2015-061c Completely review potentially impacted cases to ensure that the correct eligibility determination was made by UHIP and subsequently corrected in the MMIS.

2015-061d Recoup all claims and capitation payments made to providers and insurers for ineligible individuals and credit the federal grantor for its share of ineligible costs.

Status: Partially implemented: a.Not implemented: d. No longer valid: c & d. Programming issue corrected in Phase 1 of UHIP. Impact of system issue on program not determined. Issue not repeated as current year finding.

Finding 2015-062 – CFDA 93.778

Delays in the enrollment of Medicaid eligible newborns within UHIP have resulted in significant delays in related claims adjudication and payments to providers. These processing delays resulted in manual advances paid to providers.

2015-062a Implement a long-term solution to minimize the delay in getting eligible newborns enrolled in Medical Assistance.

2015-062b Fully recoup outstanding provider advances and discontinue further advances to providers upon resolution of the backlog of newborn claims

Status: Not implemented. See finding 2016-064 for current year update and recommendations.

Finding 2015-063 – CFDA 93.778

Advance payments made to providers in limited instances are not sufficiently controlled to ensure appropriate accounting and timely recoupment.

2015-063 Ensure all Medicaid non-claims based financial activity is recorded by modifying MMIS system default accounting procedures.

Status: Implemented.

Finding 2015-064 – CFDA 93.767 *(Reported Initially in Finding 2002-064)*

EOHHS can improve controls over the timely identification of CHIP eligible individuals and the accumulation of related claims. Detailed claims documentation should be completely reconciled to amounts reported on federal reports and amounts recorded in the State's accounting system.

2015-064a Ensure that CHIP claiming is identified accurately and timely and that the underlying supporting claim activity (capitation and fee-for-service) is documented and fully reconciled each month.

2015-064b Subject the results of queries used to accumulate eligible CHIP program costs to a quality control process to ensure that eligibility and allowable cost program criteria are met.

Status: Implemented.

Finding 2015-065 – CFDA 93.778 *(Reported Initially in Finding 2010-080)*

The MEQC program must be adequately supported so that it can meet its control monitoring responsibilities over Medicaid eligibility. CMS-mandated quality control pilot projects accompanying the implementation of the Affordable Care Act were adversely impacted by unresolved questions regarding what comprises errors and challenges in obtaining required information from the State's new Medicaid eligibility determination system.

2015-065a Obtain consensus on findings that the MEQC unit believes are errors and finalize the associated corrective action plans required to adequately address the underlying issues.

2015-065b Ensure that UHIP system development includes the capability to (1) provide historical eligibility data, and (2) is sufficiently transparent to MEQC staff so that they can access all data required to make an appropriate eligibility evaluation in accordance with federal guidelines.

2015-065c File final MEQC pilot project reports with CMS as required.

Status: Not implemented. See finding 2016-062 for current year update and recommendations.

Finding 2015-066 – CFDA 93.767; 93.778 *(Reported Initially in Finding 2009-086)*

EOHHS lacks strong oversight procedures regarding fiscal monitoring and contract settlement for its managed care organizations (MCO). Capitation payments to managed care organizations represent nearly 75% of all Medicaid outlays. EOHHS needs to develop a comprehensive risk assessment and monitoring plan to ensure that managed care expenditures are validated and settled each contract period. More stringent audit and financial monitoring procedures should be employed.

2015-066a Develop a comprehensive risk assessment and monitoring plan to ensure that managed care expenditures are validated and settled each contract period.

2015-066b Address identified issues relating to the MMIS's ability to fully adjudicate HMO encounter data to provide a more complete determination of the medical expenditures incurred during managed care contract periods.

2015-066c Require an independent audit of selected controls employed by the MCOs as well as the overall medical and administrative costs measured under the contracts.

Status: Partially implemented: b. Not implemented: a & c. See finding 2016-066 for current year update and recommendations.

Finding 2015-067 – CFDA 93.767; 93.778

Governance for the UHIP development project can be enhanced to ensure contractual requirements are met by the lead development vendor and others and also to ensure that system defects and other implementation issues are identified, prioritized and corrected on a timely basis.

2015-067 Ensure timely resolution of known system defects or other system implementation issues. Document those to be resolved through Phase II implementation and those that will require further prioritization and resolution.

Status: Partially implemented. See finding 2016-065 for current year update and recommendations.

Finding 2015-068 – CFDA 93.767; 93.778

A UHIP system access control feature (multi-factor authentication log-on) was not operating as designed thereby weakening controls over access to the system.

2015-068 Ensure all required system access control features are functioning as designed and intended.

Status: Implemented.

Finding 2015-069 – CFDA 93.767; 93.778

EOHHS and DHS must enhance the required systems security oversight of the systems used to administer multiple federally funded programs. The plan must be sufficiently comprehensive and include timely reaction to and consideration of identified security issues and risk factors.

2015-069 Enhance compliance with federal ADP Risk Analysis and System Security Review requirements by creating a comprehensive, integrated plan for UHIP and the MMIS.

Status: Partially implemented. See finding 2016-072 for current year update and recommendations.

Finding 2015-070 – CFDA 93.767; 93.778 *(Reported Initially in Finding 2002-065)*

Controls should be improved over the quarterly reporting of Medicaid and CHIP expenditures by improving the alignment of information reported by the MMIS and the State's accounting system. Timing differences between when Medicaid administrative expenditures are claimed on federal reports and when reported in the State's accounting system should also be resolved.

2015-070a Align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS.

2015-070b Reconcile administrative expenditures reported on federal reports with those reported in the State's accounting system.

Status: Partially implemented: a. Not implemented: b. See finding 2016-073 for current year update and recommendations.

Finding 2015-071 – CFDA 93.778 *(Reported Initially in Finding 2009-076)*

Controls need to be enhanced over the determination of individuals eligible for CNOM services since these processes are separate from other system eligibility controls. Processes implemented to provide a post-eligibility review should be completed timely.

2015-071a Subject all CNOM claiming to the system edits and eligibility control processes (MMIS and INRHODES systems) in place over all Medicaid program expenditures.

2015-071b Ensure that adopted standards and practices, including claiming reviews, are completed for all CNOM expenditures claimed during the fiscal year and credit the federal government for any amount claimed in error.

2015-071c Ensure that all future CNOM claiming processes are fully operational prior to claiming expenditures to the Medicaid program

Status: Partially implemented. See finding 2016-071 for current year update and recommendations.

Finding 2015-072 – CFDA 93.778 *(Reported Initially in Finding 2013-071)*

Program overpayments must be credited to the federal government within one year of discovery regardless of whether the State has recovered the overpayment from the provider (Federal regulation 42 CFR 433.312). We identified program overpayments for which the federal share had not been credited to the federal grantor.

2015-072 Reimburse the federal government for program overpayments within the timeframe mandated by federal regulations.

Status: Partially implemented. RI EOHHS has consistently credited the federal grantor at the time of overpayment recovery instead of at the time of identification.

Finding 2015-073 – CFDA 93.778 *(Reported Initially in Finding 2013-075)*

EOHHS must improve compliance with the timeliness of required Surveillance and Utilization Control Reviews by allocating sufficient resources to identify, investigate, and refer suspected fraud and abuse cases. The SURS unit (operated by the State's fiscal agent) had seventy-eight (78) Level III investigations going back to 2009 on hold at June 30, 2015 due to insufficient personnel resources and other activities prioritized by EOHHS.

2015-073 Ensure that sufficient resources are employed by the State to fully comply with Medicaid surveillance and utilization review program regulations in a timely manner.

Status: Partially implemented. See finding 2016-067 for current year update and recommendations.

Finding 2015-074 – CFDA 93.778 *(Reported Initially in Finding 2000-042)*

Controls should be enhanced over claims for home and community based services by (1) eliminating "span billing" thereby improving system controls to identify incompatible service dates and (2) requiring matching of authorized to billed services.

2015-074 Strengthen system processing controls over home and community based medical and support services to enhance overall program integrity for this claim group.

Status: Partially implemented. See finding 2016-068 for current year update and recommendations.

Finding 2015-075 – CFDA 93.778

RI Medicaid implemented new reimbursement methodologies for inpatient hospital and long-term care facilities in fiscal years 2011 and 2014, respectively. Both methodologies establish fixed rate reimbursements to providers determined by applying certain acuity based factors to an underlying base rate to derive specific reimbursements for hospital and nursing facility claims. The State has not fully complied with State plan provisions relating to annual review and provider audit requirements outlined within these approved methodologies.

2015-075a Comply with annual review requirements to ensure that inpatient hospital reimbursement rates are consistently updated in accordance with the approved State plan.

2015-075b Formalize the process for conducting periodic reviews (including procedures to address audit requirements) of the nursing facility reimbursement rates in accordance with the approved State plan.

Status: *Partially implemented. See finding 2016-069 for current year update and recommendations.*

Finding 2015-076 – CFDA 93.778 *(Reported Initially in Finding 2008-102)*

EOHHS lacks controls to ensure the accuracy of uncompensated care data providers by the hospitals in support of Medicaid uncompensated care reimbursements made to such hospitals.

2015-076 Improve controls over Medicaid DSH payments by implementing the recommendations made within completed DSH audits.

Status: *Partially implemented. See finding 2016-070 for current year update and recommendations.*