State of Rhode Island

and Providence Plantations

Single Audit Report

FISCAL YEAR ENDED JUNE 30, 2017

Dennis E. Hoyle, CPA, Auditor General

Office of the Auditor General

General Assembly

State of Rhode Island and Providence Plantations

Office of the Auditor General
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April 2, 2018

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, 2017. 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 *Single Audit Highlights* section on the following pages summarizes key financial statement findings and findings related to the administration of federal programs. Key statistics about the total amount of federal assistance received by the State of Rhode Island in recent years and the federal programs audited in fiscal 2017 as major programs is also summarized.

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

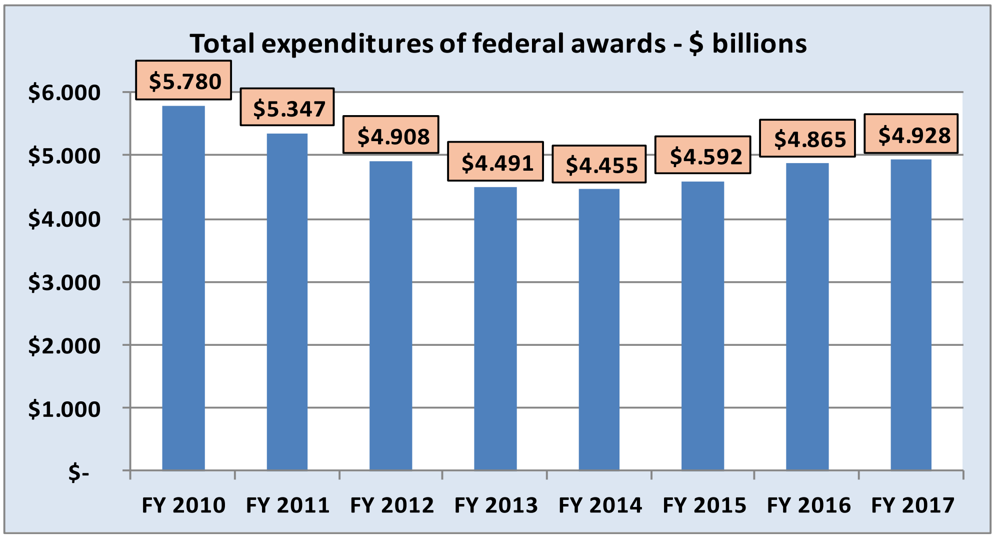
Respectfully submitted,

Dennis E. Hoyle, CPA
Auditor General

State of Rhode Island – Fiscal 2017 – Single Audit Highlights

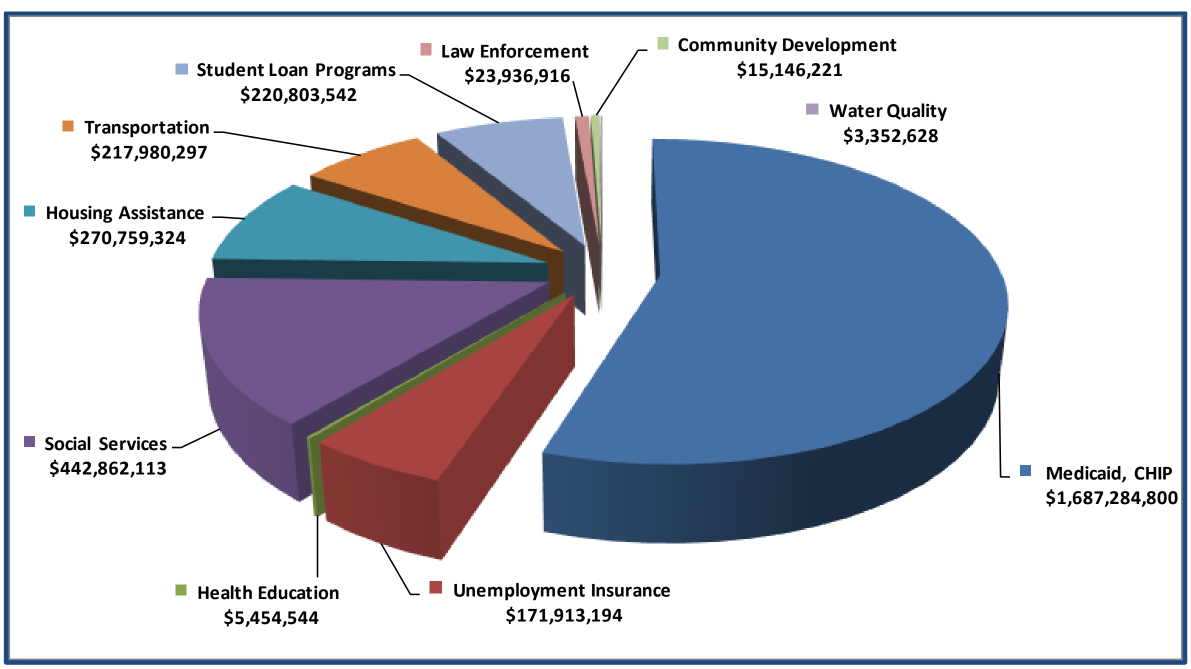
The annual Single Audit is required by federal law and regulation as a condition of continued federal assistance. The report includes the State's financial statements, a detailed schedule of federal award expenditures and our reports outlining internal control deficiencies over financial reporting and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

Federal funding represents approximately 40% 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 2017. 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, 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.



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 2017 expenditures totaling approximately $2.6 billion - the federal government shared $1.6 billion of that cost. Consistent with federal guidelines, we tested 62% of the total expenditures of federal awards as major programs. Major program expenditures are summarized in the chart below.

Fiscal 2017 Federal Award Expenditures Tested as Major Programs - Summarized by Program Type



The Single Audit Report includes 79 findings as summarized in the following table.

Summary of findings included in the 2017 *Single Audit Report*			
	Primary government	Component units	Total
Findings related to the financial statements			
Material weaknesses in internal control	9	1	10
Significant deficiencies in internal control	22	3	25
Other compliance matters		1	1
Findings related to the administration of federal programs			
Material weaknesses in internal control	10		10
Significant deficiencies in internal control	18	4	22
Material noncompliance / material weakness in internal control	10		10
Noncompliance – questioned costs only	1		1
Total	**70**	**9**	**79**

Findings Summary

Financial Statement Findings

The State lacks a strategic plan to (1) coordinate needed replacements/enhancements to its key statewide financial 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. Because the State has opted to utilize various independent software solutions, the plan is critically important. Without a comprehensive plan, there is substantial risk that the intended integration of various components may not be achieved. The State has already experienced such integration issues and halted work on a time and effort reporting system due to an inability to integrate with other State systems. The State has expended $2 million ($1.1 million to the software vendor and $900,000 for internally allocated personnel costs) on the project to date.

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 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. Program changes relating to Affordable Care Act (ACA) provisions, complications relating to the State's implementation of RIBridges, and various State initiatives that have changed how services are delivered and providers are reimbursed have added to the program's financial complexity and weakened overall controls over program operations. 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 State's Office of Management and Budget (OMB) has not fully addressed all the required functionalities outlined in the General Laws regarding oversight of federal grants within the State.

Certain duties performed by the Office of the General Treasurer are not adequately segregated resulting in control deficiencies. Statewide accounting controls over receivables can be enhanced.

Responsibility for monitoring the investment activity and other compliance aspects of funds on deposit with a fiscal agent (trustee) should be vested with the Office of the General Treasurer.

Software updates were not installed timely for the RIFANS accounting system which resulted in increased security risk and uncorrected software functionality issues identified by the software developer.

The Executive Office of Health and Human Services (EOHHS) authorized more than $200 million in system payouts and manual disbursements in fiscal 2017, representing provider advances, payments to managed care organizations for contract settlements and/or non-claims based financial activity, and other program disbursements. The reporting and internal control processes relating to these types of disbursements are manual in nature and external to other established control procedures. Such amounts are not easily identified or quantified by the Medicaid Management Information System (MMIS).

Overall, the State has not sufficiently addressed information technology (IT) security risks, an increasing concern given the State's very complex computing environment. The State needs to ensure its IT security policies and procedures are current, well communicated and complied with. 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 State did not perform tests of its disaster recovery plan during fiscal years 2015, 2016 and 2017. This reduces the assurance that all mission critical systems can be restored should a disaster disable or suspend operations.

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.

Implementation of a new Taxation IT system (STAARS) presented issues impacting financial reporting due to processing timeframes for tax 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, 2017.

Control procedures can be improved to accumulate the data needed to disclose tax abatement agreements and taxes foregone because of those agreements by deriving such information from the Division of Taxation's STAARS system. Such disclosures were newly required in the fiscal 2017 financial statements.

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.

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 Division of Taxation can enhance policies and operating procedures to restrict access to personally identifiable information and to ensure the effectiveness of the business continuity plan.

Critical Division of Taxation back-up data files are not stored off-site – a recommended disaster recovery best practice.

STAARS system user access rights need to be assessed and tailored to ensure access is consistent and appropriate with each employee's responsibilities.

The Department of Transportation's use of multiple systems to meet its operational and financial reporting objectives results in unnecessary complexity and control weaknesses since these systems were never designed to share data.

Federal Program Findings

2017 Major Programs
Supplemental Nutrition Assistance Program (SNAP) Cluster
Special Supplemental Nutrition Program for Women, Infants, and Children
Qualified Participating Entities (QPE) Risk Sharing
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
Equitable Sharing Program
Unemployment Insurance
Highway Planning and Construction Cluster
Grants to States for Construction of State Home Facilities
Clean Water State Revolving Fund Cluster
Student Financial Assistance Cluster
TANF Cluster
Child Support Enforcement
Low-Income Home Energy Assistance
CCDF Cluster
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke
Children's Health Insurance Program
Medicaid Cluster

The State has experienced significant compliance challenges for its largest human service programs with implementation of the RIBridges integrated eligibility system. These challenges significantly impacted the State's ability to comply with federal regulations relating to eligibility and, for certain programs, benefit payments which are determined by RIBridges (Medicaid, CHIP, TANF, SNAP, CCAP). We reported noncompliance with material compliance provisions which largely stemmed from the ineffective operation of the RIBridges computer system.

Medicaid and Children's Health Insurance Programs - Due to the limited operation and effectiveness of controls over eligibility for the Medicaid and CHIP programs during fiscal 2017, the State did not comply with the Medicaid and CHIP program eligibility requirements, collectively. The State specifically did not materially comply with federal regulations for annual redeterminations for recipient eligibility and the validation of key eligibility data elements through the use of electronic interfaces designed within RIBridges.

Data discrepancies exist between the systems used to determine Medicaid and CHIP eligibility (RIBridges) and the claims/capitation payment system (MMIS). As of June 30, 2017, the MMIS reported 16,000 recipients more than RIBridges. This impacts controls to ensure payments are only made on behalf of eligible individuals and has resulted in duplicate capitation payments being made to managed care organizations.

The effectiveness of the Medicaid Eligibility Quality Control (MEQC) program is diminished by the continued RIBridges functional limitations. The MEQC Unit continues to experience challenges in obtaining the information needed to verify eligibility determinations made by RIBridges. A significant volume of systemic issues identified by MEQC processes are currently pending corrective action in RIBridges.

Delays in the enrollment of Medicaid eligible newborns within RIBridges resulted in significant and related delays in provider claims adjudication and payments to managed care organizations (MCOs). EOHHS advanced $6.5 million to MCOs covering newborns at June 30, 2017 whose eligibility was still pending. The MCOs were due capitation of approximately $12.4 million at June 30, 2017 for coverage provided to newborns since birth - $6.5 million in advance payments were made for such amounts.

In many instances, particularly for Medicaid applicants requiring long-term care services and supports, the State is not complying with timely determination of Medicaid eligibility requirements. Processing Medicaid applications for long-term care services in RIBridges continues to be problematic resulting in significant delays in determining eligibility and necessitating advances to long-term care service providers.

EOHHS made advance payments totaling $12.5 million to nursing home providers between September 2016 and January 2017 due to delays in processing eligibility for nursing home patients with pending Medicaid eligibility. The advances made in this period were federally reimbursed (at the applicable federal financial participation rate) but did not meet criteria for reimbursement. The advances to nursing facility providers remain outstanding.

EOHHS lacks strong oversight procedures regarding fiscal monitoring and contract settlement for its managed care organizations (MCOs). Capitation payments to MCOs represent nearly 63% of Medicaid benefit expenditures. 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.

EOHHS needs to reassess all activities considered surveillance utilization review services (SURS) performed within the Medicaid program to comply with federal regulations and amend the State Plan to accurately reflect the State's current practices.

TANF - Due to the limited operation and effectiveness of controls over eligibility for the TANF program during fiscal 2017, the State did not comply with the TANF eligibility requirements, collectively.

Implementation of the new RIBridges eligibility system affected the availability and reliability of data needed to prepare timely and accurate federal reports.

The RIBridges system did not prompt employment and career advisors to update/develop new work participation plans for clients upon the expiration of an existing plan.

The State did not comply with the Income Eligibility and Verification System requirements upon implementation of the new RIBridges integrated eligibility system in fiscal 2017.

SNAP - Implementation of the RIBridges eligibility system limited the Department of Human Services' (DHS) ability to submit timely and accurate federal reports required for the SNAP program.

The RIBridges eligibility system does not currently meet all the functional requirements of an automated data processing system as outlined in federal SNAP regulations. The system is also not producing reports to allow daily reconciliation of electronic benefits authorized and disbursed and to ensure accurate and timely completion of federal reports.

RIBridges is not producing reports to allow daily reconciliation of electronic benefits authorized and disbursed and to ensure accurate and timely completion of federal reports.

Child Care Assistance Program - The RIBridges eligibility system lacked effective income validation controls during fiscal 2017 which impacted program eligibility determinations and the amount of required parent cost-sharing amounts. RIBridges was not consistently calculating correct cost-sharing amounts for both parents and providers, which required supplemental payments to childcare providers.

Financial reports were not filed during fiscal year 2017 for the CCDF Cluster Programs.

LIHEAP – DHS must improve controls to ensure compliance with the period of performance requirement and to improve related federal reporting for such requirements. DHS can also improve its monitoring of subrecipient cash balances and documentation supporting the annual report on households assisted by LIHEAP.

Community Development Block Grant – the Office of Housing and Community Development should improve its monitoring of subrecipients and enhance procedures to comply with cash management and reporting requirements.

Unemployment Insurance - 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's failure to respond timely or adequately to a request for information.

Highway Planning and Construction - 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.

Management's response and planned corrective actions are included within the Single Audit Report.

Condensed Table of Contents

D. **Schedule of Findings and Questioned Costs**

Financial Statements

Basic Financial Statements

Table of Contents

Basic Financial Statements

Table of Contents (continued)

Page

REQUIRED SUPPLEMENTARY INFORMATION

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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, 2017, 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 3% of the revenues of the aggregate remaining fund information;

- the Convention Center Authority, a major fund, which also represents 26% 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 40% of the assets and 24% 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.

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

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.

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, 2017, 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 13 – the State disclosed various contingencies related to the implementation of its Unified Health Infrastructure Project (UHIP) / RIBridges computer system.

As described in Note 2 – the fair values of certain investments included within the fiduciary funds - pension and other employee benefit trusts, which represent 23% of the assets of the pension and other employee benefit trusts and 13% 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 1 (T) – the State will implement GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in fiscal 2018 which will result in restatement of beginning net position of the governmental activities, business type activities and discretely presented component units.

Our opinions are not modified with respect to these matters.

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

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-148 through A-152, and information about the State's pension plans and other postemployment benefit plans on pages A-153 through A-172 be presented to supplement the basic financial statements. Such information, although not a part of 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 expenditures 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 have issued 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. 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 27, 2017

Management's Discussion and Analysis

State of Rhode Island

Fiscal Year Ended
June 30, 2017

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, 2017. 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, 2017 by ($138.1) million. This amount is presented as "net position (deficit)" on the Statement of Net Position for the Total Primary Government. Of this amount, ($4.6) billion was reported as unrestricted net position (deficit), $1.3 billion as restricted net position, and $3.2 billion as net investment in capital assets.

- **Changes in Net Position:** The increase in the primary government's net position in fiscal year 2017 of $192.2 million which reduced the overall net deficit reported by the State at June 30, 2017 was attributable to a number of factors that include:

  - Governmental activities experienced continued revenue growth in fiscal year 2017. Taxes increased by $42.2 million over fiscal year 2016. This was primarily attributable to an increase in inheritance tax receipts.

  - Total governmental activities expenses increased by $198.3 million in fiscal year 2017. Expenses increased in all functional categories except general government. The most notable increases were in the human services, education and interest and other charges categories. Human services expenditures increased primarily because of increased enrollment in the Medicaid program stemming from the Affordable Care Act (ACA), along with general growth in healthcare expenses for the Medicaid population. Expenditures in the Education category were higher because of the continued transition to the Education Funding Formula, which required over $39.4 million in additional funding in fiscal 2017. The increase in interest and other charges from fiscal 2016 to fiscal 2017 is the result of a restructuring of debt undertaken in July 2015 that freed up resources to be invested in economic development programs, but deferred debt service costs to future years. Such costs were reduced in fiscal 2016, but began to return to a more normal state in fiscal 2017.

  - Business-type activities experienced an increase in net position of $104.4 million during the fiscal year mostly attributable to the Employment Security Fund operating at a $101.7 million surplus in fiscal year 2017. The Lottery also contributed approximately $362.7 million in resources to the governmental activities in fiscal year 2017.

Fund Financial Statements

Governmental Funds

- The State's governmental funds reported a combined ending fund balance of $1,368.3 million, an increase of $215.1 million in comparison with the previous fiscal year. This is primarily a result of the increase in the Intermodal Surface Transportation (IST) Funds' fund balance of $318.1 million, which was due to a new GARVEE Bond issue which is discussed in Note 6. This increase was offset in part by a reduction in the General Fund's fund balance as discussed directly below.

- As of June 30, 2017, the State's General Fund reported an ending fund balance of $390.0 million, a decrease of $110.7 million as compared to the prior year. Tax revenues increased by $22.5 million as compared to fiscal year 2016. Significant inheritance tax collections were offset by declines, compared to fiscal year 2016, in revenues from general business taxes and net lottery revenues.

  On the expenditure side, total general revenue expenditures were $124.6 million greater than fiscal 2016 primarily due to greater spending in the Human Services category because of increased enrollment in the Medicaid program stemming from the Affordable Care Act (ACA), along with general growth in healthcare expenses for the Medicaid population. Expenditures in the Education category were also higher because of the continued transition to the Education Funding Formula, which required over $39.4 million in additional funding in fiscal 2017.

- As of June 30, 2017, the State's IST Fund reported an ending fund balance of $454.2 million, an increase of $318.1 million as compared to the prior year. The increase was mainly due to the new GARVEE bond issue mentioned above.

Proprietary Funds

- The Rhode Island State Lottery transferred $362.7 million to the General Fund in support of general revenue expenditures during the fiscal year, a decrease of $7.1 million in comparison with the previous fiscal year. Sales of traditional lottery products were down 4.2 percent year-over-year, reflective of the fact that in fiscal 2016 the largest Powerball jackpot in history which surpassed $1.0 billion in January 2016 was realized and did not repeat in fiscal 2017. This decrease in the sales of traditional lottery products was matched by a decline in video lottery net terminal income revenues of 1.3 percent in fiscal 2017 as the reconfiguration of gaming options at Twin River reduced the number of video lottery terminals available in favor of additional traditional table games and the establishment of poker tables at the facility. As a result, net revenues from the operation of table games at Twin River increased by 11.3 percent in fiscal 2017 which was approximately half the growth rate in net table game revenues experienced in fiscal 2016.

- The Employment Security Fund ended the fiscal year with a net position of $383.4 million, an increase of $101.7 million from fiscal year 2016. 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 ($54.7) million, a deficit decrease of $2.1 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 basic 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 ($138.1) million at the end of fiscal year 2017, compared to ($330.3) million at the end of the prior fiscal year, as restated. Governmental activities reported unrestricted net position (deficit) of ($4,581.5) 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, 2017 and 2016
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016*	2017	2016	2017	2016*
Current and other assets	$ 2,470,839	$ 2,218,491	$ 418,353	$ 321,087	$ 2,889,192	$ 2,539,578
Capital assets	4,191,448	4,044,748	137,724	146,304	4,329,172	4,191,052
Total assets	6,662,287	6,263,239	556,077	467,391	7,218,364	6,730,630
Deferred outflows of resources	582,620	313,682	7,094	6,230	589,714	319,912
Long-term liabilities outstanding	6,309,285	5,822,768	205,114	216,946	6,514,399	6,039,714
Other liabilities	1,231,220	1,175,654	46,714	49,937	1,277,934	1,225,591
Total liabilities	7,540,505	6,998,422	251,828	266,883	7,792,333	7,265,305
Deferred inflows of resources	153,304	115,200	511	300	153,815	115,500
Net position (deficit):						
Net investment in capital assets	3,212,380	3,063,506	(53,682)	(57,493)	3,158,698	3,006,013
Restricted	920,232	733,280	384,198	283,901	1,304,430	1,017,181
Unrestricted	(4,581,514)	(4,333,487)	(19,684)	(19,970)	(4,601,198)	(4,353,457)
Total net position (deficit)	$ (448,902)	$ (536,701)	$ 310,832	$ 206,438	$ (138,070)	$ (330,263)

*-Restated. See Note 18 F for an explanation of the restatements.

As indicated above, the State reported a balance in unrestricted net position (deficit) of ($4.6) billion as of June 30, 2017. Two primary factors, which are discussed below, contributed to this deficit.

As required by governmental accounting standards 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, 2017 the net pension liability related to governmental activities was $3.48 billion and the net pension liability related to business-type activities was $16.3 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.

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, 2017 approximately $662.5 million of principal and $85.8 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, 2017, approximately $80.2 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, 2017, approximately $228.5 million of obligations (net) are 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 $192.2 million during fiscal year 2017. Total revenues of $8,184.8 million increased by $156.1 million compared to fiscal year 2016. The favorable results were aided by increased general revenues due primarily to significant non-recurring inheritance tax revenues, as well as increases related to operating grants and contributions and capital grants and contributions.

The State's expenses, which cover a wide range of services, increased by $201.8 million.

The most notable increases were in the human services, education and interest and other charges categories. Human services expenditures increased primarily because of increased enrollment in the Medicaid program stemming from the Affordable Care Act (ACA), along with general growth in healthcare expenses for the Medicaid population. Expenditures in the Education category were higher because of the continued transition to the Education Funding Formula. The increase in interest and other charges is the result of a restructuring of debt undertaken in July 2015 that freed up resources to be invested in economic development programs, but deferred debt service costs to future years. Such costs were reduced in fiscal 2016, but began to return to a more normal state in fiscal 2017.

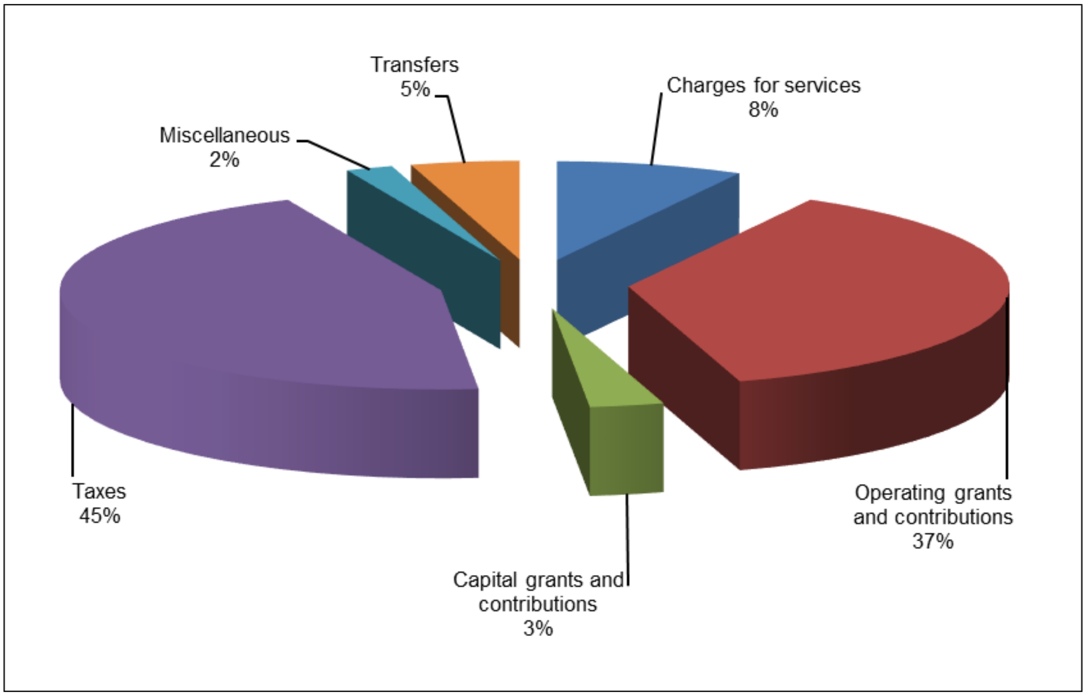
A more detailed analysis of changes in revenues and program expenses for both governmental activities and business-type activities is as follows.

State of Rhode Island's Changes in Net Position
For the Fiscal Years Ended June 30, 2017 and 2016
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	$ 584,539	$ 624,753	$ 1,151,505	$ 1,177,083	$ 1,736,044	$ 1,801,836
Operating grants and contributions	2,747,631	2,677,431	1,373	1,558	2,749,004	2,678,989
Capital grants and contributions	230,956	178,628			230,956	178,628
General revenues:						
Taxes	3,308,575	3,266,347			3,308,575	3,266,347
Interest and investment earnings	6,313	3,134	312	164	6,625	3,298
Miscellaneous	146,803	95,529	6,814	4,106	153,617	99,635
Total revenues	7,024,817	6,845,822	1,160,004	1,182,911	8,184,821	8,028,733
Program expenses:						
General government	753,011	769,469			753,011	769,469
Human services	3,802,311	3,652,875			3,802,311	3,652,875
Education	1,619,343	1,595,289			1,619,343	1,595,289
Public safety	551,000	545,329			551,000	545,329
Natural resources	90,082	87,537			90,082	87,537
Transportation	350,585	343,270			350,585	343,270
Interest and other charges	109,664	83,899			109,664	83,899
Lottery			510,302	507,199	510,302	507,199
Convention Center			50,658	48,905	50,658	48,905
Employment Security			155,672	157,018	155,672	157,018
Total expenses	7,275,996	7,077,668	716,632	713,122	7,992,628	7,790,790
Excess (deficiency) before transfers	(251,179)	(231,846)	443,372	469,789	192,193	237,943
Transfers	338,978	335,765	(338,978)	(335,765)		
Change in net position	87,799	103,919	104,394	134,024	192,193	237,943
Net position (deficit) - Beginning	(500,714)	(604,633)	206,438	72,414	(294,276)	(532,219)
Cumulative effect of prior period adjustments	(35,987)				(35,987)	
Net position (deficit) - Beginning, as restated	(536,701)	(604,633)	206,438	72,414	(330,263)	(532,219)
Net position (deficit) - Ending	$ (448,902)	$ (500,714)	$ 310,832	$ 206,438	$ (138,070)	$ (294,276)

Chart 1 depicts the State's sources of revenues from Governmental Activities for the fiscal year ended June 30, 2017

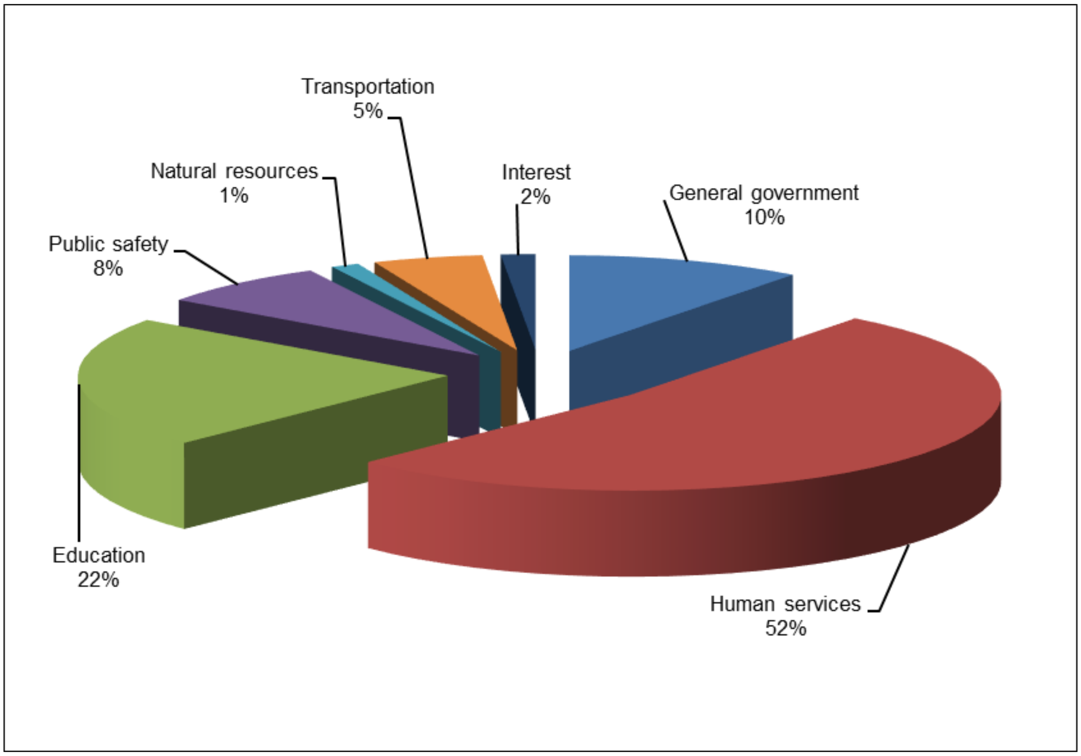
Chart 1 - Revenues and Transfers - Governmental Activities



The relative mix of revenue and transfers by source for governmental activities remained fairly constant in fiscal year 2017 versus the prior fiscal year. Taxes continued to represent the largest source of revenue at 45% of the total while operating grants and contributions represented 37% of the total in fiscal year 2017.

Chart 2 depicts the purposes for which program expenses related to Governmental Activities were expended during the fiscal year ended June 30, 2017.

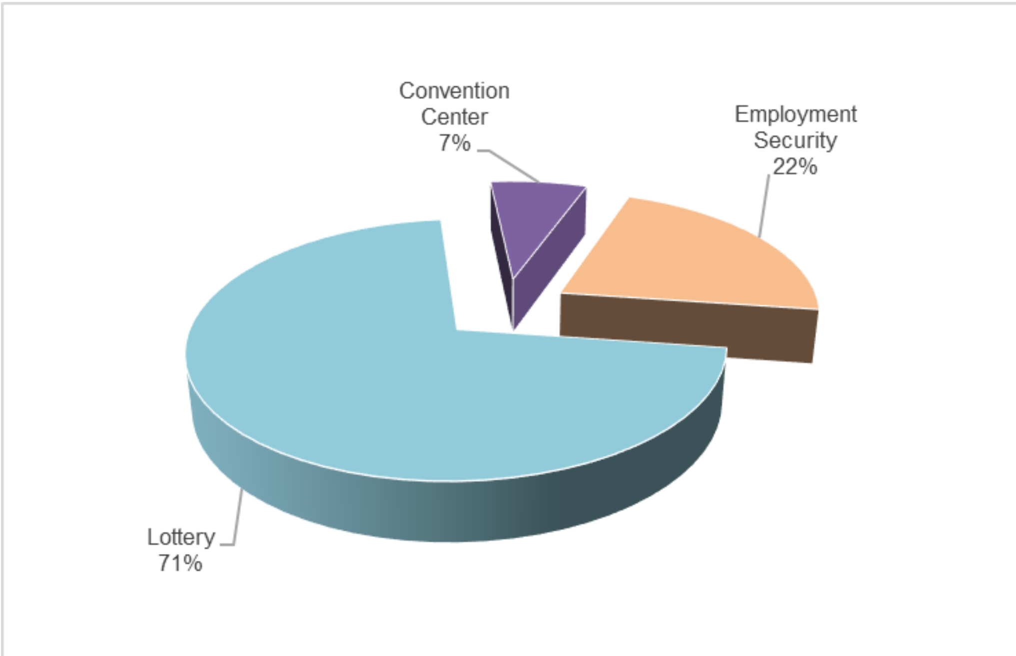
Chart 2 - Program Expenses - Governmental Activities



The relative mix of program expenses for governmental activities remained about the same in fiscal year 2017 as in the prior fiscal year. There was a slight increase in interest and other charges due to the impact of the July 2015 debt restructuring previously discussed, in addition to a slight reduction in general government expenses.

Chart 3 depicts the program expenses related to Business Type Activities during the fiscal year ended June 30, 2017.

Chart 3 – Program Expenses – Business Type Activities



The relative mix of expenses for business type activities remained unchanged from fiscal 2016. Expenditures on employment security programs reflected a slight decline again this fiscal year 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 $1.368 billion, an increase of $215.1 million from June 30, 2016. A breakdown of the components follows (expressed in thousands):

			Increase (decrease) from 2016	
	2017	2016*	Change	Percent
Governmental Funds				
Nonspendable	$ 174	$ 174	$	
Restricted	1,033,684	739,188	294,496	39.84%
Unrestricted				
Committed	66,229	43,150	23,079	53.49%
Assigned	67,931	137,114	(69,183)	-50.46%
Unassigned	200,300	233,577	(33,277)	-14.25%
Total	$ 1,368,318	$ 1,153,203	$ 215,115	18.65%

*- Reclassified to conform to current year presentation. See Note 18 F. 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 net increase of $294.5 million in the restricted portion of the fund balance is primarily related to the proceeds from a new issuance of highway and bridge improvement bonds (GARVEE bonds). The proceeds of the issue will be used for significant highway and bridge replacements and upgrades done in conjunction with the RhodeWorks program.

- The net increase of $23.1 million in the committed portion of the unrestricted fund balance is primarily attributable to an increase 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.

- The net decrease of $69.2 million in the assigned portion of the unrestricted fund balance primarily resulted from a reduction in the amount of assigned fund balance allocated to fund the fiscal 2018 budget.

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):

			Increase (decrease) from 2016	
	2017	2016*	Change	Percent
Restricted	$ 117,668	$ 124,501	$ (6,833)	-5.49%
Unrestricted				
Committed	2,556	3,975	(1,419)	-35.70%
Assigned	67,931	137,114	(69,183)	-50.46%
Unassigned	201,818	235,096	(33,278)	-14.16%
Total	$ 389,973	$ 500,686	$ (110,713)	-22.11%

*- Reclassified to conform to current year presentation. See Note 18 F. for more information.

Revenues and other sources of the General Fund totaled $6.7 billion in fiscal year 2017, an increase of $108 million or 1.6% 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):

	2017	2016	Increase (decrease) from 2016 Amount	Percent
Revenues				
Taxes:				
Personal income	$ 1,235,991	$ 1,211,678	$ 24,313	2.01%
Sales and use	1,184,326	1,173,770	10,556	0.90%
General business	398,570	428,573	(30,003)	-7.00%
Other	99,181	81,519	17,662	21.67%
Subtotal	2,918,068	2,895,540	22,528	0.78%
Federal grants	2,726,644	2,610,735	115,909	4.44%
Restricted revenues	217,258	241,872	(24,614)	-10.18%
Licenses, fines, sales, and services	348,934	355,731	(6,797)	-1.91%
Other general revenues	56,435	52,701	3,734	7.09%
Subtotal	3,349,271	3,261,039	88,232	2.71%
Total revenues	6,267,339	6,156,579	110,760	1.80%
Other sources				
Transfer from Lottery	362,697	369,761	(7,064)	-1.91%
Other transfers	70,656	74,210	(3,554)	-4.79%
Special Item	10,360	-	10,360	-
Proceeds from capital leases	2,500	5,021	(2,521)	-50.21%
Total revenues and other sources	$ 6,713,552	$ 6,605,571	$ 107,981	1.63%

Fiscal 2017 personal income taxes rose modestly from fiscal 2016 levels, increasing $24.3 million or 2.0 percent. Final payments, payments made with a return and extension payments, increased by 1.0 percent while estimated payments rose a slight 1.6 percent. Personal income tax withholding payments jumped to a rate of growth of 4.5 percent in fiscal 2017 from a 2.5 percent rate of growth in fiscal 2016. The increase in withholding tax payments was strong given that the decline in the unemployment rate was modest, falling from 5.5 percent in fiscal 2016 to 4.8 percent in fiscal 2017. The increase in personal income tax withholding payments was more than offset by a sharp increase in personal income tax refunds and adjustments of 22.4 percent. Finally, the personal income tax net accrual went from $(18.8 million) in fiscal 2016 to $11.1 million in fiscal 2017, adding $29.9 million to personal income tax revenues in fiscal 2017.

The State's unemployment rate continued to decline as, according to IHS Markit, it fell from 5.5 percent in fiscal year 2016 to 4.8 percent in fiscal 2017, a decline of 0.7 percentage points or slightly more than half as much as the 1.2 percentage points decline experienced between fiscal year 2015 and fiscal 2016. Nominal personal income growth fell from 2.8 percent in fiscal 2016 to 1.4 percent in fiscal 2017. General sales and use tax revenues showed meager gains of 0.9 percent in fiscal 2017 over fiscal 2016, even with the increased collection and remittance of significant sales taxes by remote seller(s) beginning on February 1, 2017. Motor vehicle license and registration fees contributed to the mild growth in sales and use taxes as 50 percent of such fees were transferred to the Rhode Island Highway Maintenance Account vs. 25 percent in fiscal 2016. Fiscal 2017 use tax payments paid at the time of registration of a new motor vehicle increased by 2.9 percent, down sharply from the 8.7 percent rate of growth between fiscal 2015 and fiscal 2016. Sales taxes collected from the provision of prepared meals and beverages increased 2.5 percent in fiscal 2017, about one-third of the growth rate recorded in fiscal 2015.

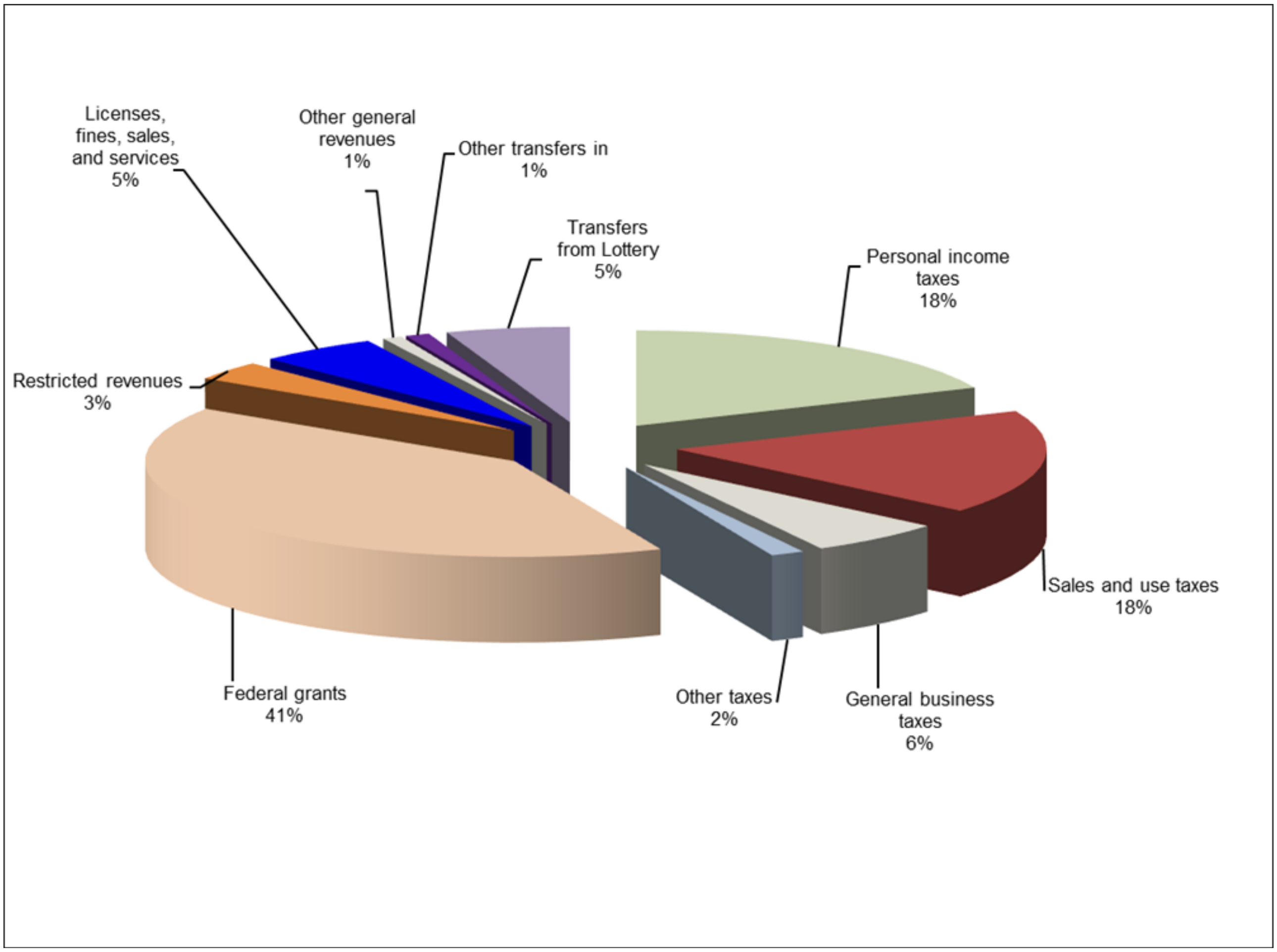
General business tax revenues fell by 7.0 percent in fiscal 2017, driven primarily by significant declines in business corporation tax receipts of 11.6 percent, public utilities gross earnings tax payments of 12.3 percent, and insurance company gross premiums tax revenues of 7.1 percent. These declines were offset in part by a gain in financial institution tax revenues of 5.2 percent.

Other taxes increased by 21.7 percent over fiscal 2016. Estate and transfer tax revenues increased by 22.0 percent from fiscal year 2016 levels, due overwhelmingly to the receipt of large estate and transfer tax payment(s). Realty transfer taxes rose 20.7 percent from fiscal 2016 levels, reflecting continued strong growth in the state's housing market.

Finally, the R.I. Lottery's transfer to the General Fund was down 1.9 percent in fiscal 2017 from fiscal year 2016. Sales of traditional lottery products were down 4.2 percent year-over-year, reflective of the fact that in fiscal 2016 the largest Powerball jackpot in history which surpassed $1.0 billion in January 2016 was realized and did not repeat in fiscal 2017. This decrease in the sales of traditional lottery products was matched by a decline in video lottery net terminal income revenues of 1.3 percent in fiscal 2017 as the reconfiguration of gaming options at Twin River reduced the number of video lottery terminals available in favor of additional traditional table games and the establishment of poker tables at the facility. As a result, net revenues from the operation of table games at Twin River increased by 11.3 percent in fiscal 2017 which was approximately half the growth rate in net table game revenues experienced in fiscal 2016.

Chart 4 depicts the General Fund's revenues and other sources for the fiscal year ended June 30, 2017.

Chart 4 – Revenues and Other Sources – General Fund



Expenditures and transfers out totaled $6,824.3 million in fiscal year 2017, an increase of $226.2 million, or 3.43%, 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):

			Increase (decrease) from 2016	
	2017	2016	Amount	Percent
General government	$ 553,479	$ 577,399	$ (23,920)	-4.14%
Human services	3,831,633	3,694,123	137,510	3.72%
Education	1,525,626	1,467,236	58,390	3.98%
Public safety	534,495	504,217	30,278	6.00%
Natural resources	77,556	78,270	(714)	-0.91%
Debt Service:				
Principal	103,176	74,705	28,471	38.11%
Interest	61,208	59,705	1,503	2.52%
Total expenditures	6,687,173	6,455,655	231,518	3.59%
Transfers out	137,092	142,425	(5,333)	-3.74%
Total expenditures and transfers out	$ 6,824,265	$ 6,598,080	$ 226,185	3.43%

The year over year decrease of approximately $23.9 million in the General Government function is primarily attributable to lower restricted resources available in the Regional Greenhouse Gas Initiative program within the Office of Energy Resources due to reduced revenues from auctions of CO_2 allowances; lower federal resources for the Rhode Island Health Exchange as federal funds for setup and implementation costs were exhausted; and reduced spending of one-time resources from a debt restructuring in July 2015 on economic development initiatives within the Executive Office of Commerce.

The year over year increase of $137.5 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), along with general growth in healthcare expenses for the Medicaid population. This was coupled with an increase in the state's share of the cost of providing Medicaid coverage to the expansion population which increased from 0 percent in fiscal 2016 to 2.5 percent in fiscal 2017.

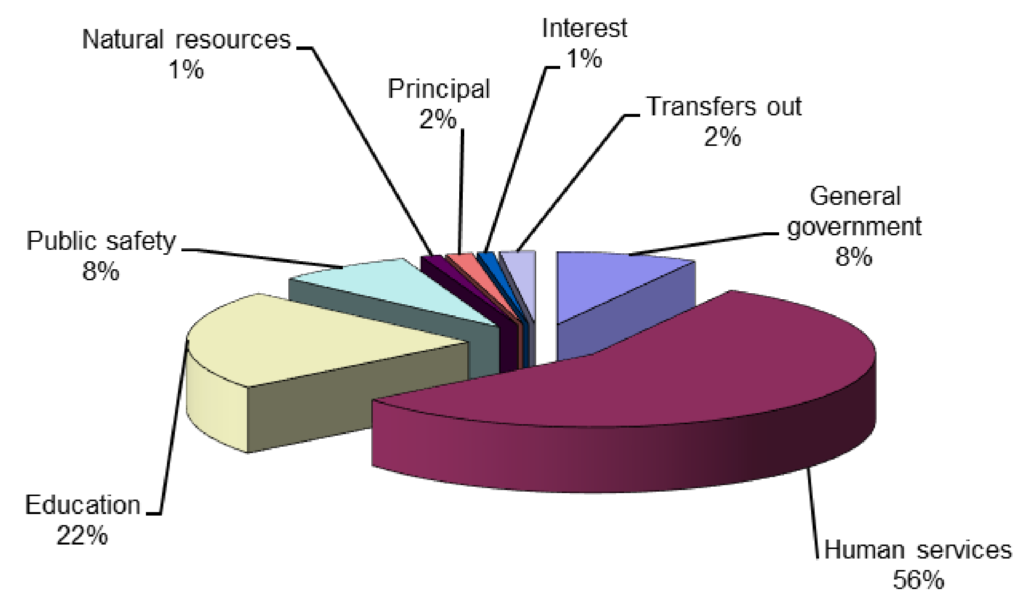
The primary driver of the increase in Education function expenditures of $58.4 million is the continued transition to the Education Funding Formula, which required over $39.4 million in additional funding in fiscal 2017. Also in this functional area, an additional $10.2 million was appropriated for various categorical education programs, such as English language learners, High Cost Special Education, Early Childhood/Kindergarten and Transportation. Finally, the fiscal 2017 budget included an increase of $7.7 million in state support for the three institutions of higher education.

The year over year increase of $30.3 million in Public Safety function expenditures is primarily due to a one-time payment of $15.0 million from the State Police's Equitable Sharing Settlement Federal Forfeiture account for the establishment of a pension trust fund for retired State Troopers under a pay-as-you-go pension program. The State Police program within the Department of Public Safety also included increased expenditures because of retroactive pay to State Troopers based on a contract arbitration. The Attorney General's Office also expended additional funds from its Equitable Sharing Settlement account towards the construction of a new building on the Pastore Campus in Cranston.

The increase in debt service of $30.0 million from fiscal 2016 to fiscal 2017 is the result of a restructuring of debt undertaken in July 2015 that freed up resources to be invested in economic development programs, but deferred debt service to future years. Debt service expenses were reduced in fiscal 2016, but began to return to a more normal state in fiscal 2017.

Chart 5 depicts the General Fund's expenditures and other uses for the fiscal year ended June 30, 2017.

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, certain motor vehicle registration and licensing fees, federal grants, and Rhode Island Capital Plan funds 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 2016	
	2017	2016	Change	Percent
Restricted	$ 392,441	$ 98,595	$ 293,846	298.03%
Unrestricted				
Committed	63,292	39,063	24,229	62.03%
Unassigned (deficit)	(1,518)	(1,519)	1	0.07%
Total	$ 454,215	$ 136,139	$ 318,076	233.64%

The net increase of $293.8 million in the restricted portion of the fund balance is primarily related to a new issue of GARVEE bonds in October 2016. The proceeds of the issue will be used for significant bridge and road replacements and upgrades under the RhodeWorks program. The net increase of $24.2 million in the committed portion of the unrestricted fund balance primarily resulted from an increase 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 $1.1 million between the original budget and the final budget. General revenue appropriations increased from the original budget by $2.8 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	$ 1,249,175	$ 1,266,604	$ 1,243,807	$ (22,797)
General business	459,337	420,600	399,436	(21,164)
Sales and use	1,189,479	1,185,500	1,184,326	(1,174)
Other taxes	33,600	40,600	99,181	58,581
Departmental revenue	361,587	376,161	370,066	(6,095)
Other sources:				
Lottery transfer	365,300	362,200	362,697	497
Unclaimed property	9,200	12,100	12,725	625
Miscellaneous	7,065	12,062	12,122	60
Total revenues and other sources	3,674,743	3,675,827	3,684,360	8,533
Expenditures and other uses:				
General government	490,483	473,602	460,169	13,433
Human services	1,387,596	1,403,339	1,404,922	(1,583)
Education	1,313,340	1,315,723	1,315,613	110
Public safety	449,638	453,039	451,156	1,883
Natural resources	42,659	40,765	40,600	165
Total expenditures and other uses	3,683,716	3,686,468	3,672,460	14,008
Excess of revenues and other sources over expenditures and other uses	$ (8,973)	$ (10,641)	$ 11,900	$ 22,541

*See Note 1 on the General Fund Budgetary Comparison Schedule

The negative variance between the fiscal 2017 actual revenues and the fiscal 2017 final budget for personal income taxes was largely attributable to an increase in refunds and adjustments of $21.6 million and a decrease in the net accrual of $3.8 million between final enactment and the final actual amounts. Relative to the original enactment of the fiscal 2017 budget in June 2016, actual fiscal 2017 personal income tax estimated payments were $12.4 million less, final payments were $15.4 million more, withholding payments were $1.1 million more, refunds and adjustments were $25.4 higher, and the net accrual was $12.1 million greater than the amounts included in the original budget.

Actual fiscal 2017 general business taxes came in $59.9 million below the original budget due primarily to actual business corporation and public utilities gross earnings tax revenues coming in $55.8 million lower than the estimated amount included in the original budget. These realized decreases were compounded by shortfalls in insurance company gross premiums tax revenue of $5.0 million and in health care provider assessment revenues of $1.6 million.

Sales and use tax revenues received in fiscal 2017 underperformed estimated sales and use tax revenues included in the fiscal year 2017 original budget by $5.2 million with weaker sales tax revenues of $18.9 million offset by higher motor vehicle license and registration fees of $13.0 million. The increased motor vehicle license and registration fee revenues were due in large part to the General Assembly increasing the percentage of these fees to be retained as general revenue from 25 percent in the original budget to 50 percent in the final budget.

Actual fiscal 2017 other tax revenues were significantly greater than in either the original budget or the final budget. In the case of the former the difference was $65.6 million while in the case of the latter the difference was $58.6 million. In both cases, the large positive variance is due to the receipt of large unusual estate and transfer tax payment(s) in July 2017 that were accrued back to fiscal 2017 and were not foreseen by revenue estimators when producing the estate and transfer tax revenue estimates for the original and final budgets.

Finally, the actual fiscal 2017 Lottery transfer to the General Fund was in-line with the revenue estimate contained in the final budget but was $2.6 million below the estimated Lottery transfer to the General Fund contained in the fiscal 2017 original budget. In December 2016, five new traditional table games were added at Twin River displacing 43 video lottery terminals in the process. In addition, traditional lottery products sales declined sharply as in January 2016 the largest Powerball jackpot in U.S. history was attained driving significant ticket purchases during the run up to the jackpot.

The positive expenditure variance in the General Government function of approximately $13.4 million was primarily in two agencies, Administration and Legislature. Within Administration, most of the positive variance, $3.7 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 2018. This included $579,559 for a classification and compensation study and $129,319 for building code training. In the Legislature's budget, the positive variance was $7.1 million. Under Rhode Island law, the entire surplus for the Legislature is reappropriated to fiscal 2018.

The positive variance in the Human Services function of approximately $0.6 million was due to a positive variance of $4.7 million in the Office of Health and Human Services (OHHS), offset by a deficit of $4.4 million 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 2017. The BHDDH deficit was primarily in the Developmental Disabilities program due to certain savings initiatives not being achieved.

The positive variance of $1.9 million in Public Safety was primarily due to positive variances of $1.3 million in the Department of Corrections and $0.5 million in the Attorney General's Office. The Department of Corrections' surplus was due to funding enacted for specific projects remaining unspent at year end, which was subsequently approved by the Governor for reappropriation to fiscal 2018. This included approximately $900,000 for various components of the Medication Assisted Treatment (MAT) program. Additional unspent appropriations were due to lower overtime and personnel expenditures than anticipated in the final

Corrections budget. Within the Attorney General's Office, the surplus was primarily in the Civil Program due to position vacancies.

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, 2017 amounts to $4,329.2 million, net of accumulated depreciation of $3,023.8 million. This investment in capital assets includes land, buildings, improvements, equipment, intangibles, infrastructure, and construction in progress. The total increase in the State's investment in capital assets for the current fiscal year was approximately 3.30% of net book value (as restated). This increase is primarily attributable to investments in the construction and rehabilitation of highways and bridges, major software modernization initiatives and major building and renovation projects including a new home for Rhode Island's veterans.

Actual expenditures to purchase or construct capital assets were $334.3 million for the year. Of this amount, $171.0 million was used to construct or reconstruct highways. Depreciation charges for the year totaled $207.1 million.

State of Rhode Island's Capital Assets as of June 30, 2017 and 2016
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Capital assets not being depreciated or amortized						
Land	$ 393,291	$ 393,739	$ 46,808	$ 46,808	$ 440,099	$ 440,547
Works of Art	3,449	3,449			3,449	3,449
Intangibles	173,393	171,992			173,393	171,992
Construction in progress*	568,594	648,159	840	293	569,434	648,452
Total capital assets not being depreciated or amortized	1,138,727	1,217,339	47,648	47,101	1,186,375	1,264,440
Capital assets being depreciated or amortized						
Land improvements	4,665	4,665			4,665	4,665
Buildings	719,277	724,551	234,377	234,384	953,654	958,935
Building improvements	372,596	372,596			372,596	372,596
Equipment	326,981	304,793	31,379	31,104	358,360	335,897
Intangibles**	256,390	14,040	175	175	256,565	14,215
Infrastructure	4,220,721	4,069,394			4,220,721	4,069,394
	5,900,630	5,490,039	265,931	265,663	6,166,561	5,755,702
Less: Accumulated depreciation or amortization	2,847,909	2,662,630	175,855	166,460	3,023,764	2,829,090
Total capital assets being depreciated or amortized	3,052,721	2,827,409	90,076	99,203	3,142,797	2,926,612
Total capital assets (net)	$ 4,191,448	$ 4,044,748	$ 137,724	$ 146,304	$ 4,329,172	$ 4,191,052

*Certain fiscal year 2016 balances have been restated.

** Including information system development costs.

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 $2.4 billion, of which $1,091.4 million is general obligation debt, $606.2 million is special obligation debt and $662.5 million is debt of the blended component units. Additionally, accreted interest of $85.8 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 increased by $222.0 million during fiscal year 2017. This increase consists of a $39.6 million increase in general obligation debt, an increase of $214.9 million in special obligation debt, and a decrease of $32.5 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 $276.1 million and $1,274.3 million are supported by pledged revenue. These obligations are discussed in Notes 6 and 18 G.

In May 2017, the State issued $91.0 million of general obligation bonds with interest rates ranging from 3.00% to 5.00%, maturing from 2018 through 2037. The premium paid on these bonds was $9.7 million. The State also issued $66.9 million of general obligation refunding bonds with an interest rate of 5.00%, maturing from 2024 through 2031, with a premium of $14.7 million. These bonds, combined with the premium, were used to advance refund $70.4 million of bonds with interest rates from 3.00% to 5.50% and maturities from 2017 to 2031. The refunding resulted in a reduction of debt service of $7.8 million and an economic gain (difference between the present value of the debt service payments on the old and new debt) of $7.3 million. A deferred loss on the refunding of approximately $2.1 million was recorded.

The State's assigned general obligation bond ratings are as follows: AA (Stable) by S&P Global 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, 2017 amounted to $395.6 million; other obligations that are authorized but unissued totaled $198.3 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 2018 Budget

The first quarter report for fiscal year 2018 prepared by the State Budget Office contains estimates of annual expenditures based upon analysis of expenditures through the first quarter of fiscal year 2018, as well as caseload and medical assistance expenditure estimates and revenue estimates adopted at the November 2017 Caseload and Revenue Estimating Conferences. The fiscal year 2018 balance, based upon these assumptions, is estimated to reflect a $60.2 million general revenue deficit in the General Fund.

In the first quarter report for fiscal year 2018 prepared by the State Budget Office, a number of departments, primarily in the human service area as well as the Departments of Corrections and Public Safety and the Military Staff are projecting deficits. All changes recommended by the Governor in the fiscal year 2018 enacted appropriations, or adopted revenues, will be incorporated in the supplemental appropriations bill, which must be submitted to the General Assembly in early 2018.

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 $10.3 million less than enacted for fiscal year 2018. Taxes are expected to be $9.4 million less than the enacted estimates, while departmental revenues and other sources are expected to be $0.9 million less than enacted estimates. The November Revenue Estimating Conference estimates that revenues will be $3,824.4 million as compared with the enacted estimate of $3,834.7 million for fiscal year 2018.

The November Caseload Estimating Conference estimates reflect, in comparison to the fiscal year 2018 enacted budget, increased general revenue funding for fiscal year 2018 of $29.3 million. This is due to a number of factors including especially increased costs for medical assistance programs.

RIBridges / Unified Health Infrastructure Project ("UHIP")

The State has experienced significant programmatic challenges relating to its RIBRIDGES (also known as the Unified Health Infrastructure Project or UHIP) implementation, which is Rhode Island's new integrated eligibility system for various health and human services programs (i.e., Medicaid, SNAP, TANF) and the State's Health Insurance Exchange established pursuant to the ACA.

The UHIP system commenced initial functionality in October 2013 for the State's Health Insurance Exchange Marketplace, Medicaid and CHIP (Children's Health Insurance Program) programs by determining eligibility for populations based on modified adjusted gross income. Upon initial implementation, system functional problems resulted in challenges in determining and/or validating Medicaid eligibility for certain individuals, newborn enrollments into existing cases, and other functional and operational issues that resulted in eligibility redeterminations being suspended well beyond the one year period mandated by federal regulations.

In September 2016, RIBRIDGES was expanded by adding the remainder of Medicaid program eligibility and eligibility and pay benefits for the federal Supplemental Nutrition Assistance (SNAP), Temporary Assistance to Needy Families (TANF), and Child Care programs to those already commenced under the initial UHIP launch. RIBRIDGES immediately experienced significant functional and operational challenges in addition to continuing challenges experienced by the initial UHIP implementation.

Application backlogs, delays in determining (including the timely redetermination of) eligibility have continued for extended periods of time and system interface operations designed as key controls over eligibility have been ineffective and not fully operational. Additionally, advances have been necessary for certain provider groups. Control deficiencies relating to an ineffective eligibility system have also resulted in known duplicate payments of capitation for Medicaid individuals enrolled in managed care, continued Medicaid eligibility for deceased individuals, and long-term backlogs of newborns being added to respective Medicaid cases.

Oversight from the federal grantor agencies funding the system has increased with requests for corrective actions to ensure program compliance. Additionally, the American Civil Liberties Union sued the State alleging denial of timely benefits to SNAP applicants. In settlement of that suit, the court appointed a special master to oversee the corrective actions necessary to ensure timely determination and payment of benefits through the system.

The State has negotiated with the system developer, Deloitte, to recoup some of the system costs expended to date, to receive additional services at no charge to address system deficiencies and to cover any fines that may be levied on the State by the Food and Nutrition Services (FNS) related to the SNAP program.

The State anticipates continued challenges in fiscal 2018 due to the implementation of the computer system including operational, compliance and budgetary effects.

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.

A new casino/hotel is currently under construction in Tiverton, Rhode Island near the Massachusetts border by Premier Entertainment II, LLC, a limited liability corporation of which the Twin River Management Group (TRMG) is the sole member. The casino is expected to be opened in the fall of 2018 with gaming operations from Newport Grand being transferred to the Tiverton Casino. The State and TRMG believe that this new facility will be better situated to compete with casinos in nearby Massachusetts.

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 14 for information about each of the State's pension plans.

The status of certain legal challenges to pension reforms initiated in prior years is discussed in Note 13. Most of the cases filed because of enactment of pension reforms have been largely resolved through settlement and legislative enactment of those settlement provisions at the close of fiscal 2015.

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.

In May 2017, the Employees' Retirement System of Rhode Island Board voted to lower the investment rate of return assumption from 7.5% to 7% which will be reflected in the determination of the net pension liability (asset) for the various plans administered by the System beginning with the June 30, 2017 measurement date valuations. Funding valuations performed as of June 30, 2017 will reflect the lower investment return assumption and will impact required employer contributions in fiscal 2020.

Other Postemployment Benefits (OPEB)

The State established a trust in fiscal year 2011 to accumulate assets and pay benefits and other costs associated with its OPEB plans. All participating employers are required by law to fully fund the actuarially determined annual required contribution.

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 $720.8 million. Based on a discount rate of 5.0%, the State's and other participating employers' annual required contribution was $56.7 million. For fiscal year 2017, the State funded the retiree health care program in accordance with law by contributing the actuarially required contribution. At June 30, 2017 the OPEB Trust's net position was $228.4 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 is 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.

School Building Task Force

The Rhode Island School Building Task Force issued a report in December 2017 recommending specific actions to address Rhode Island's school facilities deficiencies. The Task Force report is in response to an in-depth analysis of the condition of every public-school facility in the state. The Task Force recommends that the State of Rhode Island, in partnership with municipalities and school districts embark on a once-in-a generation investment in upgrading public-school buildings. Among other recommendations, the task force recommends a referendum be placed before the voters in 2018 to issue $250 million in general obligation bonds with a similar referendum in 2022 for an additional $250 million.

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, 2017

State of Rhode Island and Providence Plantations
Statement of Net Position
June 30, 2017
(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	$ 833,760	$ 26,738	$ 860,498	$ 355,330
Funds on deposit with fiscal agent	432,119	312,491	744,610	
Investments				13,582
Receivables (net)	812,658	77,373	890,031	188,289
Restricted assets:				
Cash and cash equivalents	51,998	826	52,824	644,945
Investments				167,575
Receivables (net)				1,853
Other assets				40,865
Due from primary government				36,377
Due from component units	3,887		3,887	353
Internal balances	2,592	(2,592)		
Due from other governments and agencies	252,836	1,248	254,084	1,028
Inventories	2,269	1,109	3,378	8,654
Other assets	9,019	530	9,549	51,253
Total current assets	2,401,138	417,723	2,818,861	1,510,104
Noncurrent assets:				
Investments				184,927
Receivables (net)	17,824		17,824	1,254,354
Due from other governments and agencies	14,888		14,888	
Restricted assets:				
Cash and cash equivalents				67,287
Investments				330,900
Other assets				1,444,567
Due from component units	36,989		36,989	1,197
Capital assets - nondepreciable	1,138,727	47,648	1,186,375	233,006
Capital assets - depreciable (net)	3,052,721	90,076	3,142,797	1,854,169
Other assets		630	630	121,969
Total noncurrent assets	4,261,149	138,354	4,399,503	5,492,376
Total assets	6,662,287	556,077	7,218,364	7,002,480
Deferred outflows of resources	582,620	7,094	589,714	90,251
Liabilities and deferred inflows of resources				
Current Liabilities:				
Accounts payable	773,987	16,039	790,026	93,796
Due to primary government				4,972
Due to component units	36,377		36,377	353
Due to other governments and agencies		1,682	1,682	
Accrued expenses		6,243	6,243	
Unearned revenue	117,906		117,906	33,452
Other current liabilities	93,284	291	93,575	458,641
Current portion of long-term debt	209,666	15,176	224,842	205,146
Obligation for unpaid prize awards		7,283	7,283	
Total current liabilities	1,231,220	46,714	1,277,934	796,360
Noncurrent Liabilities:				
Due to primary government				49,090
Net pension liability	2,263,502	16,260	2,279,762	304,154
Net pension liability-special funding situation	1,212,754		1,212,754	
Net OPEB obligation	8,486		8,486	72,127
Unearned revenue		3,872	3,872	11,230
Due to component units				1,197
Notes payable				103,548
Loans payable				45,518
Obligations under capital leases	203,924		203,924	5,268
Compensated absences	20,456	320	20,776	21,833
Bonds payable	2,558,414	184,662	2,743,076	2,697,296
Other liabilities	41,749		41,749	356,649
Total noncurrent liabilities	6,309,285	205,114	6,514,399	3,667,910
Total liabilities	7,540,505	251,828	7,792,333	4,464,270
Deferred inflows of resources	153,304	511	153,815	14,138
Net position (deficit)				
Net investment in capital assets	3,212,380	(53,682)	3,158,698	1,364,845
Restricted for:				
Capital Projects	138,164		138,164	
Debt	101,858	826	102,684	255,944
Assistance to other entities	77,583		77,583	
Employment insurance programs	156,226	383,372	539,598	
Other	446,227		446,227	780,072
Nonexpendable	174		174	181,956
Unrestricted	(4,581,514)	(19,684)	(4,601,198)	31,506
Total net position (deficit)	$ (448,902)	$ 310,832	$ (138,070)	$ 2,614,323

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, 2017
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating grants and contributions	Program Revenues: Capital grants and contributions	Net (Expense) Revenue and Changes in Net Position — Primary Government: Governmental activities	Primary Government: Business-type activities	Primary Government: Totals	Component Units
Primary government:								
Governmental activities:								
General government	$ 753,011	$ 224,704	$ 78,418	$ 603	$ (449,286)	$	$ (449,286)	$
Human services	3,802,311	252,678	2,319,393	50,652	(1,179,588)		(1,179,588)	
Education	1,619,343	32,250	200,219	223	(1,386,651)		(1,386,651)	
Public safety	551,000	22,070	55,294	8,762	(464,874)		(464,874)	
Natural resources	90,082	28,980	19,871	2,670	(38,561)		(38,561)	
Transportation	350,585	23,857	74,436	168,046	(84,246)		(84,246)	
Interest and other charges	109,664				(109,664)		(109,664)	
Total governmental activities	7,275,996	584,539	2,747,631	230,956	(3,712,870)		(3,712,870)	
Business-type activities:								
State Lottery	510,302	872,376				362,074	362,074	
Convention Center	50,658	28,949				(21,709)	(21,709)	
Employment security	155,672	250,180	1,373			95,881	95,881	
Total business-type activities	716,632	1,151,505	1,373			436,246	436,246	
Total primary government	$ 7,992,628	$ 1,736,044	$ 2,749,004	$ 230,956	(3,712,870)	436,246	(3,276,624)	
Component units:	$ 1,413,976	$ 749,676	$ 517,686	$ 160,428				13,814
General Revenues:								
Taxes:								
Personal income					1,237,226		1,237,226	
General business					396,529		396,529	
Sales and use					1,183,568		1,183,568	
Gasoline					151,910		151,910	
Other					339,342		339,342	
Interest and investment earnings					6,313	312	6,625	58,030
Miscellaneous revenue					146,205	6,814	153,019	87,258
Gain on sale of capital assets					598		598	
Transfers (net)					338,978	(338,978)		
Total general revenues and transfers					3,800,669	(331,852)	3,468,817	145,288
Change in net position					87,799	104,394	192,193	159,102
Net position (deficit) - beginning as restated					(536,701)	206,438	(330,263)	2,455,221
Net position (deficit) - ending					$ (448,902)	$ 310,832	$ (138,070)	$ 2,614,323

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, 2017
(Expressed in Thousands)

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 425,374	$ 93,477	$ 276,738	$ 795,589
Funds on deposit with fiscal agent		363,948	68,171	432,119
Restricted cash equivalents			51,998	51,998
Receivables (net)	723,033	16,391	73,763	813,187
Due from other funds	14,631			14,631
Due from other governments and agencies	220,792	37,883		258,675
Loans to other funds	8,968		114,538	123,506
Other assets	2,953			2,953
Total assets	$ 1,395,751	$ 511,699	$ 585,208	$ 2,492,658
Liabilities, deferred inflows of resources and fund balances				
Liabilities				
Accounts payable	684,175	29,320	33,235	746,730
Due to other funds		9,931	4,591	14,522
Due to component units	6,886	6,147	23,010	36,043
Loans from other funds	114,538		8	114,546
Unearned revenue	117,906			117,906
Other liabilities	67,410	5,775	234	73,419
Total liabilities	990,915	51,173	61,078	1,103,166
Deferred inflows of resources	14,863	6,311		21,174
Fund Balances				
Nonspendable			174	174
Restricted	117,668	392,441	523,575	1,033,684
Unrestricted				
Committed	2,556	63,292	381	66,229
Assigned	67,931			67,931
Unassigned	201,818	(1,518)		200,300
Total fund balances	389,973	454,215	524,130	1,368,318
Total liabilities, deferred inflows of resources and fund balances	$ 1,395,751	$ 511,699	$ 585,208	$ 2,492,658

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, 2017
(Expressed in Thousands)

Fund balance - total governmental funds		$	1,368,318
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	7,032,940		
Accumulated depreciation	(2,844,057)		
			4,188,883
Deferred outflows of resources			582,620
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	(77,796)		
Bonds payable	(2,445,884)		
Net premium/discount	(236,135)		
Obligations under capital leases	(207,968)		
Premium	(20,563)		
Interest payable	(20,564)		
Net pension liabilities	(3,476,257)		
Other liabilities	(55,346)		
			(6,540,513)
Other long-term assets and unearned revenue are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			
Receivables	11,191		
Due from component units	40,876		
Unavailable revenue	21,174		
			73,241
Deferred inflows of resources			(153,305)
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.			31,854
Net position - total governmental activities		$	(448,902)

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, 2017
(Expressed in Thousands)

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	$ 2,918,068	$ 197,278	$ 195,178	$ 3,310,524
Licenses, fines, sales, and services	348,934	22,471	1,661	373,066
Departmental restricted revenue	217,258	1,360		218,618
Federal grants	2,726,644	239,691		2,966,335
Income from investments	1,885	2,272	1,981	6,138
Other revenues	54,550	1,743	81,539	137,832
Total revenues	6,267,339	464,815	280,359	7,012,513
Expenditures:				
Current:				
General government	553,479		196,137	749,616
Human services	3,831,633			3,831,633
Education	1,525,626		450	1,526,076
Public safety	534,495			534,495
Natural resources	77,556		124	77,680
Transportation		386,019	1,499	387,518
Capital outlays			194,955	194,955
Debt service:				
Principal	103,176	4,200	34,002	141,378
Interest and other charges	61,208	23,548	40,304	125,060
Total expenditures	6,687,173	413,767	467,471	7,568,411
Excess (deficiency) of revenues over (under) expenditures	(419,834)	51,048	(187,112)	(555,898)
Other financing sources (uses):				
Issuance of bonds and notes		245,925	91,000	336,925
Issuance of refunding bonds			91,560	91,560
Issuance of certificates of participation			15,960	15,960
Proceeds from capital leases	2,500		7,472	9,972
Debt issuance premiums		55,842	31,671	87,513
Transfers in	433,353	25,400	118,682	577,435
Payment to advance refunded bonds escrow agent			(109,895)	(109,895)
Transfers out	(137,092)	(60,139)	(41,226)	(238,457)
Total other financing sources (uses)	298,761	267,028	205,224	771,013
Special item	10,360		(10,360)	
Net change in fund balances	(110,713)	318,076	7,752	215,115
Fund balances - beginning (as restated)	500,686	136,139	516,378	1,153,203
Fund balances - ending	$ 389,973	$ 454,215	$ 524,130	$ 1,368,318

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, 2017
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ 215,115
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	339,270	
Depreciation expense	(196,425)	
		142,845
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	141,378	
Debt redeemed and defeased in refunding	97,370	
Accrued interest and other charges	(551)	
Proceeds from sale of debt	(454,417)	
Deferral of premium/discount	(87,513)	
Amortization of premium/discount	34,725	
Accreted interest paid	(542)	
Deferral of refunding gains/losses	3,831	
Amortization of refunding gains/losses	(9,592)	
		(275,311)
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	(4,400)	
Pension expenses, net of related deferred outflows and deferred inflows	(9,148)	
Program expenses	520	
Program and miscellaneous revenue	1,210	
Operating and capital grant revenue	12,220	
General revenue - taxes	(1,960)	
		(1,558)
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.		6,708
Change in net position - total governmental activities		$ 87,799

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, 2017
(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	$ 21,681	$ 4,016	$ 1,041	$ 26,738	$ 38,172
Restricted cash and cash equivalents		826		826	
Funds on deposit with fiscal agent			312,491	312,491	
Receivables (net)	5,612	1,398	70,363	77,373	14,197
Due from other funds		56		56	3,987
Due from other governments and agencies			1,248	1,248	
Inventories	1,109			1,109	2,268
Other assets	42	488		530	6,114
Total current assets	28,444	6,784	385,143	420,371	64,738
Noncurrent assets:					
Capital assets - nondepreciable		47,648		47,648	
Capital assets - depreciable (net)	422	89,654		90,076	2,564
Other assets		630		630	
Total noncurrent assets	422	137,932		138,354	2,564
Total assets	28,866	144,716	385,143	558,725	67,302
Deferred outflows of resources	2,728	4,366		7,094	
Liabilities and deferred inflows of resources					
Current liabilities:					
Accounts payable	12,356	3,683		16,039	21,566
Due to other funds	2,137	483	28	2,648	1,504
Due to other governments and agencies			1,682	1,682	
Loans from other funds					8,960
Accrued expenses	6,243			6,243	
Unearned revenue	625	3,189		3,814	
Other current liabilities	276		15	291	3,418
Bonds payable		11,110		11,110	
Compensated absences	252			252	
Obligation for unpaid prize awards	7,283			7,283	
Total current liabilities	29,172	18,465	1,725	49,362	35,448
Noncurrent liabilities:					
Net pension liability	16,260			16,260	
Unearned revenue	3,125	701	46	3,872	
Bonds payable		184,662		184,662	
Compensated absences	320			320	
Total noncurrent liabilities	19,705	185,363	46	205,114	
Total liabilities	48,877	203,828	1,771	254,476	35,448
Deferred inflows of resources	511			511	
Net Position (Deficit)					
Net investment in capital assets	422	(54,104)		(53,682)	2,564
Restricted for:					
Debt		826		826	
Employment insurance programs			383,372	383,372	
Unrestricted	(18,216)	(1,468)		(19,684)	29,290
Total net position (deficit)	$ (17,794)	$ (54,746)	$ 383,372	$ 310,832	$ 31,854

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, 2017
(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	$	$ 28,703	$ 244,676	$ 273,379	$ 337,270
Lottery sales	249,882			249,882	
Video lottery, net	482,404			482,404	
Table games	140,090			140,090	
Federal grants			1,373	1,373	
Miscellaneous		246	5,504	5,750	
Total operating revenues	872,376	28,949	251,553	1,152,878	337,270
Operating expenses:					
Personal services	9,948	17,004		26,952	13,645
Supplies, materials, and services	346,007	13,100		359,107	316,991
Prize awards, net of prize recoveries	154,215			154,215	
Depreciation and amortization	132	10,480		10,612	138
Benefits paid			155,672	155,672	
Total operating expenses	510,302	40,584	155,672	706,558	330,774
Operating income (loss)	362,074	(11,635)	95,881	446,320	6,496
Nonoperating revenues (expenses):					
Interest revenue	305	7		312	175
Other nonoperating revenue	874		5,940	6,814	38
Interest expense		(10,074)		(10,074)	(1)
Total nonoperating revenue (expenses)	1,179	(10,067)	5,940	(2,948)	212
Income (loss) before transfers	363,253	(21,702)	101,821	443,372	6,708
Transfers in		23,828		23,828	
Transfers out	(362,697)		(109)	(362,806)	
Change in net position	556	2,126	101,712	104,394	6,708
Net position (deficit) - beginning	(18,350)	(56,872)	281,660	206,438	25,146
Net position (deficit) - ending	$ (17,794)	$ (54,746)	$ 383,372	$ 310,832	$ 31,854

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, 2017
(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	$ 875,339	$	$	$ 875,339	$
Cash received from customers		28,083	253,372	281,455	332,505
Cash received from grants			1,373	1,373	
Cash payments for gaming activities	(498,613)			(498,613)	
Cash payments to suppliers	(4,253)	(13,800)		(18,053)	(318,500)
Cash payments to employees	(10,126)	(17,391)		(27,517)	(13,176)
Cash payments for benefits			(155,046)	(155,046)	
Other operating revenue (expense)			4,816	4,816	38
Net cash provided by (used for) operating activities	362,347	(3,108)	104,515	463,754	867
Cash flows from noncapital financing activities:					
Payment of interest on loan from federal government					
Loans from other funds					11,260
Loans to other funds					(1,266)
Repayment of loans to other funds					2,072
Repayment of loans from other funds					(8,208)
Transfers in	444	24,044	1,261	25,749	
Transfers out	(362,195)		(65)	(362,260)	
Net transfers from (to) fiscal agent			(105,737)	(105,737)	
Net cash provided by (used for) noncapital financing activities	(361,751)	24,044	(104,541)	(442,248)	3,858
Cash flows from capital and related financing activities:					
Principal paid on capital obligations		(11,440)		(11,440)	
Interest paid on capital obligations		(11,095)		(11,095)	
Acquisition of capital assets	(185)	(2,140)		(2,325)	(32)
Net cash provided by (used for) capital and related financing activities	(185)	(24,675)		(24,860)	(32)
Cash flows from investing activities:					
Interest on investments	305	7		312	175
Net cash provided by investing activities	305	7		312	175
Net increase (decrease) in cash and cash equivalents	716	(3,732)	(26)	(3,042)	4,868
Cash and cash equivalents, July 1	20,965	8,574	1,067	30,606	33,304
Cash and cash equivalents, June 30	$ 21,681	$ 4,842	$ 1,041	$ 27,564	$ 38,172
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	362,074	(11,635)	95,881	446,320	6,496
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	132	10,480		10,612	138
Other revenue (expense) and transfers in (out)	249		(281)	(32)	38
Net changes in assets and liabilities:					
Receivables, net	(111)	(86)	9,860	9,663	(4,265)
Operating revenue deposited directly with the fiscal agent					
Inventory	165			165	(473)
Deferred outflows of resources	(1,329)			(1,329)	
Prepaid items		71		71	(120)
Due to / due from transactions	(44)		(855)	(899)	
Accounts and other payables	232	(1,158)	(4)	(930)	(1,404)
Accrued expenses	(322)		9	(313)	457
Net pension liability	1,187			1,187	
Deferred inflows of resources	211			211	
Unearned revenue	(72)	(780)	(95)	(947)	
Prize awards payable	(25)			(25)	
Total adjustments	273	8,527	8,634	17,434	(5,629)
Net cash provided by (used for) operating activities	$ 362,347	$ (3,108)	$ 104,515	$ 463,754	$ 867

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, 2017
(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	$ 23,188	$	$ 8,973	$ 15,788
Deposits held as security for entities doing business in the State				54,115
Advance held by claims processing agent	797			
Receivables				
Contributions	28,220			
Due from State for teachers	19,482			
Due from other plans	2,553			
Other	1,280			
Miscellaneous	425	4	41,399	3,455
Total receivables	51,960	4	41,399	3,455
Prepaid expenses	5,050			
Investments, at fair value				
Equity in short-term investment fund		16,198		
Equity in pooled trust	8,287,885			
Other investments	694,539		6,433,475	
Total investments	8,982,424	16,198	6,433,475	
Total assets	9,063,419	16,202	6,483,847	$ 73,358
Liabilities				
Accounts payable	4,841	5	75,313	3,041
Due to other plans	2,553			
Incurred but not reported claims	1,682			
Due to other funds	2,304			
Deposits held for others				70,317
Total liabilities	11,380	5	75,313	$ 73,358
Net position				
Held in trust for:				
Pension benefits	8,823,621			
Other postemployment benefits	228,418			
Held for:				
External investment pool participants		16,197		
Restricted for:				
Tuition savings program			6,405,764	
Other			2,770	
Total net position	$ 9,052,039	$ 16,197	$ 6,408,534	

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, 2017
(Expressed in Thousands)

	Pension and Other Employee Benefit Trusts	Investment Trust Ocean State Investment Pool	Private Purpose Trusts
Additions			
Contributions			
Member contributions	$ 204,092	$	$
Employer contributions	468,858		
Supplemental employer contributions	15,445		
State contributions for teachers	96,542		
Interest on service credits purchased	200		
Service credit transfer payments	7,359		
From program participants		56,456	309,272
Total contributions	792,496	56,456	309,272
Other income	2,180		
Investment income			
Net appreciation in fair value of investments	861,090		288,858
Interest	57,050	108	
Dividends	48,478		102,298
Other investment income	17,602		38
	984,220	108	391,194
Less: investment expense	20,090	16	
Net investment income	964,130	92	391,194
Total additions	1,758,806	56,548	700,466
Deductions			
Retirement benefits	950,022		
Death benefits	3,210		
Distributions	12,406	42,220	
Program participant redemptions			946,411
Refund of contributions	7,468		
Administrative expense	9,681		35,589
Service credit transfers	7,359		
OPEB benefits	33,543		
Total deductions	1,023,689	42,220	982,000
Change in net position held in trust for:			
Pension benefits	686,825		
Other postemployment benefits	48,292		
Change in net position held for:			
External investment pool participants		14,328	
Change in net position restricted for:			
Tuition savings program			(281,762)
Other			228
Fiduciary net position - beginning	8,316,922	1,869	6,690,068
Fiduciary net position - ending	**$ 9,052,039**	**$ 16,197**	**$ 6,408,534**

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, 2017
(Expressed in Thousands)

	RIAC	RICC	I-195 RDC	RIPTA	RITBA
Assets and deferred outflows of resources					
Current Assets:					
Cash and cash equivalents	$ 36,002	$ 10,139	$ 187	$ 8,251	$ 14,511
Investments					
Receivables (net)	26,154	2,108		4,657	70
Restricted assets:					
Cash and cash equivalents	31,044	69,637	24,321		12,344
Investments	6,185	3,709			45,790
Receivables (net)	1,831	22			
Other assets	76				545
Due from primary government	3,141	2,321		5,349	1,465
Due from other governments			29		
Due from other component units		33			
Inventories				1,487	54
Other assets	768	234	46	179	93
Total current assets	105,201	88,203	24,583	19,923	74,872
Noncurrent Assets:					
Investments		906		1,064	
Receivables (net)	342	4,968			
Restricted assets:					
Cash and cash equivalents	51,293	9,858			
Investments	4,896	16,234			41,978
Receivables (net)		272			
Other assets					
Capital assets - nondepreciable	93,161	129		3,719	2,627
Capital assets - depreciable (net)	484,629	141		136,763	200,154
Due from other component units					
Other assets, net of amortization	815		311		
Total noncurrent assets	635,136	32,508	311	141,546	244,759
Total assets	740,337	120,711	24,894	161,469	319,631
Deferred outflows of resources	1,808	704		27,033	
Liabilities and deferred inflows of resources					
Current liabilities:					
Accounts payable	14,036	2,254	327	9,211	1,273
Due to primary government			16	1,090	
Due to other component units	235				
Due to other governments					
Unearned revenue	454	5,402	25	343	4,702
Other liabilities	23,678	1,937	228	7,854	7,630
Current portion of long-term debt	17,307	2,766			5,920
Total current liabilities	55,710	12,359	596	18,498	19,525
Noncurrent liabilities:					
Due to primary government	275			12,061	
Due to other component units	1,197				
Unearned revenue		11,002			
Notes payable					
Loans payable	41,541				
Obligations under capital leases	2,503				
Net pension liability	1,838	917		65,813	
Net OPEB obligation				59,053	
Other liabilities		26,751		11,274	
Compensated absences				213	
Bonds payable	287,463	18,819	38,400		177,734
Total noncurrent liabilities	334,817	57,489	38,400	148,414	177,734
Total liabilities	390,527	69,848	38,996	166,912	197,259
Deferred inflows of resources	453	26		517	6
Net position (deficit)					
Net investment in capital assets	266,356	270		127,485	62,843
Restricted for:					
Debt					53,750
Other	51,294		24,177		
Other nonexpendable		65,932			
Unrestricted	33,515	(14,661)	(38,279)	(106,412)	5,773
Total net position (deficit)	$ 351,165	$ 51,541	$ (14,102)	$ 21,073	$ 122,366

(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, 2017
(Expressed in Thousands)

	URI	RIC	CCRI	Other Component Units	Totals
Assets and deferred outflows of resources					
Current Assets:					
Cash and cash equivalents	$ 139,647	$ 33,234	$ 17,722	$ 95,637	$ 355,330
Investments	944			12,638	13,582
Receivables (net)	45,402	5,679	2,456	101,763	188,289
Restricted assets:					
Cash and cash equivalents				507,599	644,945
Investments				111,891	167,575
Receivables (net)					1,853
Other assets				40,244	40,865
Due from primary government	10,491	7,778	1,524	4,308	36,377
Due from other governments			465	534	1,028
Due from other component units				320	353
Inventories	3,354	73	704	2,982	8,654
Other assets	2,825	8	305	46,795	51,253
Total current assets	202,663	46,772	23,176	924,711	1,510,104
Noncurrent Assets:					
Investments	150,156	29,063	3,578	160	184,927
Receivables (net)	21,476	3,311	13	1,224,244	1,254,354
Restricted assets:					
Cash and cash equivalents	458	2,562		3,116	67,287
Investments				267,792	330,900
Receivables (net)					272
Other assets	21,047	1,212		1,422,036	1,444,295
Capital assets - nondepreciable	33,195	14,217	10,471	75,487	233,006
Capital assets - depreciable (net)	632,234	147,222	73,678	179,348	1,854,169
Due from other component units				1,197	1,197
Other assets, net of amortization	1,929	4		118,910	121,969
Total noncurrent assets	860,495	197,591	87,740	3,292,290	5,492,376
Total assets	1,063,158	244,363	110,916	4,217,001	7,002,480
Deferred outflows of resources	25,160	6,470	4,725	24,351	90,251
Liabilities and deferred inflows of resources					
Current liabilities:					
Accounts payable	29,742	10,322	5,689	20,942	93,796
Due to primary government	1,738	1,423	705		4,972
Due to other component units				118	353
Due to other governments					
Unearned revenue	14,091	4,058	2,849	1,528	33,452
Other liabilities	4,607	5,854	4,926	401,927	458,641
Current portion of long-term debt	11,559	992	274	166,328	205,146
Total current liabilities	61,737	22,649	14,443	590,843	796,360
Noncurrent liabilities:					
Due to primary government	16,785	17,719	2,250		49,090
Due to other component units					1,197
Unearned revenue				228	11,230
Notes payable		886		102,662	103,548
Loans payable	737			3,240	45,518
Obligations under capital leases	2,405			360	5,268
Net pension liability	123,020	42,474	30,766	39,326	304,154
Net OPEB obligation				13,074	72,127
Other liabilities	10,849	4,191	6	303,578	356,649
Compensated absences	17,910	1,027	357	2,326	21,833
Bonds payable	204,826	15,745	1,808	1,952,501	2,697,296
Total noncurrent liabilities	376,532	82,042	35,187	2,417,295	3,667,910
Total liabilities	438,269	104,691	49,630	3,008,138	4,464,270
Deferred inflows of resources	3,869	1,335	1,286	6,646	14,138
Net position (deficit)					
Net investment in capital assets	458,287	132,144	79,111	238,349	1,364,845
Restricted for:					
Debt				202,194	255,944
Other	79,859	13,220	1,636	609,886	780,072
Other nonexpendable	95,393	18,175	2,456		181,956
Unrestricted	12,641	(18,732)	(18,478)	176,139	31,506
Total net position (deficit)	$ 646,180	$ 144,807	$ 64,725	$ 1,226,568	$ 2,614,323

(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, 2017
(Expressed in Thousands)

	RIAC	RICC	I-195 RDC	RIPTA	RITBA	URI	RIC	CCRI	Other Component Units	Totals
Expenses	$ 88,669	$ 64,801	$ 3,070	$ 127,544	$ 32,084	$ 528,447	$ 151,276	$ 124,814	$ 293,271	$ 1,413,976
Program revenues:										
Charges for services	72,226	5,924	28	23,426	21,363	335,071	68,616	36,447	186,575	749,676
Operating grants and contributions		4,566	1,976	79,059	257	176,642	75,817	82,836	96,533	517,686
Capital grants and contributions	28,224			14,595	15,438	50,547	25,698	3,828	22,098	160,428
Total program revenues	100,450	10,490	2,004	117,080	37,058	562,260	170,131	123,111	305,206	1,427,790
Net (Expenses) Revenues	11,781	(54,311)	(1,066)	(10,464)	4,974	33,813	18,855	(1,703)	11,935	13,814
General revenues:										
Interest and investment earnings	569	7,966	30	(3)	542	16,078	3,846	522	28,480	58,030
Miscellaneous revenue	108	85,816		650	93	(3,474)	1,013		3,052	87,258
Total general revenue	677	93,782	30	647	635	12,604	4,859	522	31,532	145,288
Special items										
Change in net position	12,458	39,471	(1,036)	(9,817)	5,609	46,417	23,714	(1,181)	43,467	159,102
Net position (deficit) - beginning as restated	338,707	12,070	(13,066)	30,890	116,757	599,763	121,093	65,906	1,183,101	2,455,221
Net position (deficit) - ending	$ 351,165	$ 51,541	$ (14,102)	$ 21,073	$ 122,366	$ 646,180	$ 144,807	$ 64,725	$ 1,226,568	$ 2,614,323

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. 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 agency name was changed to the Rhode Island Infrastructure Bank. RIIB is considered to be a discretely presented component unit due in large part because of its management of the MRBRF on behalf of the State. 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 was established to assist eligible institutions in the educational and healthcare fields in Rhode Island in gaining access to capital. RIHEBC also remains proactive in developing cost-effective programs, offering staff assistance, and providing technical resources that benefit these institutions. RIHEBC also assists the State in administering the School Building Authority Capital Fund (SBACF) in order to address high priority local school capital 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 funds, 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 largely due to its support in administering 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 these 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, State Police 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 acquisition 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 (including computer software)	$2 million	5 -10 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 lives.

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 5-10 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 was 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 14, 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.

As of the June 30, 2016 measurement date, the State administered two non-contributory (pay-as-you-go) plans covering certain retired judges and state police officers. During fiscal 2017, the State Police plan became an advance funded plan and a trust was created by the Employee's Retirement System. For these plans, 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. See Note 14 for complete details of the State's reporting of these plans.

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, 2017 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	$ 44,027	$ 4,366	$ 48,393	$ 13,655
Deferred pension costs - ERS	484,471	2,728	487,199	41,461
Deferred pension costs - single employer plans and other	54,122		54,122	32,411
Derivatives				2,724
Total deferred outflows of resources	$ 582,620	$ 7,094	$ 589,714	$ 90,251
Deferred inflows of resources:				
Deferred pension credit - ERS	$ 110,978	$ 511	$ 111,489	$ 10,782
Deferred pension credit - single employer plans and other	10,098		10,098	2,354
Deferred gain on refunding of debt	32,228		32,228	1,002
Total deferred inflows of resources	$ 153,304	$ 511	$ 153,815	$ 14,138

The components of the deferred inflows of resources related to the governmental funds as of June 30, 2017 are as follows (expressed in thousands):

	General Fund	IST Fund	Total Governmental Funds
Deferred inflows of resources:			
Taxes	$ 4,059	$	$ 4,059
Other general revenue	7,556		7,556
Federal revenue	3,248	6,311	9,559
Total deferred inflows of resources	$ 14,863	$ 6,311	$ 21,174

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, 2017, the State adopted the following new accounting standards issued by GASB:

- GASB Statement No. 77, *Tax Abatement Disclosures*

- GASB Statement No. 80, *Blending Requirements for Certain Component Units*

- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*

- GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No.67, No. 68, and No. 73*

The implementation of GASB Statement No. 77 requires disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered by other governments, which reduce the reporting government's tax revenues. The purpose of the disclosures is 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.

The implementation of GASB Statements No. 80, No. 81 and No. 82 had no material impact on the State's financial Statements.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was also implemented in fiscal 2017, impacting the separately-issued financial statements for the State's Other Postemployment Benefit (OPEB) Trust funds. The OPEB trust funds are reported as fiduciary funds of the State.

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 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. The implementation of this statement in fiscal 2018 will require the restatement of net position in the government-wide financial statements, proprietary fund financial statements, and component unit financial statements at July 1, 2017 as the State and related entities recognize their proportionate share of the State's Net OPEB liability.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, will be effective for periods beginning after June 15, 2018. This Statement addresses the accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has a legal obligation to perform future retirements should recognize a liability related to the retirement of those assets.

GASB Statement No. 84, *Fiduciary Activities*, will be effective for reporting periods beginning after December 15, 2018. The objective of this Statement is to improve the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

GASB Statement No. 85, *Omnibus*, will be effective for periods beginning after June 15, 2017. The purpose of this Statement is to address issues identified during the implementation and application of certain GASB Statements. The Statement addresses topics including issues related to blending of component units, goodwill, fair value measurement and application, and post-employment benefits.

GASB Statement No. 86, *Certain Debt Extinguishments Issues*, will be effective for periods beginning after June 15, 2017. The goal of this Statement is to improve the consistency in accounting and reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust to pay debt. This Statement also enhances the accounting and reporting for prepaid insurance on debt that is extinguished and notes to the financial statements for debt that is defeased in-substance.

GASB Statement No. 87, *Leases*, will be effective for periods beginning after December 15, 2019. This Statement requires a lessee to recognize a lease liability and an intangible right to use leased assets. The lessor is required to recognize a lease receivable and a deferred inflow of resources.

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

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, 2017 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, 2017, of the $545.3 million invested, $84.9 million were Collateralized Repurchase Agreements.

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 prices 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, 2017:

Pooled cash equivalents (at amortized cost)		
Financial company commercial paper	$	217,226
Other commercial paper		7,200
Asset backed commercial paper		101,136
Government agency repurchase agreement		47,853
Other repurchase agreements		37,000
Treasury debt		3,000
Certificates of deposit		47,997
Variable Rate Demand Note		17,900
Non-Negotiable Time Deposit		58,000
Other Instruments		8,000
Total investments		545,312
Less: other liabilities in excess of other assets		(23)
Total investment pool		545,289
Less: funds held by fiduciary funds and discretely presented component units		
Amounts categorized as funds on deposit with fiscal agent		-
Amounts held by fiduciary trust funds:		
Pension trusts		110,715
OPEB trust		144
RIPTA health fund		36
Amounts held by discretely presented component units:		
URI		64,051
RIIB		14,038
RIIRBA		1,227
RIHEBC		9,695
Amounts held for external parties		16,197
Primary government pooled cash equivalents	$	329,186
Add: other primary government cash equivalents		
Money Market Mutual Funds		53,085
Total primary government cash equivalents	$	382,271
Cash equivalents	$	382,271
Cash		531,051
Total cash and cash equivalents	$	913,322
Statement of Net Position		
Cash and cash equivalents	$	860,498
Restricted cash and cash equivalents		52,824
Total cash and cash equivalents	$	913,322

Of the State's restricted cash and cash equivalents totaling $52.8 million, $52.0 million is held by the Tobacco Settlement Financing Corporation and $.8 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. 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.

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, 2017, information about the State's exposure to interest rate risk and credit risk for pooled cash equivalents and investments (expressed in thousands) is as follows:

			Investment Maturities (in days)				
Investment Type	At Fair Value	Total Amortized Cost	0-30	31-90	91-180	181-397	>397
Financial Company Commercial Paper	$ 217,245	$ 217,226	$ 55,581	$ 119,687	$ 31,958	$ 10,000	$
Other Commercial Paper	7,200	7,200	7,200				
Asset Backed Commercial Paper	101,133	101,136	11,297	79,839	10,000		
Government Agency Repurchase Agreements	47,853	47,853	47,853				
Other Repurchase Agreements	37,000	37,000	37,000				
Treasury Debt	3,005	3,000					3,000
Certificates of Deposit	47,998	47,997	46,000	1,997			
Variable Rate Demand Note	17,900	17,900	17,900				
Non-Negotiable Time Deposit	58,000	58,000	58,000				
Other Instruments	8,000	8,000	8,000				
	$ 545,334	$ 545,312	$ 288,831	$ 201,523	$ 41,958	$ 10,000	$ 3,000

		Quality Ratings (1)		
Investment Type	At Fair Value	Total Amortized Cost	A-1+	A-1
Financial Company Commercial Paper	$ 217,245	$ 217,226	$ 39,963	177,263
Other Commercial Paper	7,200	7,200	6,000	1,200
Asset Backed Commercial Paper	101,133	101,136		101,136
Gov't Agency Repurchase Agreements	47,853	47,853	47,853	
Other Repurchase Agreements	37,000	37,000		37,000
Treasury Debt	3,005	3,000	3,000	
Certificates of Deposit	47,998	47,997	9,000	38,997
Variable Rate Demand Note	17,900	17,900		17,900
Non-Negotiable Time Deposit	58,000	58,000		58,000
Other Instruments	8,000	8,000	8,000	
	$ 545,334	$ 545,312	$ 113,816	$ 431,496

1- Moody's Investor Service, except w here not available Standard & Poor's ratings are used.

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

As of June 30, 2017, information about the State's exposure to interest rate risk and credit risk for non- pooled cash equivalents and investments (expressed in thousands) is as follows:

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

Issuer	Fair Value	Type of Investment	Moody's Rating	Average Maturities in Days
Money market mutual funds				
Fidelity Institutional Money Market Government Portolio Class III	826	Money Market	Aaa-mf	26
Goldman Sachs Treasury Instruments Fund	52,259	Money Market	Aaa-mf	44
	$ 53,085			

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, 2017 and the breakdown by maturity are as follows:

Investment Type	Fair Value	Less Than 1 year	1-5 years	6-10	More Than 10
U.S. Treasuries	$ 27,407	$ 27,407	$ 0	$ 0	$ 0
U.S. Government Agencies	238,487	72,086	166,401	0	0
Money Market Funds	115,478	115,478	0	0	0
Commercial Paper	17,956	17,956	0	0	0
Certificates of Deposit	18,004	18,004	0	0	0
Investment Contracts	6,649	6,649	0	0	0
	$ 423,981	$ 257,580	$ 166,401	$ 0	$ 0
Cash	8,138				
Funds in trust with fiscal agent	$ 432,119				

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

Issuer	Fair Value	Moody's Rating	Maturities in Days
United States Treasury Notes/Bonds	$ 27,407	Aaa	see detail below
US Government Agency Securities	238,487	Aaa	see detail below
Money Market Funds			
Black Rock Liquidity Funds: Federal Fund	5,299	Aaa-mf	37
Dreyfus Government Cash Management Fund	42,257	Aaa-mf	22
Dreyfus Treasury Agency Cash Management Fund	9,723	Aaa-mf	29
Federated Government Obligation Tax Managed Fund	19,088	Aaa-mf	45
Fidelity Institutional Money Market Government Portolio Class III	1,478	Aaa-mf	26
First American Government Obligations Fund Class D	31,232	Aaa-mf	34
Invesco Government & Agency Portfolio-Short-Term	6,401	Aaa-mf	19
Commercial Paper			
JP Morgan Securities LLC	5,987	P-1	see detail below
Bank of Tokyo Mitsubishi	5,985	P-1	see detail below
Credit Agricole CIB New York	5,984	P-1	see detail below
Certificates of Deposit			
BNP Paribas New York Branch	6,004	P-1	see detail below
Norinchukin Bank New York	6,000	P-1	see detail below
Toronto Dominion Bank New York	6,000	P-1	see detail below
Investment Contracts			
FSA Capital Management GIC	6,649	N/A	N/A
	$ 423,981		

The following (expressed in thousands) represents the fair value of investments by type held at June 30, 2017:

		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs
Investment at Fair Value		**(Level 1)**	**(Level 2)**
Debt Securities			
US Government Securities	$ 27,407	$ 27,407	$
US Government Agency Securities	238,487		238,487
Commercial Paper	17,956		17,956
Certificates of Deposit	18,002		18,002
Total Investments by fair value level	$ 301,852	$ 27,407	$ 274,445
Investments measured at the net asset value (NAV)			
Money Market Mutual Funds and Guaranteed Investment Contract	122,129		
Total Funds on Deposit with Fiscal Agent	$ 423,981		

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 also include approximately $312.5 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
US Government Agencies	Federal National Mortgage Association	$ 98,458	12.21%
US Government Agencies	Federal Home Loan Bank	55,925	6.94%
US Government Agencies	Federal Home Loan Mortgage Corporation	76,116	9.44%
Money Market Funds	Dreyfus Government Cash Management Fund	42,257	5.24%
Money Market Funds	Goldman Sachs Treasury Instruments Fund	52,259	6.48%

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, infrastructure investments, and Crisis Protection Class-Trend Following) 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 the limited partnership general partners for these investment types 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, infrastructure and crisis protection class - trend following investments represented 9.2%, 7.1%, 7.4%, 3.5% and 1.0%, respectively of the total reported fair value of all pension pooled trusts investments at June 30, 2017.

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, infrastructure and cash 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, 2017, the carrying amounts of the System's cash deposits was approximately $14.4 million and the bank balance was approximately $14.5 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.

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, 2017 (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.

(a) General

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 establishment of the SIC, its legal authority and investment powers are outlined in Chapter 35-10 of the Rhode Island General Laws.

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.

The following was the SIC's adopted asset allocation policy targets as of June 30, 2017:

Type of Investment	Policy Targets for Fiscal Year 2017
Global Equity	40.0%
Private Growth	15.0%
Income	8.0%
Crisis Protection Class	8.0%
Inflation Protection	8.0%
Volatility Protection	21.0%
Total	100.0%

Consistent with a target asset allocation model adopted by the State Investment Commission (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, 2017:

Pooled Investment Trust Investment Type	Fair Value (in thousands)
Cash and Cash Equivalents	$ 82,064
Money Market Mutual Funds	210,114
US Government Securities	699,238
US Government Agency Securities	286,192
Non-US Government Securities	8,682
Collateralized Mortgage Obligations	10,856
Corporate Bonds	505,731
Domestic Equity Securities	697,966
International Equity Securities	471,013
Private Equity	569,612
Real Estate	593,136
Commingled Funds - Domestic Equity	1,304,862
Commingled Funds - International Equity	1,224,401
Hedge Funds	745,347
Crisis Protection Class -Trend Following	77,403
Term Loans	323,918
Infrastructure	281,746
Derivative Investments	645
Investments at Fair Value	$ 8,092,926
Receivable for investments sold	243,053
Payable for investments purchased	(269,621)
Total	$ 8,066,358

(b) Fair value hierarchy

Investments and Derivative Instruments Measured at Fair Value

Investments at Fair Value	June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity Investments				
Global Equity	$ 1,168,979	$ 1,168,979	$ -	
Infrastructure - publicly traded	154,653	154,653		
	$ 1,323,632	$ 1,323,632	$ -	$ -
Fixed Income				
US Government Securities	$ 699,238	$ 699,238	$ -	$ -
US Government Agency Securities	286,193		286,193	
Non-US Government Securities	8,682		8,682	
Corporate Bonds	505,731		504,204	1,527
Collateralized Mortgage Obligations	10,856		10,856	
Term Loans	323,917			323,917
	$ 1,834,617	$ 699,238	$ 809,935	$ 325,444
Total investments by fair value level	$ 3,158,249	$ 2,022,870	$ 809,935	$ 325,444
Investments Measured at Net Asset Value (NAV)				
Money Market Mutual Funds	$ 210,114			
Commingled Funds - Domestic Equity	1,304,862			
Commingled Funds - International Equity	1,224,401			
Hedge Funds	745,347			
Private Equity	569,612			
Real Estate	593,136			
Private Infrastructure	127,094			
Crisis Protection Class - Trend Following	77,403			
	$ 4,851,969			
Derivative Investments				
Equity and fixed income index futures	$ (47)	$ (47)		
Other derivatives	692		$ 692	
	$ 645			
Cash and cash equivalents	$ 82,064			
Net investment payable	$ (26,569)			
	$ 8,066,358			

Investments measured at the net asset value (NAV)

	Fair Value (in thousands)	Unfunded Commitments	Redemption (if currently eligible)	Redemption Notice Period
Money Market Mutual Funds(1)	$ 210,114	-	daily	none
Commingled Funds - Domestic Equity (2)	1,304,862	-	daily	none
Commingled Funds - International Equity (2)	1,224,401	-	bi-monthly	see note below
Hedge Funds (3)	745,347	-	see note below	see note below
Private Equity (4)	569,612	444,855	see note below	see note below
Real Estate (5)	593,136	76,552	see note below	see note below
Infrastructure Investments (6)	127,094	43,131	see note below	see note below
Crisis Protection Class - Trend Following (7)	77,403	-	see note below	see note below
	$ 4,851,969	$ 564,538		

(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 type investments are generally carried at amortized cost which approximates fair value. There are no withdrawal limitations for the money market mutual funds.

(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 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 16 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, 2017. Of the underlying holdings within the hedge funds approximately 73% 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, 2017, investments totaling $45,834,624 are subject to these withdrawal limitation provisions. 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.

As part of an overall change in asset allocation during fiscal 2017, the State Investment Commission opted to reduce its investment in hedge funds. Approximately $371 million was received during fiscal 2017 from the System’s liquidation of certain hedge funds. At June 30, 2017, approximately $244 million is pending and expected to be received during fiscal 2018. Of the amounts pending distribution to the System, assets totaling $8.6 million are held in three vehicles managing the liquidation of investments held in private securities, Cash will be distributed as investments are sold. An additional $13.7 million represents non-invested, liquid assets to be distributed upon completion of the funds’ annual audits.

(4) ***Private Equity –*** These 84 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, 2017.

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, 2017.

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 four 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, 2017.

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.

(7) ***Crisis Protection Class – Trend Following*** – These two funds were created as limited liability companies with the Employees' Retirement System of the State of Rhode Island as the sole member. The investment managers' principal investment objectives for the companies include providing diversified exposure to market trends across asset classes, geographies and time horizons to generate sizable profits during the periods when growth–risk exposed assets decline significantly and to outperform the Credit Suisse Liquid Alternative Beta Managed Futures Index (CLABT18 Index) over a 5-year period.

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, 2017.

As the Employees' Retirement System of the State of Rhode Island is the sole member, the limited liability company could be liquidated at its option. The nature of these investments provides for distributions through the liquidation of the underlying assets or net operating cash flows.

As described above, the fair values of certain investments in the pooled investment trust within the pension trust funds 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. These assets are principally hedge funds, private equity, real estate, private infrastructure, and crisis protection class – trend following investments which represent 23% of the assets of the pension and other employee benefit trusts.

(c) Rate of Return

For the year ended June 30, 2017, the annual money-weighted returns on investments within each of the plans, net of investment expense, are shown in the following table. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

	ERS	TSB	MERS	SPRBT	JRBT	RIJRFT	SPRFT
Money-weighted rate of return – year ended June 30, 2017	12.34%	11.66%	12.17%	11.87%	11.87%	11.46%	9.79%

(d) 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, 2017, 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, 2017:

Investment Type:	Fair Value (in thousands)	Effective Duration
US Government Securities	$ 699,238	6.31
US Government Agency Securities	286,193	3.50
Non-US Government Securities	8,682	6.59
Collateralized Mortgage Obligations	10,856	0.80
Corporate Bonds	505,731	4.99
Term Loans	323,918	0.18
Total Fixed Income	$ 1,834,617	4.40

The System had investments at June 30, 2017 totaling $210 million in money market mutual fund investments including $111 million in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer.

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. OSIP transacts with its participants at a stable net asset value (NAV) per share. Investments reported at the NAV are not subject to the leveling categorization as described above. There are no participant withdrawal limitations. 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 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.

The System's remaining money market mutual fund investments consisted of a short-term money market mutual fund that held investments with a weighted average maturity of 80 days at June 30, 2017.

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.

(e) 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, 2017 is as follows (expressed in thousands):

Rating	Collateralized Mortgage Obligations	US Government Agency Securities	Corporate Bonds	Term Loans
Aaa	$ 9,636	$ 284,492	$ 22,933	$ 25,556
Aa	1,220		33,814	3,353
A			128,298	5,092
Baa		1,701	247,371	12,813
Ba			32,648	85,989
B			28,478	119,778
Caa			4,698	7,563
Ca				
C				
D				794
Not Rated			7,491	62,980
Fair Value	$ 10,856	$ 286,193	$ 505,731	$ 323,918

Ratings provided by Moody's Investors Service

(f) 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.

(g) 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, 2017, 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.

(h) 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, 2017, was as follows (expressed in thousands):

Foreign Currency	Commingled Fund	Equities	Private Equity	Derivatives	Total
Australian Dollar	$ 52,306	$ 27,591	$	$ 16	$ 79,913
Brazilian Real	23,579				23,579
Canadian Dollar	100,816	39,375	3,031	5	143,227
Chilean Peso	3,641				3,641
Colombian Peso	1,557				1,557
Czech Republic Koruna	693				693
Danish Krone	12,259	7,406			19,665
Egyptian Pound	525				525
Euro Currency	246,640	150,522	52,691	207	450,060
Great Britain Pound	134,640	72,244		56	206,940
Hong Kong Dollar	97,799	15,367			113,166
Hungarian Forint	1,142				1,142
Indian Rupee	31,148				31,148
Indonesia Rupiah	8,511				8,511
Israeli Shekel	1,955	1,202			3,157
Japanese Yen	180,978	99,966		(54)	280,890
Malaysian Ringgit	8,305				8,305
Mexican Peso	13,343				13,343
New Taiwan Dollar	44,171				44,171
New Zealand Dollar	1,324	859			2,183
Norwegian Krone	4,891	2,414			7,305
Pakistani Rupee	400				400
Peruvian Nouveau Sol	1				1
Philippine Peso	4,207				4,207
Polish Zloty	4,472				4,472
Qatari Real	2,359				2,359
Russian Ruble	6,529				6,529
Singapore Dollar	10,700	8,633			19,333
Swedish Krona	22,180	15,518		10	37,708
Swiss Franc	62,700	29,916			92,616
South African Rand	24,253				24,253
South Korean Won	55,633				55,633
Thailand Baht	7,533				7,533
Turkish Lira	3,755				3,755
United Arab Emirates Dirham	2,229				2,229
Total	$ 1,177,174	$ 471,013	$ 55,722	$ 240	$ 1,704,149
United States	49,255				
Grand Total	$ 1,226,429				

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

(i) 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 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.

Additional information regarding interest rate risks for these investments is included in Interest Rate Risk.

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, 2017 (expressed in thousands):

Investment Derivative Instruments	Change in fair value included in investment income	Fair Value at June 30, 2017	Notional Amount
Fixed income futures - long	$ (105)	$ (105)	$ 165,331
Equity index futures - long	(333)	(154)	46,650
Equity index futures - short	212	212	(38,424)
Credit default swaps	591	692	
Interest rate swaps	262		
Total	$ 627	$ 645	
Foreign currency forward contracts:			
Pending payable (liability)		$ (84)	
Pending receivable (asset)		175	
		$ 91	

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, 2017 was $175,412. 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 (98%) 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 $692 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, 2017, 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.

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.

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, 2017, the carrying amount of the OPEB System's cash deposits was approximately $8.6 million and the bank balance was $8.6 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, 2017, the OPEB System's cash deposits were either federally insured or collateralized.

In addition, at June 30, 2017, the OPEB System also had cash equivalent investments consisting of approximately $143,000 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. 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, 2017 (expressed in thousands):

Investments at Fair Value	June 30, 2017	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt Securities				
US Government Securities	$ 29,088	29,088		
US Government Agency Securities	22,573		22,573	
Non-US Government Securities	410		410	
Corporate Bonds	24,597		24,597	
Total Investments by fair value level	$ 76,668	$ 29,088	$ 47,580	$ -
Investments measured at the net asset value (NAV)				
Commingled Funds	$ 143,882			
Money Market Mutual Funds	10,510			
	$ 154,392			
Net investment payable	(9,532)			
Total Pooled Investment Trust	$ 221,528			

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.

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.

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, 2017 (expressed in thousands):

Investment Type	Fair Value	Effective Duration
U.S. Government Securities	$ 29,088	5.42
U.S. Government Agency Securities	22,573	3.77
Non-U.S. Government Securities	410	15.58
Corporate Bonds	24,597	7.93
Total Fixed Income	$ 76,668	5.10

The OPEB System's investment in the Fidelity Investments Money Market Government Portfolio, a money market mutual fund, had an average maturity of 26 days at June 30, 2017.

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, 2017 is as follows (expressed in thousands):

Quality Rating (1)	U.S. Government Agency Securities	Non-US Government Securities	Corporate Bonds
Aaa	$ 22,573	$	$ 561
Aa			1,383
A		410	7,836
Baa			14,606
Not rated			211
Fair Value	$ 22,573	$ 410	$ 24,597

(1) Moody's Investors Service

The OPEB System's investment in a short-term money market mutual fund (Fidelity Investments Money Market Government Portfolio) 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, 2017, 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 $6.4 billion in a number of mutual funds and other investment vehicles as of June 30, 2017. These investments are categorized as Level 1 of the fair value hierarchy. The Touro Jewish Synagogue Fund had investments of approximately $2.8 million in the Fidelity Balanced Fund as of June 30, 2017. These investments are categorized in Level 1 of the fair value hierarchy.

F. Agency Funds

As of June 30, 2017, 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, 2017 (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	$ 517,889	$ 500,712	$ 9,259	$ 1,027,860	$ 267,724	$ 40,876
Less: Allowance for Uncollectibles	91,316	103,844	2,218	197,378		
Governmental receivables, net	426,573	396,868	7,041	830,482	267,724	40,876
Business-type receivables	71,386	26,851		98,237	1,248	
Less: Allowance for Uncollectibles	3,773	17,091		20,864		
Business-type receivables, net	67,613	9,760		77,373	1,248	
Receivables, Net of Allowance for Uncollectibles	494,186	406,628	7,041	907,855	268,972	40,876
Less: Current Portion						
Governmental receivables	422,514	386,064	4,080	812,658	252,836	3,887
Business-type receivables	67,613	9,760		77,373	1,248	
Noncurrent Receivables, Net	$ 4,059	$ 10,804	$ 2,961	$ 17,824	$ 14,888	$ 36,989

Note 4. Intra-Entity Receivables and Payables

Intra-entity receivables and payables as of June 30, 2017 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	$ 14,631	$	Operating expenses
Intermodal Surface Transportation		9,931	Transportation funding
Non-Major Funds			
RI Temporary Disability Insurance		1,142	Operating expenses
Permanent School		50	
Bond Capital		7	Project funding
RI Capital Plan		3,392	Primarily for transportation State match
Total Non-Major Funds		4,591	
Total Governmental Funds	14,631	14,522	
Proprietary Funds			
Enterprise			
RI Lottery		2,137	Net income ow ed to General Fund
RI Convention Center Authority	56	483	Project funding
Employment Security Trust		28	Benefit payments
Total Enterprise Funds	56	2,648	
Internal Service	3,987	1,504	Settlement of services rendered
Total primary government	$ 18,674	$ 18,674	

Note 5. Capital Assets

The capital asset activity of the reporting entity for the year ended June 30, 2017 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	$ 393,739	$ 569	$ (1,017)	$ 393,291
Works of Art	3,449			3,449
Intangibles	171,992	1,401		173,393
Construction in progress*	648,159	314,261	(393,826)	568,594
Total capital assets not being depreciated or amortized	1,217,339	316,231	(394,843)	1,138,727
Capital assets being depreciated or amortized:				
Land improvements	4,665			4,665
Buildings	724,551	1,720	(6,994)	719,277
Building Improvements	372,596			372,596
Furniture and equipment	304,793	27,409	(5,221)	326,981
Intangibles **	14,040	242,350		256,390
Infrastructure	4,069,394	151,327		4,220,721
Total capital assets being depreciated or amortized	5,490,039	422,806	(12,215)	5,900,630
Less accumulated depreciation or amortization for:				
Land improvements	3,550	73		3,623
Buildings	272,710	26,658	(6,092)	293,276
Building Improvements	202,597			202,597
Furniture and equipment	242,552	21,083	(5,189)	258,446
Intangibles	14,042	12,118		26,160
Infrastructure	1,927,179	136,628		2,063,807
Total accumulated depreciation or amortization	2,662,630	196,560	(11,281)	2,847,909
Total capital assets being depreciated or amortized, net	2,827,409	226,246	(934)	3,052,721
Governmental activities capital assets, net	$ 4,044,748	$ 542,477	$ (395,777)	$ 4,191,448

* Beginning balances have been restated.

** Including information system development costs.

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

General government	$ 11,044
Human services	19,058
Education	6,709
Public safety	16,974
Natural resources	5,633
Transportation	137,142
Total depreciation or amortization expense - governmental activities	$ 196,560

Business-type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 46,808	$	$	$ 46,808
Construction in progress	293	581	(34)	840
Total capital assets not being depreciated	47,101	581	(34)	47,648
Capital assets being depreciated:				
Buildings	234,384		(7)	234,377
Machinery and equipment	31,104	1,486	(1,211)	31,379
Intangibles	175			175
Total capital assets being depreciated	265,663	1,486	(1,218)	265,931
Less accumulated depreciation for:				
Buildings	142,018	8,182	(7)	150,193
Machinery and equipment	24,352	2,405	(1,210)	25,547
Intangibles	90	25		115
Total accumulated depreciation	166,460	10,612	(1,217)	175,855
Total capital assets being depreciated, net	99,203	(9,126)	(1)	90,076
Business-type activities capital assets, net	$ 146,304	$ (8,545)	$ (35)	$ 137,724

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land	$ 120,583	$ 5,767	$ (373)	$ 125,977
Construction in progress *	77,228	115,359	(85,808)	106,779
Other	250			250
Total capital assets not being depreciated or amortized	198,061	121,126	(86,181)	233,006
Capital assets being depreciated or amortized:				
Buildings	2,251,206	56,653	25,169	2,333,028
Land improvements *	245,346	14,282	1,426	261,054
Machinery and equipment	461,448	38,841	(19,058)	481,231
Infrastructure	261,823	16,035	(11)	277,847
Total capital assets being depreciated or amortized	3,219,823	125,811	7,526	3,353,160
Less accumulated depreciation or amortization for:				
Buildings	873,263	72,823	(599)	945,487
Land improvements	137,260	11,586	(50)	148,796
Machinery and equipment	297,811	33,036	(18,441)	312,406
Infrastructure	81,100	11,202		92,302
Total accumulated depreciation or amortization	1,389,434	128,647	(19,090)	1,498,991
Total capital assets being depreciated or amortized, net	1,830,389	(2,836)	26,616	1,854,169
Total capital assets, net	$ 2,028,450	$ 118,290	$ (59,565)	$ 2,087,175

* 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, 2017 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)	$ 1,051,810	$ 157,920	$ (118,345)	$ 1,091,385	$ 80,765	$ 1,010,620
RICC Grant Anticipation Revenue Bonds	230,280	245,925		476,205		476,205
RICC Rhode Island Motor Fuel Tax Revenue Bonds	53,965		(4,200)	49,765	4,390	45,375
Tobacco Settlement Asset-Backed Bonds	695,046		(32,508)	662,538	10,220	652,318
Accreted interest on TSFC bonds	85,224	12,438	(11,896)	85,766		85,766
RICC Historic Tax Credit Bonds	106,995		(26,770)	80,225	28,230	51,995
Net unamortized premium/discount	187,141	80,295	(31,301)	236,135		236,135
Bonds Payable, net	2,410,461	496,578	(225,020)	2,682,019	123,605	2,558,414
Obligation under capital leases (see section E)	214,321	50,572	(56,925)	207,968	24,607	183,361
Net unamortized premium/discount	16,769	7,218	(3,424)	20,563		20,563
Obligation under capital leases, net	231,090	57,790	(60,349)	228,531	24,607	203,924
Net pension liability (see note 14)	2,113,105	150,397		2,263,502		2,263,502
Net pension liability-special funding situation (see note 14)	1,117,395	95,359		1,212,754		1,212,754
Net OPEB Obligation (see note 15 C)	8,503		(17)	8,486		8,486
Job Creation Guaranty Program Obligation (see section H)	38,090		(22,917)	15,173		15,173
Compensated absences (see section J)	75,211	67,885	(62,695)	80,401	59,945	20,456
Pollution remediation (see section I)	3,605	6,198	(6,413)	3,390	1,159	2,231
Other (see section M)	15,124	12,028	(2,457)	24,695	350	24,345
Total Governmental Long-term Liabilities	$ 6,012,584	$ 886,235	$ (379,868)	$ 6,518,951	$ 209,666	$ 6,309,285
Business-type Activities						
Revenue bonds (see section B)	$ 203,880	$	$ (11,440)	$ 192,440	$ 11,110	$ 181,330
Net unamortized premium/discount	4,747		(1,415)	3,332		3,332
Revenue bonds, net	208,627		(12,855)	195,772	11,110	184,662
Net pension liability	15,074	1,186		16,260		16,260
Unearned Revenue	9,186	45	(1,545)	7,686	3,814	3,872
Compensated absences (see section J)	565	388	(381)	572	252	320
Total Business-type Long-term Liabilities	$ 233,452	$ 1,619	$ (14,781)	$ 220,290	$ 15,176	$ 205,114
Component Units						
Bonds payable (see section B)	$ 2,768,117	$ 515,964	$ (576,532)	$ 2,707,549	$ 125,479	$ 2,582,070
Net unamortized premium/discount	102,235	40,424	(17,516)	125,143	9,917	115,226
Bonds Payable, net	2,870,352	556,388	(594,048)	2,832,692	135,396	2,697,296
Notes payable (see section C)	113,988	369,416	(312,959)	170,445	66,897	103,548
Loans payable (see section D)	46,819	1,523	(1,537)	46,805	1,287	45,518
Obligations under capital leases	5,254	2,896	(1,317)	6,833	1,565	5,268
Net pension liability	271,402	34,128	(1,376)	304,154		304,154
Net OPEB obligation	68,322	4,118	(313)	72,127		72,127
Compensated absences (see section J)	31,206	2,112	(1,571)	31,747	9,914	21,833
Due to primary government (see section L)	51,597	9,639	(6,453)	54,783	5,693	49,090
Unearned Revenue	20,573	820	(2,779)	18,614	7,384	11,230
Due to Component Units	1,821	10	(281)	1,550	353	1,197
Other Long-term liabilities						
Arbitrage rebate (see section K)	1,541	803	(349)	1,995	978	1,017
Pollution remediation (see section I)	26,939		(4,762)	22,177	1,135	21,042
Other liabilities (see section M)	346,179	12,000	(16,087)	342,092	7,502	334,590
Total Component Units Long-term Liabilities	$ 3,855,993	$ 993,853	$ (943,832)	$ 3,906,014	$ 238,104	$ 3,667,910

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

B. Bonds Payable

At June 30, 2017, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government				Component Units	
	Governmental Activities		Business Type Activities			
	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 123,605	$ 103,441	$ 11,110	$ 10,463	$ 125,479	$ 101,494
2019	139,470	100,355	11,660	9,906	144,338	97,024
2020	148,620	92,645	12,240	9,312	157,574	92,111
2021	148,110	85,905	14,350	8,693	146,938	85,627
2022	150,195	78,982			142,093	78,806
2023 - 2027	684,770	290,522	80,980	31,993	621,667	315,922
2028 - 2032	427,460	147,904	38,200	12,413	547,701	197,084
2033 - 2037	139,320	81,043	23,900	3,727	381,904	105,702
2038 - 2042	85,730	57,731			273,184	49,133
2043 - 2047	85,820	41,868			99,737	21,954
2048 - 2052	227,018	1,429,892 *			62,480	6,188
2053 - 2057					4,454	512
	$ 2,360,118	$ 2,510,288	$ 192,440	$ 86,507	$ 2,707,549	$ 1,151,557

* 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 May 2017 the State issued $91.0 million of general obligation bonds with an interest rate of 5.00%, maturing from 2018 through 2037. The premium paid on these bonds was $9.7 million. The State also issued $66.9 million of general obligation refunding bonds with an interest rate of 5.00%, maturing from 2024 through 2031, with a premium of $14.7 million. These bonds, combined with the premium, were used to advance refund $70.4 million of bonds with interest rates from 3.00% to 5.50% and maturities from 2017 to 2031. The refunding resulted in a reduction of debt service of $7.8 million and an economic gain (difference between the present value of the debt service payments on the old and new debt) of $7.3 million. A deferred loss on the refunding of approximately $2.1 million was recorded.

At June 30, 2017, general obligation bonds authorized by the voters and unissued amounted to approximately $395.6 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 - $11.6 million (2) Garrahy Courthouse Garage Constriction - $45 million and (3) Providence River Dredging - $10.5 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 October 2016, the Rhode Island Commerce Corporation, on behalf of the RI Department of Transportation, issued $245.9 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. 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 2017 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 2031.

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 must 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.

On March 24, 2017, the Rhode Island Attorney General (the "Attorney General") announced that his office had reached a settlement in principle with various tobacco manufacturers over disputed payments for the years 2004 through 2014 under the Master Settlement Agreement (the "MSA") among such tobacco manufacturers (the "Participating Manufacturers" or "PMs") and certain participating states (each an "MSA State") including the State of Rhode Island ("Rhode Island" or the "State"), eliminating a potential liability to the State of over $500 million. Disputed payments arose from a provision in the MSA that allows the PMs to withhold a portion of the annual distribution to the MSA States if certain conditions are met. Under the MSA, the MSA States have certain obligations to diligently enforce certain state statutes with respect to tobacco manufacturers that are not signatories to the MSA (the "Non-participating Manufacturers", or "NPMs"). If the PMs decide to dispute an MSA State's diligent enforcement of such statutes, the PMs may deposit a portion of their annual distribution to such MSA State (the "MSA Payment") into a disputed payments account for such MSA State until the dispute is adjudicated. The PMs have annually disputed each MSA State's diligent enforcement actions. The State has always and continues to maintain that it diligently enforces its applicable statutes against the NPMs. Under the terms of the multistate settlement with the PMs (the "Settlement Term Sheet"), settling MSA States receive an upfront payment of 54 percent of the disputed payments deposited by the PMs in the settling MSA State's disputed payments account for the years 2004-2014. The PMs receive the remaining 46 percent in the form of credits taken against the MSA payments due to the settling MSA States in payment years 2017 through 2021. Under the Settlement Term Sheet, the PMs also would not place into the disputed payment accounts certain amounts with respect to payment years 2017 through 2021 (reflecting certain disputed amounts relating to years 2014 through and including 2020) that would otherwise be deposited into the disputed payment accounts and not paid to the MSA States if the MSA States did not join the Settlement Term Sheet.

Because the State had assigned all revenues from the MSA to the Tobacco Settlement Financing Corporation ("TSFC"), which in turn used those committed revenues to secure its bonds, the TSFC was required to seek bondholder approval before the State could enter into the Settlement Term Sheet. A consent solicitation process was conducted in March 2017 and the requisite approvals from bondholders were received as of March 17, 2017. Upon receipt of the bondholder approvals, the Attorney General signed a joinder letter joining the multistate settlement. Rhode Island's joinder letter became effective upon written approval of the Participating Manufacturers on April 3, 2017.

As a result of the State joining the Settlement Term Sheet, in April of 2017, the Trustee for the TSFC received a payment of $51,116,414 from the State's disputed payments account.

Pursuant to the indentures governing the TSFC Bonds, as amended during the 2015 refunding of the 2002 bonds, the State was entitled to receive 30 percent of the State's disputed payments on deposit in the State's disputed payments account as of the date of issuance of the 2015 TSFC Bonds, with the remaining 70 percent to be used to redeem $212,160,000 (future value) of the Series A component of the 2007 TSFC Bonds (the "2007 Series A TSFC Bonds"). The disputed payments deposited after the date of issuance of the 2015 TSFC Bonds would be applied to pay debt service due on the 2015 TSFC Bonds in accordance with the terms of the indentures governing the TSFC Bonds. Of the $51,116,414 received from the disputed payments account in April 2017, $38,276,966 was on deposit in the State's disputed payments account as of March 19, 2015, the date of issuance of the 2015 TSFC Bonds, and the balance of $12,839,450 was deposited after that date. The State received $11,483,090 or 30 percent of the $38,276,966 on deposit as of March 19, 2015. After payment of costs associated with the consent solicitation process and other transaction related costs, the net transfer to the State in May 2017 was $10,360,190.

In June 2017, the Trustee applied: (i) the remaining 70 percent on deposit in the State's DPA as of March 19, 2015, $26,793,876, to redeem certain 2007 Series A TSFC Bonds and (ii) the balance of $12,839,450 to offset the lower 2017 MSA payment resulting from the credits and pay debt service due on 2015 TSFC Bonds.

Please refer to the audited financial statements of the TSFC for additional information about this matter.

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, 2017, outstanding bond indebtedness totaled $192.4 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 5.38% 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 $37.3 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 5.0% 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, 2017, 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, 2017, 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, 2017, 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, 2017.

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, 2017, 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, 2017 revenue bonds outstanding were approximately as follows: URI - $196.1 million, RIC - $15.5 million, and CCRI - $2.0 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 $264.9 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 $44.1 million for the year ended June 30, 2017. Principal and interest payments for the year ended June 30, 2017 were approximately $22.5 million.

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) (1.05050% at June 30, 2017) 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, 2017, the State's general obligation bonds were rated AA and Aa2 by S&P and Moody's, respectively. As such, at June 30, 2017, the 2013 Series A Bonds bore interest at 2.05050%.

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 (1.05050% at June 30, 2017) 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 2.2005% at June 30, 2017.

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 (1.05050% at June 30, 2017), 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, 2017, the fair value of the 2013 Series A and B Rate Cap Agreements was $46,593, 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.

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, 2017 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.	$ 1,008
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.	2,894
R.I. Housing and Mortgage Finance Corporation bank notes and lines of credit, 1.12% to 6.25% interest, payable through 2057.	166,543
	170,445
Less: current portion	(66,897)
	$ 103,548

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, 2017, 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 $919 thousand and $4.3 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, 2017 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, 2017:

Fiscal Year Ending June 30	Certificates of Participation	Other Capital Leases	Total
2018	$ 30,453	$ 2,622	$ 33,075
2019	31,723	2,620	34,343
2020	33,236	2,623	35,859
2021	30,986	2,623	33,609
2022	25,501	628	26,129
2023 - 2027	75,251	942	76,193
2028 - 2032	11,079		11,079
Total future minimum lease payments	238,229	12,058	250,287
Amount representing interest	(42,319)		(42,319)
Present value of future minimum lease payments	$ 195,910	$ 12,058	$ 207,968

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 July 2016, the State financed the acquisition of a statewide communication system in the amount of approximately $10 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, 2017 (expressed in thousands) are as follows:

Category	Cost	Accumulated Depreciation	Net Book Value
Buildings	$ 215,583	$ 53,588	$ 161,995
Building Improvement	85,119	24,862	60,257
Computer Systems	22,429	5,770	16,659
Infrastructure	26,754	7,224	19,530
Construction in Progress	47,093		47,093
	$ 396,978	$ 91,444	$ 305,534

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, 2017, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	$ 272,075
RI Refunding Bond Authority	4,026
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	53,430
R.I. Infrastructure Bank	123,200
R.I. Turnpike and Bridge Authority	3,160

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, 2017 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, 2017 was $44.2 million and $1.1 billion for these component units. Certain issues of conduit debt are moral obligations of the State, and the current amounts outstanding are disclosed in Note 13.

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 is approximately $52.7 million. The maturity dates on the bonds range from 2017 to 2020 with maximum annual debt service of approximately $12.5 million.

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 resulted in the gross payment of $12.5 million. After payments of fees, costs and expenses, the net amount from the settlement was approximately $9.9 million and was 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 resulted in the gross payment of approximately $25.6 million. After payment of fees, costs and expenses, the net amount from the settlement was approximately $21.4 million and was 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 which was 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 General Assembly has appropriated deficiencies in the Capital Reserve Fund in prior fiscal years. Due to amounts received from the settlements described above, amounts available in the Capital Reserve Fund were sufficient to fund required debt service in fiscal 2017.

The State has recorded a liability of $15.2 million relating to its moral obligation to the 38 Studios bondholders under the JCGP at June 30, 2017. 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 $15.2 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.

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.

Additionally, the State may have a pollution remediation obligation for certain sites for which investigations and studies, or related litigation, are still in progress and consequently, associated future costs cannot be estimated.

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, 2017, 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.

At June 30, 2017, the State has recognized an allowance for the amount due from the RI Public Transit Authority for general obligation debt of $13.2 million issued on behalf of the Authority on the Government-wide financial statements. Management of the State currently anticipates funding the Authority's debt service, subject to annual appropriation by the General Assembly, as additional financial assistance to the Authority. Management of the Authority is recognizing debt forgiveness annually upon the General Assembly appropriating the debt service in the State's general fund.

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 $920.2 million of restricted net position, of which $425.7 million is restricted by enabling legislation, including $151.9 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	117,668			117,668
RI Capital Plan			151,856	151,856
Debt Service		26,636	75,222	101,858
Capital Projects			90,054	90,054
Temporary Disability Insurance			156,226	156,226
Historic Tax Credit Redemption			47,847	47,847
Transportation-Infrastructure		363,965		363,965
Mission 360 Loan Program		1,840		1,840
Education			1,830	1,830
Other			540	540
Committed to:				
Transportation-Maintenance		63,292		63,292
Other	2,556		120	2,676
Assigned to:				
Subsequent Years Expenditures	62,788		261	63,049
Other	5,143			5,143
Unassigned:				
Budget Reserve and Cash Stabilization	192,608			192,608
Other	9,210	(1,518)		7,692
Totals	$ 389,973	$ 454,215	$ 524,130	$ 1,368,318

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 2017, 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.

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	$ 1,235,991	$ 1,237,226
General Business Taxes:		
Business Corporations	119,175	118,081
Public Utilities Gross Earnings	90,405	89,867
Financial Institutions	22,189	22,110
Insurance Companies	120,343	120,031
Bank Deposits	2,972	2,972
Health Care Provider Assessment	43,486	43,468
Sub-total - General Business Taxes	398,570	396,529
Sales and Use Taxes:		
Sales and Use	998,197	997,605
Motor Vehicle	26,024	26,024
Motor Fuel	101	(36)
Cigarettes	140,263	140,235
Alcoholic Beverages	19,741	19,741
Sub-total - Sales and Use Taxes	1,184,326	1,183,568
Other Taxes:		
Inheritance and Gift	85,429	85,059
Racing and Athletics	1,163	1,163
Realty Transfer	12,589	12,574
Sub-total - Other Taxes	99,181	98,796
Total - General Fund	2,918,068	2,916,119
Intermodal Surface Transportation Fund		
Gasoline	151,910	151,910
RI Highway Maintenance	45,368	45,368
Other Governmental Funds	195,178	195,178
Total Taxes	$ 3,310,524	$ 3,308,575

Note 9. Tax Abatements

For financial reporting purposes (GASB Statement No. 77 - *Tax Abatements*) , a tax abatement is defined as a reduction in tax revenues that results from an agreement between one or more governments and an individual entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

The State of Rhode Island has twelve programs in place to abate taxes. Some of those are new, and as of June 30, 2017, have no related foregone tax revenue. Of the twelve programs, seven are managed by the State and five are managed by the Rhode Island Commerce Corporation.

For certain of the newly created economic development programs with tax abatement provisions, the General Assembly appropriated funds which were paid to the Rhode Island Commerce Corporation (RICC) to fund these programs. Upon notification by the Division of Taxation, the RICC will transfer funds to reimburse the State for the amount of foregone tax revenue. Additionally, the State has issued Historic Tax Credit Preservation Bonds to fund historic tax preservation credits presented for redemption or as credits to taxes owed to the State. Approximately $47.8 million is available in the Historic Tax Credit Fund at June 30, 2017.

Summary of Taxes Abated During Fiscal Year 2017 by Tax Type (expressed in thousands):

	Tax Types					
Tax Abatement Program	**Personal Income**	**Business Corporation**	**Insurance Companies**	**Financial Institutions**	**Non-Profit Redemption [(1)]**	**Total**
Job Development Act		$ 1,880		$ 7,074		$ 8,954
Motion Picture Production Tax Credits	631	1,091				1,722
Historic Preservation Tax Credits	7,816	115	751		4,996	13,678
Job Training Tax Credits		588				588
Tax Credit for Contributions to Qualified Scholarship Organizations	1,175					1,175
Total Taxes Abated - Fiscal 2017	**$ 9,622**	**$ 3,674**	**$ 751**	**$ 7,074**	**$ 4,996**	**$ 26,117**

[(1)] non-profit entities may request payment for the value of historic preservation tax credits awarded in lieu of a credit to tax liabilities

Other Commitments under Tax Abatement Agreements – Certain tax abatement programs include commitments by the State other than the reduction of taxes. The Qualified Jobs Incentive Tax Credit and Rebuild Rhode Island Tax Credit programs allow respective entities to redeem tax credits for 90% of their value upon fulfilling its responsibilities under the agreement. The Rebuild Rhode Island Tax Credit program also allows respective entities to receive a rebate of sales and use taxes on construction materials relating to program projects. The Anchor Institution Tax Credit and Wavemaker Fellowship programs includes a provision that the entity may redeem the tax credit for 100% of its value upon fulfilling its responsibilities under the agreement. Additionally, non-profit entities may redeem historic tax credits awarded by payment for the value of the credit in lieu of a credit to tax liabilities.

The table on the following pages summarize the key provisions of the tax abatement programs authorized by the State at June 30, 2017.

Tax Abatement Program / Statutory Authority	Purpose of Program	Tax Being Abated	Eligibility Criteria and Specific Commitment Made by Recipients for Abatement	Type of Abatement and Abatement Mechanism	Recapture Provisions
Job Development Act Jobs Development Act (RI Gen. Laws 42-64.5-1) and as amended by Rhode Island New Qualified Jobs Incentive Act 2015 (RIGL 44-48.3-12)	To foster job creation for companies that create new employment in RI over a three-year period.	Business Corporation	(1) Subject to a finding of revenue neutrality based on an economic impact analysis conducted by RICC (RI Commerce Corporation); (2) must be approved by the RICC Board of Directors; (3) company must show that "but for" the incentives, the company is not likely to retain, expand or add employment in the State, and that the company has generated new tax revenue for the State that is at least equivalent to the value of this incentive; (4) the company must maintain a certain level of employment as stated in the agreement; (5) new employees must be paid at least 250% of the State minimum wage.	Reduction of tax rate. The Corporate Income Tax may be reduced to as low as 3%. The reduction equals: 0.20% for every 10 new jobs created for companies having a baseline employment below 100; or .20% for every 50 new jobs created, for those companies having a baseline employment above 100. Rate reduction(s) discontinued effective July 1, 2015 except for any company that qualified prior to July 1, 2015 which may maintain its reduction so long as it carries out its obligations.	N/A
Enterprise Zone Distressed Areas Economic Revitalization Act – Enterprise Zones (RIGL 42-64.3)	To stimulate jobs growth and encourage business development in targeted distressed areas of the State.	Business Corporation, Public Service Corporation, Financial Institution, Insurance Company, or Personal Income	A business has to: (1) be physically located within a State-approved Enterprise Zone (EZ), (2) be registered with the State as an EZ member business, (3) grow its existing working by at least 5%, consisting of only RI residents, (4) grow total corporation wages paid over that of the prior year, (5) obtain specific letters of good standing from the State, and (6) receive certification prior to July 1, 2015.	As a credit to the amount of taxes owed. Not more than one type of tax liability can be used to claim the credit. 50% of the wages paid a new hire up to a maximum of $2,500 per new employee; 75% of the wages paid a new hire up to a maximum of $5,000 per new employee if that employee lived within a State-designated EZ. Unused EZ Tax credits can be carried forward for up to 3 years.	N/A
Qualified Jobs Incentive Tax Credit Rhode Island Qualified Jobs Incentive Act of 2015 (RIGL Title 44-48.3)	Stimulate business expansion and attraction, create well-paying jobs for State residents, and generate revenues for necessary State and local governmental services.	Business Corporation, Public Service Corporation, Financial Institution, Insurance Company, or Personal Income	(1) Must create minimum number of new full-time jobs defined in the statute; (2) new full-time jobs must earn at least Rhode Island's median wage; (3) must certify and provide evidence that without the Tax Credit the new full time jobs would not occur within the State; (4) must be approved by the RICC Board of Directors; (5) must perform in accordance with an executed incentive agreement. Applicants may be eligible for Tax Credits for up to 10 years and must commit to remain in the State for 20% longer than the total time tax credit is received.	As a credit to the amount of taxes owed. The annual benefit for each new full-time job created is the lesser of (1) the reasonable State income tax withholding generated; or (2) a cap of $2500 to $7500 defined in the incentive agreement and depending on median salary level, location, industry, whether the job is being relocated from out-of-state, number of new full-time jobs, and capital investment being made.	If the Applicant ceases operations in the State or transfers more than 50% of the jobs for which a Tax Credit was granted under the Act to another state, the Tax Credit shall cease and the Applicant shall be liable to the State for, at a minimum, 20% of all tax benefits granted to the Applicant.
Rebuild Rhode Island Tax Credit Rebuild Rhode Island Tax Credit Act (RIGL 42-64.20)	Stimulate business development; retain and attract new business and industry to the State; create good-paying jobs for State residents; assist with business, commercial, and industrial real estate development; and generate revenues for necessary State and local governmental services.	Business Corporation, Public Service Corporation, Financial Institution, Insurance Company, or Personal Income	(1) Applicant must provide equity of at least 20% of project costs; (2) must certify and provide evidence that the project has a financing gap and that the project is not likely to be accomplished by private enterprise without the tax credits; (3) project fulfills the State's policy and planning objectives and priorities including minimum project size, cost, and/or job creation thresholds; (4) must be approved by the RICC Board of Directors; (5) entity must perform in accordance with an executed incentive agreement.	As a credit to the amount of taxes owed. Total tax credit calculated as the lesser of the Project Financing Gap or 30% of Project Costs* up to a maximum of $15 million. Tax Credits available for up to 5 years in increments ranging from 15% to 30% of total tax credit beginning in the year the project is placed in service. *Tax credits shall not exceed 20% provided, however, that the applicant shall be eligible for additional tax credits of not more than 10% of the project cost, if the project meets other specific, additional criteria as defined in the agreement.	Projects may be required to repay tax credits in the event the project achieves outsize financial returns.

Tax Abatement Program / Statutory Authority	Purpose of Program	Tax Being Abated	Eligibility Criteria and Specific Commitment Made by Recipients for Abatement	Type of Abatement and Abatement Mechanism	Recapture Provisions
Tax Increment Financing Rhode Island Tax Increment Financing Act of 2015 (RIGL 42-64.21)	Stimulate business development; retain and attract new business and industry to RI; create good-paying jobs for RI residents; assist with business, commercial, and industrial real estate development; and generate revenues for necessary State and local governmental services.	Business Corporation, Public Service Corporation, Financial Institution, Insurance Company, or Personal Income	(1) Project must be located in a qualifying TIF Area; (2) project must have a financing gap; (3) project must be either a new facility and not a replacement or relocation of an existing facility already located in the State, an expansion of an existing facility that will increase the number of full-time employees in the State, or necessary to retain one or more At Risk Businesses; (4) must be approved by the RICC Board of Directors; (5) must perform in accordance with an executed incentive agreement.	Eligible taxes are reimbursed to the developer. Up to 75% of the projected annual incremental revenues may be allocated under a TIF agreement. Total incentive may not exceed 30% of project costs or the amount needed to close the financing gap. RICC may exempt public infrastructure, a preexisting municipally-owned stadium of 10,000 seats or greater, or utilities from the 30% cap.	Tax Credits may be denied or revoked if Applicant's certification or information is found to be willfully false; if the Applicant or successor is convicted of bribery, fraud, theft, embezzlement, misappropriation, and/or extortion involving the State, any State agency or political subdivision of the State.
Anchor Institution Tax Credit Anchor Institution Tax Credit Act (RIGL 42-64.30)	Give existing Rhode Island businesses an incentive to encourage businesses in their supply chain, service providers or customers to relocate to Rhode Island by giving existing Rhode Island businesses a tax credit when they are able to bring about a business relocation to the State.	Business Corporation, Public Service Corporation, Financial Institution, Insurance Company, or Personal Income	Must be a Rhode Island business that (1) plays a substantial role in the decision of a qualified business to relocate at least 10 employees by 2018 or at least 25 employees between 2019 and 2020; (2) applies for approval prior to the qualified business commencing a relocation search within the State, (3) must be approved by the RICC Board of Directors; (4) must perform in accordance with an executed incentive agreement.	As a credit to the amount of taxes owed. An Applicant in not eligible to receive a tax credit in excess of 75% of the amount appropriated in the fiscal year in which the tax credits are issued. RICC may take into account (1) the number of new full-time jobs created; (2) the compensation and benefits for those new jobs; (3) how long the new jobs are committed to remain in the State; (4) whether the jobs created are in a targeted Industry; (5) whether the qualifying relocation benefits a Hope Community or occurs in a Redevelopment Area; (6) the strategic importance of the applicant; (7) the economic return to the State; and (8) area brokers' fees.	Incentive agreements shall include a provision specifying for the withholding of any portion of a tax credit or requiring repayment of a tax credit if the qualified business leaves the State within a period of time set forth in the Incentive Agreement.
Wavemaker Fellowship Stay Invested in RI Wavemaker Fellowship (RIGL 42-64.26)	Promote economic opportunity and bring more and higher-paying jobs to the State; offer educational opportunity and retraining to individuals impacted by job loss, workplace injury, disability or other hardship; keep young people in the State; encourage an entrepreneurial economy in the State.	Personal Income	Applicants selected on a competitive basis by a fellowship committee on a name-blind and employer-blind basis. Selected applicants shall meet specific criteria for education, student loan debt, and full-time employment with a Rhode Island-based employer located in this State throughout the eligibility period, and employment in a field specified in the agreement.	As a credit to the amount of taxes owed. Awards are limited to $1,000 for an associate's degree holder, $4,000 for a bachelor's degree holder, and $6,000 for a graduate or post-graduate degree holder, and may not exceed the education loan repayment expenses incurred by the selected taxpayer during each service period completed, for up to four (4) consecutive service periods provided that the taxpayer continues to meet the eligibility requirements throughout the eligibility period.	Tax Credits may be denied or revoked if Applicant's certification or information is found to be willfully false; if the Applicant or successor is convicted of bribery, fraud, theft, embezzlement, misappropriation, and/or extortion involving the State, any State agency or political subdivision of the State.
Motion Picture Production Tax Credits R.I. G.L. 44-31.2	To encourage development in Rhode Island of a strong capital base for motion picture film, videotape, and television program productions, in order to achieve a more independent, self-supporting industry.	Business Corporation, Personal Income	Primary production locations are to be within the State of Rhode Island, and the total production budget must be at least $100,000. 25% of State certified production costs incurred that are directly attributable to activity within the State.	Motion picture production tax credit certificates are issued to the motion picture production company, or to one or more transferees to be applied as a credit to taxes owed.	N/A

Tax Abatement Program / Statutory Authority	Purpose of Program	Tax Being Abated	Eligibility Criteria and Specific Commitment Made by Recipients for Abatement	Type of Abatement and Abatement Mechanism	Recapture Provisions
Historic Preservation Tax Credits R.I. G.L. 44-33.6	To create economic incentives for the purpose of stimulating the redevelopment and reuse of Rhode Island's historic structures, as well as to generate the positive economic and employment activities that will result from such redevelopment and reuse.	Business Corporation, Personal Income, Insurance Tax, Insurance - HMO, Non-Profit Redemption.	A certified historic structure is to be substantially rehabilitated.	As a credit to the amount of taxes owed. The Division of Taxation issues a certificate in the amount of the qualifying credit for which the rehabilitation qualifies. 20% of qualified rehabilitation expenditures, or 25% if a specified portion of the structure will be made available for a trade or business. The maximum credit allowed for any one project is $5,000,000. Non-profit entities without tax liabilities may request payment for the value of the credit awarded.	N/A
Job Training Tax Credits RIGL 42-64.6	To encourage employers to invest in retraining or upgrading the skills of their employees.	Business Corporation, Public Service Corporation, Bank Tax, Insurance Company	An employer must meet criteria provided by the Human Resources Investment Council. Said employer cannot be a physician or anyone whose principal business is providing legal, accounting, engineering, architectural, or other similar professional services.	The HRIC notifies the applicant whether or not the application is approved. The tax credit is calculated by the employer and claimed on the appropriate tax return. 50% of actual training expenses for new and current employees. Tax credit is for up to $5,000 per employee over a three-year period.	Credit claimed for an employee is recaptured if the employee involuntarily, other than as a result of death or disability, no longer qualifies as a qualifying employee of the employer at any time during the 18-month period following the employee's completion of the program.
Employer's Apprenticeship Tax Credits RIGL 44-11-41	To encourage the creation of machine tool, metal trade, and plastic process technician apprenticeships.	Business Corporation	The apprentice must be enrolled in a registered qualified program through the RI Department of Labor and Training's State Apprenticeship Council. The number of apprenticeships for which credit is calculated must exceed the average number of qualifying apprenticeships begun in the preceding five years.	As a credit to the amount of taxes owed. Based on 50% of actual wages paid to a qualifying apprentice or $4,800, whichever is less.	N/A
Tax Credit for Contributions to Qualified Scholarship Organizations RIGL 44-62	To enhance the educational opportunities available to all students in Rhode Island.	Business Corporation, Public Service Corporation, Bank Tax, Bank Deposits Generally, Insurance Company, Personal Income Tax.	A business entity is approved by the Division of Taxation if the dollar amount of the tax credit is no greater than $100,000 in any tax year and if the scholarship organization qualified under RIGL 44-62-2. Approvals are available on a first-come-first-served basis, with the total aggregate amount of all tax credits approved not to exceed $1,500,000 in a fiscal year.	The Division of Taxation issues a certificate for the amount of credit to be granted. Unless a two-year contribution plan is in place, the credit is computed at 75% of the total voluntary contribution made. In general, if a two-year contribution plan is in place, the credit for each year shall be 90% of the total voluntary contribution made.	If the amount of the second year contribution is less than 80% of the first year contribution, then the credit for both the first and second year contributions shall equal 75% of each year's contribution. In such case, the tax administrator shall prepare the tax credit certificate for the second year at 75%. The difference in credit allowable for the first year (15% of the first year contribution) shall be recaptured by adding it to the taxpayer's tax in that year.

Note 10. Transfers

Transfers for the fiscal year ended June 30, 2017 are presented below (expressed in thousands):

	Transfers	Description
Governmental Funds		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	$ 58,208	Debt service and operating assistance
Nonmajor Funds		
RI Temporary Disability Insurance	1,816	Administrative cost
Historic Tax Credit	8,680	Tax credits claimed
Bond Capital	1,725	Interest earnings transfer
RI Capital Plan	85	Capital expenditures
Proprietary Funds		
Lottery	362,697	Net income transfer
Employment Security	142	Administrative cost
Total General	433,353	
Intermodal Surface Transportation		
RI Capital Plan	25,400	Infrastructure funding
Total Intermodal Surface Transportation	25,400	
Nonmajor Funds		
RI Capital Plan		
General	114,538	Transfer statutory excess in budget reserve
General	89	Operating assistance
Bond Capital	2,576	Premium on new bonds
RI Public Rail Corporation		
Intermodal Surface Transportation	1,479	Operating assistance
Total nonmajor funds	118,682	
Total Governmental Funds	577,435	
Proprietary Funds		
Convention Center		
General	22,465	Debt service
RI Capital Plan	1,363	Capital improvement
Total Proprietary Funds	23,828	
Total transfers primary government	$ 601,263	

Note 11. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately $14.1 million for the fiscal year ended June 30, 2017. 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, 2017:

Fiscal Year Ending June 30		
2018	$	15,096
2019		13,290
2020		10,328
2021		9,489
2022		8,642
2023 - 2027		31,490
2028 - 2032		11,008
Total	$	99,343

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

Note 12. Commitments

Primary Government

The primary government is committed at June 30, 2017 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, 2017, 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 $59 million. At June 30, 2017, the primary government had software development and implementation contract commitments of approximately $32 million. These amounts include only purchase orders and related amendments generally processed through June 30, 2017. 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, 2017, $3.6 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 2017. 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 ($3.8 million at June 30, 2017).

The contract mandates commission percentages ranging between 1.00% and 5.00% of lottery ticket sales and 1.00% and 2.50% of video lottery net 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.The first amendment to the IGT instant ticket agreement dated May 2017 requires IGT to implement the sales force management system known as OnePlace by December 31, 2017. OnePlace combines web and mobile applications to provide sales representatives in the field information on the most important retailer issues and opportunities. These include specific individual retailer issues, project tasks, various alerts, sales trends, and more detailed information in order to optimize the mix of instant games and increase sales.

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 2017, Twin River was authorized and issued approximately $45 million in promotional points to facility patrons. Recent legislation authorizes increases in promotional points from 10% of prior year net terminal income plus $750,000 to 20% of prior year net terminal income plus $750,000, subject to approval from the Lottery Director.

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 (60.86% for 2017). The Lottery reimbursed UTGR for $5,477,400 in marketing expenses for fiscal 2017.

On May 2, 2017, the Lottery entered into a fifth amendment to the Master Contract with UTGR, Inc. authorizing UTGR to construct and operate a hotel at Twin River Casino in Lincoln, RI.

On May 3, 2017, the Lottery entered into a sixth amendment to the Master Contract with UTGR, Inc. providing the option to extend the agreement for two additional five (5) year terms commencing on July 18, 2020 and July 17, 2025 and continuing until July 17, 2030. Certain extensions are contingent on UTGR's compliance with full-time employment mandates. The agreement also effectuates the legislation authorizing and directing the Lottery to operate casino gaming at Twin River-Tiverton and to implement statutory changes regarding the allocation of video lottery net terminal income and net table game revenue at Twin River Casino in Lincoln, RI and Twin River – Tiverton in Tiverton, RI.

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 2017, Newport Grand was authorized and issued approximately $5.2 million in promotional points to facility patrons. Recent legislation authorizes increases in promotional points from 10% of prior year net terminal income plus $750,000 to 20% of prior year net terminal income plus $750,000, subject to approval from the Lottery Director.

Most recent statute and contract amendments require the Lottery to 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 (61.40% for 2017). The Lottery reimbursed Premier Entertainment II, LLC for $504,212 in marketing expenses for fiscal 2017.

Discretely Presented Component Units

R.I. Airport Corporation

As of June 30, 2017, RIAC is obligated for the completion of certain airport improvements under commitments of approximately $29 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 Environmental Protection Agency (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 $74.3 million as of June 30, 2017 has been recorded in the statement of net position, as summarized by Phases below:

	Year ended June 30, 2017
Phase I	$ 463,591
Phase II and III	7,842,011
Phase IV	11,364,792
Phase V	47,448,792
Phase VI	6,559,631
Other	597,526
	$ 74,276,343

As of June 30, 2017, 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	$	3,195,550	93.69%	7 months
Phase VI	$	86,027,007	7.08%	21.6 years

As of June 30, 2017 RIRRC revised its estimate for future pollution remediation and landfill closure and post-closure care costs. The revised estimate resulted in a $661 thousand decrease of the corresponding liability from $96.5 million at June 30, 2016 to $95.9 million at June 30, 2017 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 reasonably possible that these estimates and assumptions could change in the near term and that the change could be material.

Included in the restricted component of net position at June 30, 2017 is $51 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.

Changes in the pollution remediation obligation for the year ended June 30, 2017 is as follows:

Balance, June 30, 2016	Additions	Reductions	Balance, June 30, 2017	Current Portion
$ 26,939,144	$	$ (4,761,506)	$ 22,177,638	$ 1,135,463

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 $43.7 million as of June 30, 2017.

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 $22.2 million as of June 30, 2017.

R.I. Turnpike and Bridge Authority

The R.I. Turnpike and Bridge Authority has entered into contracts totaling $30.3 million for bridge and highway repairs on the Mount Hope, Claiborne Pell and Jamestown Bridges, which is expected to take over a year to complete. As of June 30, 2017, remaining commitments on these contracts total $21.2 million.

R.I. Public Transit Authority

The R.I. Public Transit Authority is committed under various contracts in the amount of $6.4 million at June 30, 2017.

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 13. 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

The 2009, 2010 and 2011 legislative pension reforms have resulted in numerous lawsuits against the State brought by current and retired employees, as well as their unions. These lawsuits, some of which are still pending, are described below. The State is vigorously defending any liability in all pending pension reform litigation.

In May of 2010, a number of unions representing State employees and teachers filed a lawsuit in the State's superior court (the "Superior Court") challenging the pension reform legislation enacted by the General Assembly in 2009 and 2010. In June of 2012, certain unions, active employees, retired State employees and associations of retired State and municipal employees who maintain they are current beneficiaries of ERSRI filed five separate lawsuits in Superior Court challenging the RIRSA. In April of 2014, a seventh lawsuit was filed in Superior Court by certain individual retired State workers and teachers. In September of 2014, the Cranston Firefighters, IAFF Local 1363, AFL-CIO and the International Brotherhood of Police Officers, Local 201 (Cranston Police), which had been parties to the 2012 lawsuit challenging RIRSA, withdrew from the original lawsuit and each filed separate lawsuits in Superior Court challenging RIRSA, resulting in nine lawsuits overall. These nine lawsuits were ultimately consolidated.

In March of 2015, the Superior Court entered an order appointing a Special Master, tasking him with certain duties, including "addressing all discovery issues, motions, and assisting the parties in narrowing and/or resolving disputed issues by agreement, subject to further approval by the Court." In April of 2015, the Special Master presented an interim report to the Superior Court stating that a settlement has been reached in five of the nine consolidated pension cases. The Special Master reported that the proposed settlement would impact 58,901 employees. A class action was filed for settlement purposes and in June of 2015, the Superior Court issued its decision approving the proposed settlement. The General Assembly passed legislation to carry out the settlement, which was enacted into law on June 30, 2015 ("New RIRSA"), and the Superior Court entered final judgments in July of 2015. The employees that are members of the unions that brought the non-settled consolidated cases will receive the same benefits afforded to the settling parties.

In July of 2015, the State moved to dismiss three of the remaining six cases – *Cranston Firefighters, IAFF Local 1363, AFL-CIO v. Chafee*; *International Brotherhood of Police Officers, Local 301, AFL-CIO v. Chafee* and *City of Cranston Police Officers, International Brotherhood of Police Officers, Local 301, AFL- CIO v. Chafee* – for lack of justiciability on the grounds that because RIRSA was amended by New RIRSA, the plaintiffs' claims were moot. The Superior Court granted the motion and dismissed the three cases without prejudice.

Nine appeals from two of the July 2015 judgments were filed with the State's Supreme Court (the "Supreme Court"). The appeals do not affect the implementation of New RIRSA. Three of the nine appeals have been dismissed by the Supreme Court. The six remaining appeals are pending before the Supreme Court.

In March of 2016, Cranston Firefighters, IAFF Local 1363, AFL-CIO and International Brotherhood of Police Officers, Local 301, AFL-CIO jointly filed a new lawsuit in the United States District Court for the District of Rhode Island captioned *Cranston Firefighters, IAFF Local 1363, AFL-CIO, et al. v. Raimondo, et al.* In that case, the Cranston police and firefighters' unions claim that RIRSA and New RIRSA violate the Contracts Clause, Takings Clause and Due Process Clause of the United States Constitution. They also seek a declaration concerning the effect of the class action settlement on Cranston police and firefighter retirees. In March of 2017, the District Court granted the State's motion to dismiss all counts in the plaintiffs' complaint. The plaintiffs subsequently filed an appeal with the United States Court of Appeals for the First Circuit, which has been briefed and argued and is pending decision. Notably, the employees represented by the plaintiff unions are municipal employees for which the State would not have funding responsibility.

In addition to the foregoing cases, in September 2014, another case challenging RIRSA was commenced by the Rhode Island State Troopers Association and Rhode Island State Troopers Association *ex rel.* Kevin M. Grace and Ernest E. Adams in Superior Court. The State has answered the complaint in that action, which remains pending. There is no trial date set. The State intends to vigorously defend this lawsuit.

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

Children's Rights Incorporated (CRI) brought suit against DCYF and various other state entities (the State) in 2007 seeking to put the State's child welfare program administered by DCYF under federal court supervision through a class action seeking prospective relief. After various proceedings in the U.S. District Court, the parties have reached a mediated settlement which is pending approval by the Court. As part of the settlement, the State will be required to pay a portion of the plaintiff's legal fees and costs. The State has additionally agreed to a series of specific commitments regarding assessments and the delivery of services provided to children in the DCYF's care. Additionally, the Court will have continuing enforcement jurisdiction to ensure compliance with the agreement. The State's obligation to pay plaintiff's legal fees and costs was accrued in the accompanying financial statements.

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 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 has completed 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

In fiscal 2017 the State entered into a NPM Adjustment Settlement Agreement (“Settlement”) to resolve disputed payments for 2004 through 2014 (2003 was previously resolved through arbitration in the State’s favor).

Under the Settlement, the Participating Tobacco Manufacturers (“PMs”) agreed not to dispute payments through the years of settlement. At present, for Rhode Island, that is through 2014. It is possible that the PMs could dispute the MSA amounts beginning with the 2016 NPM Adjustment, which could result in the Corporation receiving less revenue than assumed in out-year projections and impact its ability to redeem bonds. Under the MSA, if a State is found non-diligent, it could lose up to its entire MSA payment for a given year.

As part of the Settlement, for years 2017-2021, the tobacco companies agreed to give Rhode Island (the bondholders) a portion of the NPM Adjustment that otherwise would have been deposited in the Disputed Payment Account (“DPA”). Thus, the State will receive certain DPA monies for future potential disputes that it otherwise would not have received until or unless there was a diligence determination at a later date.

Unsuccessful litigation has been filed in the past 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 lawsuits sought 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. While there are currently no known cases pending, such cases could be brought in the future where an adverse ruling could potentially result in the Corporation not having adequate financial resources to service its debt obligations.

Lottery

The Lottery’s master contracts with its video lottery facilities contain revenue protection provisions in the event that existing video lottery facilities 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. In 2016, statewide and local referenda passed authorizing a new gaming facility located in Tiverton, RI, owned by Twin River - Tiverton which will offer state-operated casino gaming. The Casino is currently under construction and is expected to commence operations in the fall of 2018.

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’s decision. The remaining issues in the case relating to whether the State “operates” Twin River and Newport Grand facilities remain pending in the Superior Court.

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, 2017 will be issued in March 2018. The Single Audit reports instances of federal non-compliance, questioned costs, and other matters to federal grantor agencies regarding the State’s administration of federal programs. These matters could result in federal disallowances and/or sanctions upon review by the respective federal agencies.

Several findings had potentially significant but unknown or unquantifiable questioned costs as included in prior year Single Audit Reports. The ultimate disposition of these findings rests with the federal grantor agencies, and, in most cases, resolution is still in progress. Adjustments have been 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 2017 Single Audit is in progress. It is anticipated that there will be additional questioned costs identified in that audit.

Unresolved Medicaid Prior Audit Findings and Questioned Costs

The federal Centers for Medicare and Medicaid Services (CMS) are pursuing resolution of prior audit findings, applicable to Medicaid, as included in the State's Single Audit Reports for multiple years. The State is working cooperatively with CMS to resolve the prior audit findings. Resolution of the findings, in some instances, may involve return of federal funds to the federal grantor. Liabilities have been reflected in the financial statements when the audit findings and related questioned costs have been resolved by management by determining that repayment of federal funds is necessary. Other audit findings require further resolution activities and discussion with the federal grantor and accordingly management cannot presently estimate any additional amounts that may require repayment to the federal government.

RIBRIDGES / Unified Health Infrastructure Project ("UHIP")

The RIBRIDGES system, also known as the Unified Health Infrastructure Project or UHIP, is Rhode Island's new integrated eligibility system for various health and human services programs (i.e., Medicaid, SNAP, TANF) and the State's Health Insurance Exchange established pursuant to the ACA. The UHIP system commenced initial functionality administering the State's Health Insurance Exchange Marketplace and Medicaid and CHIP (Children's Health Insurance Program) program eligibility for populations determined based on modified adjusted gross income (MAGI) in October 2013. Upon initial implementation, the system experienced several functional problems that resulted in challenges in determining and/or validating Medicaid eligibility for certain individuals, newborn enrollments into existing cases, and other functional and operational issues that resulted in eligibility redeterminations being suspended well beyond the one year period mandated by federal regulations.

In September 2016, RIBRIDGES was launched as the State's new comprehensive eligibility system adding the remainder of Medicaid program eligibility and eligibility and pay benefits for the federal Supplemental Nutrition Assistance (SNAP), Temporary Assistance to Needy Families (TANF), and Child Care programs to those already commenced under the initial UHIP launch. RIBRIDGES immediately experienced significant functional and operational challenges in addition to continuing challenges experienced by the initial UHIP implementation.

The State has experienced on-going significant programmatic challenges relating to its RIBRIDGES implementation. Application backlogs, delays in determining (including the timely redetermination of) eligibility have continued for extended periods of time, system interface operations designed to be key controls over eligibility have been ineffective and not fully operational, and provider advances not subject to the eligibility and claims processing controls critical to proper program administration have been experienced by the State because of these system issues. Control deficiencies relating to an ineffective eligibility system have also resulted in known duplicate payments of capitation for Medicaid individuals enrolled in managed care, continued Medicaid eligibility for deceased individuals, and long-term backlogs of newborns being added to respective Medicaid cases.

System development has largely been funded with federal grants and because of the implementation issues there has been increased oversight from the federal grantor agencies and requests for corrective action plans.

The American Civil Liberties Union sued the State alleging denial of timely benefits to SNAP applicants. In settlement of that suit, the court appointed a special master to oversee the corrective actions necessary to ensure timely determination and payment of benefits through the system.

The State has negotiated with the system developer, Deloitte, to recoup some of the system costs expended to date, to receive additional services at no charge to address system deficiencies. In April 2017, Deloitte agreed to credit the State $27 million in system costs outstanding at that time and a further agreement has been reached with Deloitte to provide a credit of nearly $60 million to cover ongoing costs of the implementation and for Deloitte to cover any fines that may be levied on the State by the Food and Nutrition Services (FNS) related to the SNAP program.

Various contingencies result from the implementation of the RIBRIDGES/UHIP computer system and its impact on the administration of various federal programs. These include potential (1) disallowance of certain system development costs, (2) sanctions imposed by federal grantor agencies for noncompliance with specific program requirements, and (3) requests for return of federal funds for benefits provided to ineligible individuals. Additionally, advances have been made to certain provider groups due to untimely eligibility determinations which has precluded the processing of Medicaid claims. Settlement of such advances by subsequent adjudication of claims for eligible individuals is anticipated but uncertain. Management has recorded liabilities for known amounts and made estimates for other contingencies where possible. Management cannot presently estimate the likelihood of other contingent liabilities related to the RIBridges/UHIP implementation, however, such amounts could be material to the 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 $30.3 million outstanding in bonds, which are secured in part by capital reserve funds which have aggregated to $6.9 million on June 30, 2017. 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, 2017 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 $21.6 million at June 30, 2017.

Component Units

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, 2017, 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, 2017 are $13.4 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. At June 30, 2017, RIIRBA estimates the potential loss to be approximately $2 million.

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

As of June 30, 2017, RIHMFC may borrow up to a maximum of $110 million under various revolving loan agreements expiring between August 2017 and January 2018. 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 commitments expose RIHMFC to credit risk in excess of the amounts recognized in the statements provide financing. Such 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, 2017 is $97.4 million.

R.I. Turnpike and Bridge Authority (RITBA)

A contractor (the Prime Contractor) hired by RITBA submitted a pass-through claim to RITBA on behalf of a subcontractor engaged by the Prime Contractor in which the subcontractor is claiming additional compensation of approximately $8,100,000 for cleaning and painting the Newport Pell Bridge as a result of the Prime Contractor's performance. RITBA vigorously disputes the matter and denies any liability to the Prime Contractor and the subcontractor. At this early stage, RITBA and its legal counsel have determined that it is not possible to fully evaluate the matter, including the likelihood of an unfavorable outcome.

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 14. 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 2017 pension expense	Net pension liability at June 30, 2016 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	$154,722,000	$1,887,351,000
			Business-type activities	$1,383,000	$16,260,000
			Special funding – teachers - state share (see Note Section 14-E)	$97,822,000	$1,212,754,000
B	**State Police Retirement Benefits Trust *(SPRBT)***	Single-employer defined benefit plan – advance funded through a trust	State Police hired after July 1,1987	$3,441,000	$9,240,000
C	**Judicial Retirement Benefits Trust *(JRBT)***	Single-employer defined benefit plan -– advance funded through a trust	Judges appointed after December 31, 1989	$2,065,000	$6,533,000
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	$1,839,000	$20,037,000
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	$40,470,000	$289,060,000
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	$5,230,000	$51,281,000
	Totals			$306,972,000	$3,492,516,000
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	$4,700,000	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, 2015 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	11,041	2,948	8,544	2,650	25,183
JRBT	16		18	36	70
RIJRFT			7		7
SPRBT	39	25	55	182	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 $26,098, effective January 1, 2017, 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 $26,098, effective January 1, 2017, 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 $26,098, effective January 1, 2017, 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 $26,098, effective January 1, 2017, 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, 2016 is approximately $2.8 billion and the State' share of the net pension liability is approximately $1.2 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, 2017 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. Except for the RIJRFT, employers are required by statute to contribute at an actuarially determined rate for the respective defined benefit plans.

The fiscal year 2017 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, 2014. The fiscal year 2017 actuarially determined contribution for the Judicial Retirement Fund Trust was also based on the actuarial valuation of that plan performed as of June 30, 2014. 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, 2017 is provided in the table below:

	ERS	JRBT	RIJRFT*	SPRBT	JNCRP	SPNCRP
Contribution rate:						
State	25.34%	21.58%	$1,241	12.66%		
Plan members	3.75% and 11.00%	8.75% and 12.00%	8.75% and 12.00%	8.75%		
State contribution for teachers	8.80% to 9.27%					
Contributions made for state employees	$157,115	$2,057	$332	$2,980	$6,107	$31,566
Contribution made for teachers	$96,542					

*- 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 2017, 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 $445 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 2016. The State's proportion for the ERS Plan for State employees was 88.93 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, 2016 (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		$ 2,122,263
Less portion attributable to other entities:		
Enterprise Fund - Rhode Island Lottery		$ (16,260)
Discretely Presented Component Units		
University of Rhode Island	$ 123,020	
Rhode Island College	42,474	
Community College of RI	30,766	
RI Division of Higher Education Assistance	1,966	
RI Commerce Corporation	294	
RI Airport Corporation	1,838	
		(200,358)
Related organization - Narragansett Bay Commission		(18,294)
ERS - Net Pension Liability - Governmental Activities		$ 1,887,351
Net Pension Liability - Single Employer Defined Benefit Pension Plans		
JRBT		6,533
RIJRFT		20,037
SPRBT		9,240
JNCRP		51,281
SPRFT		289,060
Total Net Pension Liability		$ 2,263,502

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	$ 66,951	$ 20,571	$ 125,557
Plan fiduciary net position	60,418	534	116,317
Net pension liability	$ 6,533	$ 20,037	$ 9,240
Plan fiduciary net position as a percentage of total pension liability	90.2%	2.6%	92.6%

a. Actuarial assumptions used in determining total pension liability

The total pension liability was determined by actuarial valuations performed as of June 30, 2015 and rolled forward to June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement.

	ERS State Employees	ERS Teachers	JRBT	RIJRFT	SPRBT	JNCRP	SPNCRP
Valuation Date	6/30/2015 rolled forward to 6/30/2016	6/30/2015 rolled forward to 6/30/2016	6/30/2015 rolled forward to 6/30/2016	6/30/2015	6/30/2015 rolled forward to 6/30/2016	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%	2.85%	7.50%	2.85%	2.85%
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 maximum 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 $25,855 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 until the plan achieves 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, 2015 valuations rolled forward to June 30, 2016 and the calculation of the total pension liability at June 30, 2016 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, 2016 measurement date compared to the June 30, 2015 measurement date except for the changes in assumption for the RIJRFT plan due to use of the municipal bond index rate of 2.85% compared to 4.29% used in the June 30, 2015 valuation.

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 35 sources. The June 30, 2016 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:	38.00%	
U.S. Equity		6.98%
International Developed		7.26%
International Emerging Markets		9.57%
Equity Hedge funds	8.00%	4.10%
Private Equity	7.00%	10.15%
Core Fixed Income	15.00%	2.37%
Absolute Return Hedge Funds	7.00%	4.10%
Infrastructure	3.00%	5.58%
Real Estate	8.00%	5.33%
Other Real Return Assets:	11.00%	
Master Limited Partnerships		4.97%
Credit		4.97%
Inflation Linked Bonds		1.76%
Cash, Overlay and Money Market	3.00%	0.82%
	100.00%	

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, (2.85% at June 30, 2016) was applied to all periods of projected benefit payments to determine the total pension liability.

In May 2017, the Employees' Retirement System of Rhode Island Board voted to lower the investment rate of return assumption from 7.5% to 7% which will be reflected in the determination of the net pension liability (asset) for the various plans administered by the System beginning with the June 30, 2017 measurement date valuations. Funding valuations performed as of June 30, 2017 will reflect the lower investment return assumption and will impact required employer contributions in fiscal 2020.

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 2.85% at June 30, 2016 was used in the determination of the net pension liability for those plans with a similar +1/-1 % sensitivity analysis (expressed in thousands):

Governmental Activities:

	1.00% Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
ERS - State employees	$ 2,311,138	$ 1,887,351	$ 1,540,417
ERS - Teachers (State share)	$ 1,497,645	$ 1,212,754	$ 979,528
JRBT	$ 13,495	$ 6,533	$ 835
SPRBT	$ 22,275	$ 9,240	$ (1,426)

	1.00% Decrease (1.85%)	Municipal Bond Index Discount Rate (2.85%)	1.00% Increase (3.85%)
RIJRFT	$ 22,300	$ 20,037	$ 18,186
JNCRP	$ 55,530	$ 51,282	$ 47,600
SPNCRP	$ 328,638	$ 289,060	$ 256,906

Business-type Activities:

	1.00% Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
Rhode Island Lottery:			
ERS Plan - State Employees	$ 19,911	$ 16,260	$ 13,271

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):

*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.

		JRBT		RIJRFT		SPRBT		JNCRP*		SPNCRP*
Total Pension Liability										
Service Cost	$	2,859	$	466	$	4,316	$	-	$	-
Interest		4,744		719		9,058		1,860		9,778
Benefit changes										
Differences between expected and actual experience		(1,206)		(1,060)		(4,139)				
Changes of assumptions				1,865				3,510		30,696
Benefit payments		(2,531)		(231)		(4,585)		(6,107)		(17,505)
Net change in Total Pension Liability		3,866		1,759		4,650		(737)		22,969
Total pension liability - beginning		63,085		18,812		120,907		52,018		266,091
Total pension liability - ending	$	66,951	$	20,571	$	125,557	$	51,281	$	289,060
Plan Fiduciary Net Position										
Employer contributions	$	2,410	$	140	$	4,005	$	-	$	-
Employee contributions		1,053		135		2,035				
Net investment income		29		4		58				
Benefit payments		(2,531)		(231)		(4,585)				
Administrative expenses		(53)		-		(102)				
Net change in fiduciary net position	$	908	$	48	$	1,411	$	-	$	-
Plan Fiduciary net position - beginning	$	59,510		486		114,906				
Plan Fiduciary net position - ending	$	60,418	$	534	$	116,317	$	-	$	-
Net Pension Liability	$	6,533	$	20,037	$	9,240	$	51,281	$	289,060

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, 2017 the State recognized pension expense of $209.2 million related to State employees who are covered by the pension plans administered by ERS as well as the JNCRP. In addition, it recognized an Education expense of $97.8 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, 2017 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	$	157,115	$	96,542	$	253,657
Net difference between projected and actual earnings on pension plan investments		134,722		94,638		229,360
Changes in proportion and differences between employer contributions and proportionate share of contributions		-		1,454		1,454
Totals	$	291,837	$	192,634	$	484,471
Deferred Inflows of Resources						
Differences between expected and actual experience	$	49,980	$	23,928	$	73,908
Changes of assumptions		9,371		25,122		34,493
Changes in proportion and differences between employer contributions and proportionate share of contributions		761		1,816		2,577
Totals	$	60,112	$	50,866	$	110,978

The $157.1 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 $96.5 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):

		State Employees		Teachers
Year ended June 30:				
2018	$	5,931	$	7,869
2019		5,931		7,869
2020		38,722		29,168
2021		24,026		13,405
2022		-		(9,080)
Thereafter		-		(4,005)
	$	74,610	$	45,226

Other Single Employer Pension Plans

For the fiscal year ended June 30, 2017 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	$ 2,065
RIJRFT	1,839
SPRBT	3,441
JNCRP	5,230
SPNCRP	40,470
Total	$ 53,045

At June 30, 2017 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	$ 2,057	$ 332	$ 2,980	$ 5,829	$ 31,566	$ 42,764
Net difference between projected and actual earnings on pension plan investments	3,876	30	7,452			11,358
Totals	$ 5,933	$ 362	$ 10,432	$ 5,829	$ 31,566	$ 54,122
Deferred Inflows of Resources						
Differences between expected and actual experience	$ 2,909	$ -	$ 6,601	$ -	$ -	$ 9,510
Change of assumptions	329		259			588
Totals	$ 3,238	$ -	$ 6,860	$ -	$ -	$ 10,098

The amount of $42.8 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
2018	$ (49)	$ 8	$ 668	$	$
2019	(49)	8	668		
2020	690	8	2,086		
2021	206	6	952		
2022	(160)		(769)		
Thereafter			(3,013)		
	$ 638	$ 30	$ 592	$	$

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, 2017, 818 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 $0.70 to $1.57 per hour up to a maximum of 1,820 hours per year to the Plan for calendar year 2017. 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 $4.7 million for the fiscal year ended June 30, 2017, 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 $18.3 million during the year ended June 30, 2017.

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 provide 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, 2017 the plans' total pension liabilities exceeded the plans' fiduciary net position by an aggregate amount of $65.8 million. Accordingly, a net pension liability of that amount has been recorded as of June 30, 2017. For the fiscal year ended June 30, 2017 pension expense of $10.5 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, 2017, the plan's total pension liability exceeded the plan's fiduciary net position by $624 thousand. Accordingly, a net pension liability in that amount has been recorded as of that date. For the fiscal year ended June 30, 2017 pension expense of $104 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 15. 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 the 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 measurable.

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, 2017, the State and other participating employers paid $56.7 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	$ 42,732	$ 2,321	$ 0	$ 7,702	$ 27	$ 3,932
Plus: Interest on net OPEB obligation at beginning of year	0	N/A	0	425	0	0
Less: Adjustment to ARC	0	N/A	0	442	0	0
Annual OPEB cost	42,732	2,321	0	7,685	27	3,932
Participating State and/or other employer contributions	42,732	2,321	0	7,702	27	3,932
Decrease in OPEB obligation	0	0	0	(17)	0	0
Net OPEB obligation at beginning of year	0	0	0	8,503	0	0
Net OPEB obligation at end of year	$ 0	$ 0	$ 0	$ 8,486	$ 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	2015	$ 47,768	100.00%	-
	2016	40,709	100.00%	-
	2017	42,732	100.00%	-
Teachers	2015	2,799	100.00%	-
	2016	2,321	100.00%	-
	2017	2,321	100.00%	-
Judicial	2015	13	100.00%	-
	2016	-	100.00%	-
	2017	-	100.00%	-
State Police	2015	8,170	99.56%	8,520
	2016	6,806	99.57%	8,503
	2017	7,685	99.98%	8,486
Legislators	2015	-	N/A	-
	2016	27	N/A	-
	2017	27	N/A	-
BOE	2015	3,011	100.00%	-
	2016	3,558	100.00%	-
	2017	3,932	100.00%	-

The table below displays the funded status of each plan at June 30, 2015 (updated as of October 25, 2017), which is the most recent actuarial valuation completed for funding purposes. The updated 2015 valuation reflects certain results of an actuarial experience investigation performed for the Employees' Retirement System of Rhode Island at June 30, 2016 as well as other assumptions specific to OPEB plans (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	$ 672,004	$ 579,879	13.7%	$ 682,965	84.9%
Teachers	6,648	12,772	6,124	52.1%	n/a	n/a
Judicial	2,826	907	(1,919)	311.6%	10,281	-18.67%
State Police	22,920	82,519	59,599	27.8%	18,119	328.9%
Legislators	2,469	1,630	(839)	151.5%	1,742	-48.2%
BOE	14,608	92,562	77,954	15.8%	113,947	68.4%

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 2017 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 (updated October 25, 2017).

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 pension valuation for the Employees' Retirement System of Rhode Island (ERSRI) and the results of an actuarial experience investigation performed for ERSRI at June 30, 2016. 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
- Aging factors and health and inflation trends.

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 following table summarizes the actuarial methods and assumptions as of June 30, 2015. These method and assumptions were used to determine the Unfunded Actuarial Accrued Liability as of June 30, 2015 (updated October 25, 2017) that is presented in the table in Section C above.

Summary of Actuarial Methods and Assumptions as of June 30, 2015

	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	3.00% to 6.00%	NA	3.00%	4.00% to 14.00%	3.00% to 6.00%	3.00% to 6.00%
Valuation Health Care Cost Trend Rate	9% in 2016, grading to 3.5% in 2030					
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 16. 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 17. 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. During fiscal year 2017, 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, 2017 and June 30, 2016 was calculated based on historical claims data. The change in claims liability (expressed in thousands) is as follows:

	Liability at July 1, 2016	Current Year Claims and IBNR Estimate	Claim Payments	Liability at June 30, 2017
Health Insurance Internal Service Fund				
Unpaid claims	$ 19,042	$ 237,511	$ 238,248	$ 18,305

	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

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 18. 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	$ 14,631	$ 3,987	$ 18,618	$ (16,026)	$ 2,592
Loans to other funds	123,506		123,506	(123,506)	
Total assets	$ 138,137	$ 3,987	$ 142,124	$ (139,532)	$ 2,592
Liabilities					
Due to other funds	$ 14,522	$ 1,504	$ 16,026	$ (16,026)	$
Loans from other funds	114,546	8,960	123,506	(123,506)	
Total liabilities	$ 129,068	$ 10,464	$ 139,532	$ (139,532)	$
Program revenue					
General government	$	$ 324,017	$ 324,017	$ (324,017)	
Public safety		13,253	13,253	(13,253)	
Expenses					
General government		(324,836)	(324,836)	324,836	
Public safety		(12,434)	(12,434)	12,434	
Net revenue (expenses)	$	$	$	$	$
Transfers					
Transfers in	$ 577,435	$	$ 577,435	$ (238,457)	$ 338,978
Transfers out	(238,457)		(238,457)	238,457	
Net transfers	$ 338,978	$	$ 338,978	$	$ 338,978

	Total Business-type Activities		Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 56	$	$ 56	$ (2,648)	$ (2,592)
Total assets	$ 56	$	$ 56	$ (2,648)	$ (2,592)
Liabilities					
Due to other funds	$ 2,648	$	$ 2,648	$ (2,648)	$
Total liabilities	$ 2,648	$	$ 2,648	$ (2,648)	$
Transfers					
Transfers in	$ 23,828	$	$ 23,828	$ (23,828)	$
Transfers out	(362,806)		(362,806)	23,828	(338,978)
Net transfers	$ (338,978)	$	$ (338,978)	$	$ (338,978)

B. Related Party Transactions

The State has transferred custody, control and supervision of the Jamestown Verrazano 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. Per statute, the State earmarks $0.035 of the gas tax to the Authority to fund the additional maintenance costs associated with these bridges. In addition, the Authority has been selected to provide administrative and operational functions for the RoadWorks truck tolling initiative upon commencement.

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. Although the original airport-related General Obligation Bonds were defeased in June 2002, the terms of the Lease Agreement require RIAC to continue to remit payments to the State based upon the amortization schedule of original airport-related General Obligation Bonds through June 2023. As of June 30, 2017, the amounts owed were approximately $275,000. 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 right 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.

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 Ascensus College Recordkeeping Services, LLC, the program manager for CollegeBound 529 operated by the R.I. Higher Education Savings Trust, the State receives an administrative fee assessed on all non-Rhode Island resident accounts invested in CollegeBound 529. This administrative fee supports the administration of CollegeBound 529 and the establishment and marketing of education activities and scholarship funds in the state of Rhode Island. These administrative fees amounted to $1,180,247 for the year ended June 30, 2017.

During fiscal 2016, the State created the School Building Authority Capital Fund program to address high priority school projects in communities with limited financial 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 $10 million and $20 million was made to RIHEBC during the fiscal years ended June 30, 2017 and 2016, respectively, to fund the program. Funding is expected to continue through annual appropriations from the legislature, 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. The State has appropriated approximately $31 million to RIIB since the program inception in fiscal 2014. 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 $58 million during fiscal 2017 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	$ 76,674	Operating assistance
Rhode Island College	47,394	Operating assistance
Community College of Rhode Island	49,488	Operating assistance
Central Falls School District	43,345	Operating assistance
The Met	14,084	Operating assistance
I-195 District Commission	830	Operating assistance
R.I. Commerce Corporation	61,664	Operating and capital assistance
R.I. Division of Higher Education Assistance	6,757	Operating assistance
R.I. Public Transit Authority	4,415	Operating assistance
R.I. Health and Educational Building Corporation	60,525	School Building Authority Capital Fund/debt service
IST		
R.I. Public Transit Authority	46,322	Operating assistance
R.I. Turnpike and Bridge Authority	15,606	Infrastructure improvements
Bond Capital		
University of Rhode Island	19,661	Construction, improvement or purchase of assets
Rhode Island College	18,281	Construction, improvement or purchase of assets
R.I. Infrastructure Bank	9,483	Infrastructure improvements and bond proceeds
R. I. Capital Plan		
University of Rhode Island	11,719	Construction, improvement or purchase of assets
Rhode Island College	6,352	Construction, improvement or purchase of assets
Community College of Rhode Island	3,583	Construction, improvement or purchase of assets
R.I. Airport Corporation	3,000	Construction, improvement or purchase of assets
Total Governmental Activities	$ 499,183	

E. Individual Fund Deficits

The following Internal Service Funds had cumulative fund deficits at June 30, 2017:

- Central Utilities ($11 thousand)
- Central Mail ($6 thousand)
- State Telecommunications ($442 thousand)
- Records Center ($96 thousand)
- Capitol Police ($17 thousand)

The deficits will be eliminated through charges for services in fiscal year 2018.

F. Restatements – Net Position

Restatements of beginning net position (expressed in thousands) are in the following table:

	Governmental Activities	General Fund	Discretely Presented Component Units
Balances previously reported at June 30, 2016			
Net position	$ (500,714)		$ 2,453,328
Fund balance		$ 509,378	
Restatement due to:			
1) Inclusion of the University of Rhode Island Research Foundation as a discretely presented component unit of the University of Rhode Island (a discretely presented component unit of the State of Rhode Island and Providence Plantations).			1,893
2) Restatement due to reclassification of revenue from restricted to federal sources and related deferral of federal receipts in advance of expenditure.	(8,692)	(8,692)	
3) Restatement to correct prior period recording of deferred loss on refunding and related effect on deferred outflows.	(27,175)		
4) Restatement to expense item previously reported as construction in progress.	(120)		
Balances at June 30, 2016, as restated:			
Net position	$ (536,701)		$ 2,455,221
Fund balance		$ 500,686	

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 (a)	$	31,057	
Investment income		212	
Total revenue		31,268	
Operating expenses		84	
Net revenue available for debt service	$	31,184	
Required debt service payments	$	37,996	
Covered ratio (b)			82.07%
Turbo redemptions - principal (c)		6,275	
Total annual debt service	$	44,271	
Covered ratio after turbo principal payments (d)			70.44%
Term of commitment - through June 2052			
Revenue Bonds-GARVEE (Federal Highway)			
Revenue - FHWA participation	$	19,116	
Less: operating expenses		-	
Net available revenue	$	19,116	
Debt service			
Principal	$	-	
Interest		19,116	
Total debt service	$	19,116	
Covered ratio (b)			100.00%
Term of commitment - through June 2031			
Revenue Bonds-GARVEE (Gas Tax)			
Revenue - 2 cents per gallon of the gasoline tax	$	8,845	
Less: operating expenses		-	
Net available revenue	$	8,845	
Debt service			
Principal	$	4,200	
Interest		2,661	
Total debt service	$	6,861	
Covered ratio (b)			128.92%
Term of commitment - through June 2027			

(a) This is the amount received by the Corporation in fiscal year 2017. Such amount is net of credits of $16,866,135 made in connection with a disputed payments account settlement.

(b) Coverage ratio equals net revenue available for debt service divided by required debt service payments.

(c) The Corporation is required to apply collections that are in excess of current funding requirements to the early redemption of the bonds.

(d) Coverage ratio equals net revenue available for debt service divided by total annual debt service.

H. Special Item

During fiscal 2017, the State reached a settlement with various tobacco manufacturers over disputed payments for the years 2004 through 2014 under the Master Settlement Agreement (the "MSA"), eliminating a potential liability to the State of over $500 million. By agreement with the bondholders, the State received $11,483,090 or 30 percent of the $38,276,966 on deposit from the State's disputed payment account as of March 19, 2015. After payment of costs associated with the consent solicitation process and other transaction related costs, the TSFC (a blended component unit) made a net transfer to the State in May 2017 of $10,360,190. This amount is reflected as a Special Item in the accompanying financial statements.

Note 19. Subsequent Events

Primary Government

In November, 2017 the State of Rhode Island finalized a Voluntary Retirement Incentive Plan which was offered to state employees in the Executive Branch and certain other state employees. The incentive is only available to employees who have already reached normal retirement age and consists of a one-time payment equal to twice the value of an eligible employee's annual longevity bonus. The deadline for employees to submit written notice of their election to retire under the terms of the plan ranges from January 15, 2018 – March 15, 2018. Accordingly, the final expenses associated with and future cost savings from the Voluntary Retirement Incentive Plan cannot be currently determined.

In December, 2017 the Rhode Island Department of Transportation awarded a $248 million contract for the design and reconstruction of the Routes 6 and 10 interchange in Providence. The project is scheduled for completion in the fall of 2023.

Discretely Presented Component Units

Rhode Island Commerce Corporation (RICC) received a report on September 20, 2017 from the Office of Inspector General for the United States Department of Treasury containing audit findings in relation to the administration of RICC's State Small Business Credit Initiative Beta Spring program during the 2011-2014 time frame. In response to the report, management of the Department of Treasury indicated that it would not disburse the final funding allocation of $2,000,000 to the Small Business Loan Fund Corporation.

The I-195 Redevelopment District Commission entered into an agreement with Rhode Island Commerce Corporation and Providence Innovation District Phase I Owner, LLC on September 22, 2017, for building incentives in the amount of $19.8 million under the I-195 Redevelopment Project Fund Act, Chapter 64.24 of Title 42 of the Rhode Island General Laws. This incentive is to be used for the construction of an approximately 196,000 square foot innovation center/office building to be constructed on Parcels 22 and 25 and for tenant inducements for the Cambridge Innovation Center, one of the building's anchor tenants. Included in the agreement is a $1,000,000 request for tenant improvements at One Ship Street, space to be used for interim occupancy during the construction phase of the project. In addition to the incentives through the I-195 Redevelopment fund, Providence Innovation District Phase I Owner, LLC received Rebuild Rhode Island Tax Credit Incentives and Sales and Use Tax Rebates in separate and distinct transactions with the Rhode Island Commerce Corporation.

On October 17, 2017, the University of Rhode Island issued:

- Series 2017 A University of Rhode Island Auxiliary Enterprise Revenue Issue Bonds with a par amount of $76,895,000 for the design and construction of a new multi-story apartment style residence building west of White Horn Brook.

- Series 2017 B University of Rhode Island Auxiliary Enterprise Revenue Refunding Issue Bonds with a par amount of $35,560,000 for the advance refunding of the Series 2010 B bonds.

- Series 2017 C University of Rhode Island Education and General Revenue Issue Bonds with a par amount of $4,235,000 for the cost of site-enabling facility relocation, utility and hardscape and landscape infrastructure for the White Horn Brook apartments.

- Series 2017 D University of Rhode Island Education and General Revenue Refunding Issue Bonds with a par amount of $6,525,000 for the advance refunding of the Series 2009 A bonds.

On November 30, 2017 the Rhode Island Commerce Corporation issued Motor Fuel Tax Revenue Refunding (Rhode Island Department of Transportation) Series 2017 A bonds with a par amount of $35,020,000 for the advance refunding of Series 2003 A, 2006 A and 2009 A Rhode Island Economic Development Corporation Motor Fuel Tax Revenue Bonds (Rhode Island Department of Transportation). The bonds mature annually from 2019 to 2027 with an interest rate of 5%.

In November, 2017 Rhode Island Housing and Mortgage Finance Corporation issued multi-family development bonds with a par amount of $51,930,000 to finance developments in Providence, RI. Additionally, in November and December 2017, Rhode Island Housing Mortgage and Finance Corporation issued a total of $21,600,000 in Federal Financing Bank debt to refinance multi-family developments.

On December 7, 2017, the Rhode Island Infrastructure Bank issued a private placement Bond Anticipation Note for $10,000,000, the proceeds of which will be used to fund a loan to the Providence Public Buildings Authority. In addition, on December 13, 2017 the Rhode Island Infrastructure Bank issued a private placement Bond Anticipation Note for $6,000,000, the proceeds of which will be used for their Efficient Building Funds Program which seeks to provide long-term financing for the completion of energy efficiency and renewable energy projects. Also, on December 1, 2017 Rhode Island Infrastructure Bank extended an existing one year Bond Anticipation Note (Series 2016 A) for $17,345,000.

On December 20, 2017 the Rhode Island Convention Center Authority issued bonds with a par amount of $68,720,000 for the advance refunding of Series 2009 A bonds. The bonds mature annually from 2020 through 2027 with interest rates ranging from 2.283% to 3.265%.

Required Supplementary Information

State of Rhode Island

Fiscal Year Ended
June 30, 2017

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, 2017
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
General Revenues:				
Personal Income Tax	$ 1,249,175	$ 1,266,604	$ 1,243,807	$ (22,797)
General Business Taxes:				
Business Corporations	164,472	125,000	119,290	(5,710)
Public Utilities Gross Earnings	101,000	96,200	90,405	(5,795)
Financial Institutions	20,300	20,500	22,189	1,689
Insurance Companies	126,065	133,400	121,094	(12,306)
Bank Deposits	2,400	2,500	2,972	472
Health Care Provider Assessment	45,100	43,000	43,486	486
Sales and Use Taxes:				
Sales and Use	1,017,044	1,001,000	998,197	(2,803)
Motor Vehicle	13,065	26,000	26,024	24
Motor Fuel			101	101
Cigarettes	139,600	138,700	140,263	1,563
Alcohol	19,770	19,800	19,741	(59)
Other Taxes:				
Inheritance and Gift	21,400	27,800	85,429	57,629
Racing and Athletics	1,100	1,100	1,163	63
Realty Transfer Tax	11,100	11,700	12,589	889
Total Taxes *(1)*	2,931,591	2,913,304	2,926,750	13,446
Departmental Revenue	361,587	376,161	370,066	(6,095)
Total Taxes and Departmental Revenue	3,293,178	3,289,465	3,296,816	7,351
Other Sources:				
Lottery	365,300	362,200	362,697	497
Unclaimed Property	9,200	12,100	12,725	625
Other Miscellaneous	7,065	12,062	12,122	60
Total Other Sources	381,565	386,362	387,544	1,182
Total General Revenues	3,674,743	3,675,827	3,684,360	8,533
Federal Revenues	2,674,571	2,901,219	2,726,644	(174,575)
Restricted Revenues	256,159	272,000	217,258	(54,742)
Other Revenues	80,174	87,373	82,790	(4,583)
Non-budgeted Capital Lease Proceeds			2,500	2,500
Total Revenues *(2)*	6,685,647	6,936,419	6,713,552	(222,867)
Expenditures *(4)*:				
General government	744,388	772,036	712,409	59,627
General government - non-budgeted capital lease expenditures			2,500	(2,500)
Total general government	744,388	772,036	714,909	57,127
Human services	3,755,919	3,939,010	3,831,634	107,376
Education	1,562,855	1,569,805	1,550,544	19,261
Public safety	532,479	564,645	535,084	29,561
Natural resources	98,981	101,564	77,556	24,008
Total Expenditures *(2)*	6,694,622	6,947,060	6,709,727	$ 237,333
Transfer of Excess Budget Reserve to RI Capital Fund			114,538	
Total Expenditures and Transfers	$ 6,694,622	$ 6,947,060	6,824,265	
Change in Fund Balance			(110,713)	
Fund balance - beginning (as restated)			500,686	
Fund balance - ending			$ 389,973	

(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, 2017
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Expenditures by Source:				
General Revenues	$ 3,683,718	$ 3,686,468	$ 3,672,460	$ 14,008
Federal Funds	2,674,571	2,901,219	2,727,902	173,317
Restricted Receipts	256,159	272,000	226,155	45,845
Other Funds	80,174	87,373	80,710	6,663
Non-budgeted Capital Lease Expenditures			2,500	(2,500)
	$ 6,694,622	$ 6,947,060	$ 6,709,727	$ 237,333

General Fund - Reconciliation of Budget Results to Changes in Fund Balance:

Budgeted Surplus:		
Total Revenue - Final Budget	$ 6,936,419	
Total Expenditures - Final Budget	6,947,060	
Final Budget - Projected Surplus (3)		$ (10,641)
Final Budget and Actual - Results		
Total Revenues - Variance (Actual Revenue less than Budget)	$ (222,867)	
Total Expenditures - Variance (Actual Expenditures less than Budget)	237,333	
Surplus resulting from operations compared to final budget		$ 14,466
Total General Fund Surplus - Fiscal Year Ended June 30, 2017		$ 3,825
Transfer of Excess Budget Reserve to RICAP Fund		(114,538)
Net Change in General Fund - Fund Balance		$ (110,713)
Fund Balance, Beginning (as restated)		500,686
Fund Balance, Ending		$ 389,973

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 as detailed below, to align with the State's legally adopted budget format.

Historic Tax Credit Fund Transfers to the General Fund in Fiscal 2017 by Tax Type:

	General Fund Reported Revenue	Historic Tax Credits Applied Transfer from HTCF	Budgetary Comparison Total
Personal Income	1,235,991	7,816	1,243,807
Business Corporations	119,175	115	119,290
Insurance Companies	120,343	751	121,094

(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, 2017.

(4) Debt service expenditures are included in the above respective categories:

General government	$ 138,966
Education	24,918
Public Safety	500
	$ 164,384

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, 2017
(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 2018		Budgetary Perspective: Fund Balance Available for Appropriation in Fiscal 2018	
Restricted	$ 117,668	$ 117,668		$	
Committed	2,556	2,556			
Assigned	67,931	15,481	*(a)*	52,450	*(b)*
Unassigned	201,818	192,608	*(c)*	9,210	*(d)*
Total Fund Balance	$ 389,973	$ 328,313		$ 61,660	

(a) Assigned fund balance not available for appropriation in fiscal 2018 includes (1) centralized cost allocation surplus that requires offset through fiscal 2018 centralized charges and (2) general revenue appropriations carried forward by the Governor, Judiciary, and Legislature.

(b) Assigned fund balance available for appropriation in fiscal 2018 includes fiscal 2017 ending surplus amounts of $49.7 million appropriated as resources in the 2018 enacted budget, and fund balance amounts encumbered at June 30, 2017.

(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, 2017
(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	$ 141,711	$ 141,711	$ 197,278	$ 55,567
Licenses, fines, sales, and services			22,471	
Departmental restricted revenue	180	3,610	1,359	(2,251)
Federal grants	272,410	272,963	239,691	(33,272)
Other revenues	2,650	2,692	1,187	(1,505)
Total revenues	416,951	420,976	461,986	18,539
Revenues and other Financing Sources (unbudgeted):				
Miscellaneous revenue			1,872	
Transfer from I-195 Redevelopment Commission			960	
Total revenues			464,818	
Other Financing Sources:				
Transfers from RI Capital Plan Fund (State FHWA Match)			25,396	
Proceeds from issuance of GARVEE bonds			245,925	
Premium on issuance of GARVEE bonds			55,842	
Total Other Financing Sources			327,163	
Total Revenues and Other Financing Sources			791,981	
Expenditures (budgeted):				
Central Management				
Federal Funds	6,611	8,703	5,214	3,489
Gasoline Tax	2,594	4,523	3,469	1,054
Total - Central Management	9,205	13,226	8,683	4,543
Management and Budget				
Gasoline Tax	3,009	4,099	2,412	1,687
Total - Management and Budget	3,009	4,099	2,412	1,687
Infrastructure-Engineering-GARVEE/ Motor Fuel Tax Bonds				
Federal Funds	260,385	247,729	223,447	24,282
Federal Funds-Stimulus	5,415	16,531	11,007	5,524
Restricted Receipts	180	3,610	1,278	2,332
Gasoline Tax	72,131	75,765	76,025	(260)
Motor Fuel Tax Residuals	2,500	2,542	357	2,185
Total - Infrastructure - Engineering	340,611	346,177	312,114	34,063
Infrastructure - Maintenance				
Gasoline Tax	12,847	8,418	23,709	(15,291)
Non-Land Surplus Property	50	50		50
Outdoor Advertising	100	100		100
Rhode Island Highway Maintenance Account	79,793	110,202	36,247	73,955
Total - Infrastructure - Maintenance	92,790	118,770	59,956	58,814
Total Expenditures (budgeted)	$ 445,615	$ 482,272	$ 383,165	$ 99,107
Expenditures and Financing Uses (unbudgeted):				
Infrastructure Expenditures - State Match funded by RI Capital Plan Fund			29,162	
Infrastructure Expenditures - GARVEE			2,828	
I-195 Redevelopment District Project			4,894	
Transfers to General Fund - Gas Tax			53,856	
Total Expenditures and Financing Uses (unbudgeted)			90,740	
Total Expenditures and Other Financing Uses			473,905	
Net change in fund balance			318,076	
Fund balance, beginning			136,139	
Fund balance, ending			$ 454,215	

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. General fund original and final budgeted revenues reflect amounts adopted during the State’s revenue estimating conference which meets biannually in November and May.

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, certain motor vehicle related fees and surcharges collected by the Department of Motor Vehicles, 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. By statute, the IST fund receives a percentage of certain motor vehicle related fees and surcharges collected by the Department of Motor Vehicles which are dedicated to the Rhode Island Highway Maintenance Account within the IST Fund. These revenues are not specifically budgeted through the revenue estimation process. Annual budgeted expenditures from the Highway Maintenance Account reflect amounts available in the account.

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 2017 reflect a June 30, 2016 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 14 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 Three Fiscal Years
(Expressed in Thousands)

Employees' Retirement System-State Employees-Governmental Activities

Year Ended	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Date	June 30, 2016	June 30, 2015	June 30, 2014
State's proportion of the net pension liability	88.9%	89.0%	89.0%
State's proportionate share of the net pension liability	$ 1,887,351	$ 1,767,095	$ 1,585,647
State's covered employee payroll	$ 597,074	$ 595,832	$ 581,589
State's proportionate share of the net pension liability as a percentage of its covered employee payroll	316.1%	296.6%	272.6%
Plan fiduciary net position as a percentage of the total pension liability	51.9%	55.0%	58.6%

**** The State of Rhode Island adopted GASB Statement 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.***

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Last Three Fiscal Years Ended June 30*
(Expressed in Thousands)

Employees' Retirement System-State Employees-Governmental Activities

	2017	2016	2015
Actuarially determined contribution	$ 144,913	$ 144,696	$ 138,689
Contributions in relation to the actuarially determined contribution	$ 144,913	$ 144,696	$ 138,689
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	$ 571,875	$ 612,081	$ 594,466
Contributions as a percentage of covered-employee payroll	25.34%	23.64%	23.33%

**** The State of Rhode Island adopted GASB Statement 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.***

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 Three Fiscal Years
(Expressed in Thousands)

Employees' Retirement System-State Share-Teachers (Special Funding Situation)

Year Ended	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Date	**June 30, 2016**	**June 30, 2015**	**June 30, 2014**
State's proportion of the net pension liability	40.65%	40.59%	40.68%
State's proportionate share of the net pension liability	$ 1,212,754	$ 1,117,395	$ 990,129
Plan fiduciary net position as a percentage of the total pension liability	54.10%	57.60%	61.40%

**** The State of Rhode Island adopted GASB Statement 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.***

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Last Three Fiscal Years Ending June 30*
(Expressed in Thousands)

Employees' Retirement System-State Share-Teachers (Special Funding Situation)

	2017	2016	2015
Statutorily required contribution	$ 96,542	$ 87,998	$ 84,944
Contributions in relation to the statutorily required contribution	96,542	87,998	84,944
Annual contribution deficiency (excess)	$ -	$ -	$ -

**** The State of Rhode Island adopted GASB Statement 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.***

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 2017 reflect a June 30, 2016 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 14 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 Three Fiscal Years Ended June 30*
(Expressed in Thousands)

State Police Retirement Benefits Trust

	2017	2016	2015
Total Pension Liability			
Service cost	$ 4,316	$ 4,198	$ 5,122
Interest	9,058	8,540	7,768
Benefit Changes	-	1,170	-
Differences between expected and actual experience	(4,139)	(3,522)	-
Changes of assumptions	-	-	(364)
Benefit payments	(4,585)	(2,497)	(1,767)
Net Change in Total Pension Liability	4,650	7,889	10,759
Total Pension Liability-Beginning	120,907	113,018	102,259
Total Pension Liability-Ending	$ 125,557	$ 120,907	$ 113,018
Plan Fiduciary Net Position			
Employer contributions	$ 4,005	$ 3,432	$ 3,331
Employee contributions	2,035	1,732	2,034
Net investment income	58	2,656	14,124
Benefit payments	(4,585)	(2,497)	(1,767)
Transfers of member contributions	-	-	-
Administrative expenses	(103)	(100)	(83)
Other	1	4	5
Net Change in Plan Fiduciary Net Position	$ 1,411	$ 5,227	$ 17,644
Plan Fiduciary Net Position-Beginning	114,906	109,679	92,035
Plan Fiduciary Net Position-Ending	$ 116,317	$ 114,906	$ 109,679
Net Pension Liability	$ 9,240	$ 6,001	$ 3,339
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	92.6%	95.0%	97.0%
Covered Employee Payroll	$ 20,985	$ 19,701	$ 23,051
Net Pension Liability as a Percentage of Covered Employee Payroll	44.0%	30.5%	14.5%

***** The State of Rhode Island adopted GASB Statement 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.***

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 Three Fiscal Years Ended June 30*
(Expressed in Thousands)

Judicial Retirement Benefits Trust

	2017	2016	2015
Total Pension Liability			
Service cost	$ 2,859	$ 3,024	$ 3,002
Interest	4,744	4,540	4,134
Benefit Changes	-	253	-
Differences between expected and actual experience	(1,206)	(2,857)	-
Changes of assumptions	-	-	(672)
Benefit payments	(2,531)	(1,809)	(1,631)
Net Change in Total Pension Liability	3,866	3,151	4,833
Total Pension Liability-Beginning	63,085	59,934	55,101
Total Pension Liability-Ending	$ 66,951	$ 63,085	$ 59,934
Plan Fiduciary Net Position			
Employer contributions	$ 2,410	$ 2,709	$ 2,543
Employee contributions	1,053	1,121	1,093
Net investment income	29	1,368	7,221
Benefit payments	(2,531)	(1,809)	(1,631)
Transfers of member contributions	-	-	-
Administrative expenses	(53)	(51)	(43)
Other	-	-	-
Net Change in Plan Fiduciary Net Position	$ 908	$ 3,338	$ 9,183
Plan Fiduciary Net Position-Beginning	59,510	56,172	46,989
Plan Fiduciary Net Position-Ending	$ 60,418	$ 59,510	$ 56,172
Net Pension Liability	$ 6,533	$ 3,575	$ 3,762
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.2%	94.3%	93.7%
Covered Employee Payroll	$ 8,981	$ 9,570	$ 9,314
Net Pension Liability as a Percentage of Covered Employee Payroll	72.7%	37.4%	40.4%

**** The State of Rhode Island adopted GASB Statement 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.***

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 Three Fiscal Years Ended June 30*
(Expressed in Thousands)

Rhode Island Judicial Retirement Fund Trust

	2017	2016	2015
Total Pension Liability			
Service cost	$ 466	$ 416	$ 498
Interest	719	673	710
Benefit Changes	-	-	-
Differences between expected and actual experience	(1,060)	(642)	1,617
Changes of assumptions	1,865	859	(1,160)
Benefit payments	(231)	-	-
Net Change in Total Pension Liability	1,759	1,306	1,665
Total Pension Liability-Beginning	18,812	17,506	15,841
Total Pension Liability-Ending	$ 20,571	$ 18,812	$ 17,506
Plan Fiduciary Net Position			
Employer contributions	$ 140	$ -	$ -
Employee contributions	135	159	153
Net investment income	4	9	12
Benefit payments	(231)	-	-
Transfers of member contributions	-	-	-
Administrative expenses	-	-	-
Other	-	-	-
Net Change in Plan Fiduciary Net Position	$ 48	$ 168	$ 165
Plan Fiduciary Net Position-Beginning	486	318	153
Plan Fiduciary Net Position-Ending	$ 534	$ 486	$ 318
Net Pension Liability	$ 20,037	$ 18,326	$ 17,188
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	2.5%	2.6%	1.8%
Covered Employee Payroll	$ 963	$ 1,321	$ 1,276
Net Pension Liability as a Percentage of Covered Employee Payroll	2189.2%	1387.4%	1346.8%

**** The State of Rhode Island adopted GASB Statement 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.***

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Last Three Fiscal Years Ended June 30*
(Expressed in Thousands)

State Police Retirement Benefits Trust

	2017	2016	2015
Actuarially determined contribution	$ 2,980	$ 4,005	$ 3,432
Contributions in relation to the actuarially determined contribution	2,980	4,005	3,432
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	$ 22,191	$ 23,258	$ 19,907
Contributions as a percentage of covered-employee payroll	13.43%	17.22%	17.24%

***** The State of Rhode Island adopted GASB Statement 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.***

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Last Three Fiscal Years Ended June 30*
(Expressed in Thousands)

Judicial Retirement Benefits Trust

	2017	2016	2015
Actuarially determined contribution	$ 2,057	$ 2,410	$ 2,709
Contributions in relation to the actuarially determined contribution	2,057	2,410	2,709
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	$ 9,532	$ 8,993	$ 9,566
Contributions as a percentage of covered-employee payroll	21.58%	26.80%	28.32%

**** The State of Rhode Island adopted GASB Statement 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.***

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Last Three Fiscal Years Ended June 30*
(Expressed in Thousands)

Rhode Island Judicial Retirement Fund Trust

	2017	2016	2015
Actuarially determined contribution	$ 1,241	$ 1,200	$ 1,623
Contributions in relation to the actuarially determined contribution	332	140	-
Contribution deficiency (excess)	$ 909	$ 1,060	$ 1,623
Covered-employee payroll	$ 988	$ 964	$ 1,321
Contributions as a percentage of covered-employee payroll	33.63%	14.54%	0.00%

***** *The State of Rhode Island adopted GASB Statement 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.***

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 2017 reflect a June 30, 2016 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 14 to the financial statements contains detailed information concerning pension plans.

Subsequent to the June 30, 2016 measurement date, a trust was created for the State Police Non-contributory Retirement Plan and the State, beginning in fiscal 2017, began making actuarially determined contributions on an advance-funded basis to the plan. A one-time supplemental employer contribution of $15 million was also made to the plan in fiscal 2017 from federal Equitable Sharing funds made available for that purpose.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of Changes in Total Pension Liability
Last Three Fiscal Years Ended June 30*
(Expressed in Thousands)

State Police Non-Contributory Retirement Plan

Total Pension Liability	**2017**	**2016**	**2015**
Service cost	$ -	$ -	$ -
Interest	9,778	10,503	10,795
Benefit changes	-	-	-
Differences between expected and actual experience	-	3,565	-
Changes of assumptions	30,696	15,955	-
Benefit payments	(17,505)	(17,512)	(17,700)
Net Change in Total Pension Liability	22,969	12,511	(6,905)
Total Pension Liability-Beginning	266,091	253,580	260,485
Total Pension Liability-Ending	$ 289,060	$ 266,091	$ 253,580

**** The State of Rhode Island adopted GASB Statement 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.***

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of Changes in Total Pension Liability
Last Three Fiscal Years Ended June 30*
(Expressed in Thousands)

Judicial Non-Contributory Retirement Plan

Total Pension Liability	**2017**	**2016**	**2015**
Service cost	$ -	$ -	$ -
Interest	1,860	2,172	2,334
Benefit changes	-	-	-
Differences between expected and actual experience	-	328	-
Changes of assumptions	3,510	1,885	-
Benefit payments	(6,107)	(6,020)	(6,173)
Net Change in Total Pension Liability	(737)	(1,635)	(3,839)
Total Pension Liability-Beginning	52,018	53,653	57,492
Total Pension Liability-Ending	$ 51,281	$ 52,018	$ 53,653

**** The State of Rhode Island adopted GASB Statement 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.***

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 2017 were determined based on valuations performed as of June 30, 2014. Significant methods and assumptions are summarized for each plan in the table below:

	ERS		SPRBT	JRBT	RIJRFT
	State Employees	*Teachers*			
Actuarial Cost Method	Entry Age Normal - the Individual Entry Age Actuarial Cost methodology is used.				
Amortization Method	Level Percent of Payroll – Closed				Level Dollar
Equivalent single remaining amortization period	21 years remaining at June 30, 2014				
Asset valuation method	5 year smoothed market				
Amortization period for gains and losses	20 years				
Actuarial Assumptions					
Investment Rate of Return	7.50%				4.00%
Projected Salary Increases	3.50% to 6.50%	3.50% to 13.5%	3.75% to 11.75%	3.50%	3.50%
Mortality	• 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.				
		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.			
Inflation	2.75%				
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.					

Factors affecting trends for amounts related to the net pension liability

June 30, 2016 measurement date – There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability (asset) of the plans as of the June 30, 2016 measurement date compared to the June 30, 2015 measurement date except for the changes in assumptions for the RIJRFT plan due to use of the municipal bond index rate of 2.85% instead of the plan's assumed investment rate of return of 4.0%.

June 30, 2015 measurement date - 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, 2017
(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	$ 672,004	$ 579,879	13.7%	$ 682,965	84.9%
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	$ 12,772	$ 6,124	52.1%	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	$ 907	$ (1,919)	311.6%	$ 10,281	-18.7%
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	$ 82,519	$ 59,599	27.8%	$ 18,119	328.9%
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	$ 1,630	$ (839)	151.5%	$ 1,742	-48.2%
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	$ 92,562	$ 77,954	15.8%	$ 113,947	68.4%
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%

* -The 6/30/2015 valuation was updated as of 10/25/2017 to reflect certain results of an actuarial experience investigation performed for the Employees' Retirement System of Rhode Island at June 30, 2016 as well as other assumptions specific to OPEB plans.

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 15.

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.

The 2015 valuation was subsequently updated in October 2017 to reflect census data, actuarial assumptions, and plan provisions used in the GASB 74 valuation for accounting purposes to be used in the separately issued OPEB System financial statements.

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

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

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2017

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						
Agricultural Research - Basic and Applied Research	10.001				$ 2,073,881	$ 392,115
Plant and Animal Disease, Pest Control, and Animal Care	10.025				266,945	27,500
Avian Influenza Indemnity Program	10.029				16,911	
Federal-State Marketing Improvement Program	10.156				35	
Inspection Grading and Standardization	10.162				5,537	
Market Protection and Promotion	10.163				4,505	
Specialty Crop Block Grant Program - Farm Bill	10.170				250,439	143,773
Organic Certification Cost Share Program	10.171				2,062	
SNAP Cluster:						
Supplemental Nutrition Assistance Program	10.551			$ 268,539,797		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561			12,722,464	281,262,261	1,639,373
Child Nutrition Cluster:						
School Breakfast Program	10.553			10,265,652		9,470,384
National School Lunch Program (See Note 3)	10.555			35,603,693		28,968,020
Special Milk Program for Children	10.556			44,700		44,676
Summer Food Service Program for Children (See Note 3)	10.559			1,530,332	47,444,377	1,252,681
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (See Note 4)	10.557				22,427,777	4,037,862
Child and Adult Care Food Program	10.558				9,823,316	9,665,766
State Administrative Expenses for Child Nutrition	10.560				866,426	
Food Distribution Cluster:						
Commodity Supplemental Food Program	10.565			98,118		97,860
Emergency Food Assistance Program (Administrative Costs)	10.568			185,569		136,667
Emergency Food Assistance Program (Food Commodities) (See Note 3)	10.569			1,583,905	1,867,592	
WIC Farmers' Market Nutrition Program (FMNP)	10.572				(5)	
Senior Farmers Market Nutrition Program	10.576				30,115	
Child Nutrition Discretionary Grants Limited Availability	10.579				45,204	
Fresh Fruit and Vegetable Program	10.582				1,805,059	1,081,957
Cooperative Forestry Assistance	10.664				469,812	99,282
Forest Legacy Program	10.676				43,233	
Environmental Quality Incentives Program	10.912				19,656	
Total U.S. Department of Agriculture					$ 368,725,138	$ 57,057,916
U.S. Department of Commerce						
Economic Development Cluster:						
Investments for Public Works and Economic Development Facilities	11.300			$ 493,655		
Economic Adjustment Assistance (See Note 2)	11.307			9,561,908	$ 10,055,563	
Interjurisdictional Fisheries Act of 1986	11.407				74,178	

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2017

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				6	
Coastal Zone Management Administration Awards	11.419				1,396,481	$ 40,652
Coastal Zone Management Estuarine Research Reserves	11.420				637,917	
Marine Fisheries Initiative	11.433				574,335	
Unallied Management Projects	11.454				723,891	
Habitat Conservation	11.463				88,476	
Unallied Science Program	11.472				2,667	
Office for Coastal Management	11.473				453	
Atlantic Coastal Fisheries Cooperative Management Act	11.474				310,401	
NOAA Programs for Disaster Relief Appropriations Act - Non-Construction and Construction	11.483				6,802	
State and Local Implementation Grant Program	11.549				196,186	28,056
Total U.S. Department of Commerce					$ 14,067,356	$ 68,708
U.S. Department of Defense						
Procurement Technical Assistance for Business Firms	12.002				$ 395,918	
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113				474,067	
Military Construction, National Guard	12.400				754,699	
National Guard Military Operations and Maintenance (O&M) Projects	12.401				12,935,989	
Economic Adjustment Assistance for State Governments	12.617				1,591,944	$ 1,591,944
Total U.S. Department of Defense					$ 16,152,617	$ 1,591,944
U.S. Department of Housing and Urban Development						
Mortgage Insurance - Homes (See Note 2)	14.117				$ 219,757,571	
Qualified Participating Entities (QPE) Risk Sharing (See Note 2)	14.189				221,256,033	
Section 8 Project-Based Cluster:						
Section 8 Housing Assistance Payments Program	14.195			$ 159,158,954		
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856			535,328	159,694,282	
CDBG - Entitlement Grants Cluster:						
Community Development Block Grants/Entitlement Grants	14.218				14,785	
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (See Note 2)	14.228				15,146,221	$ 2,947,672
Emergency Solutions Grant Program	14.231				927,161	857,083
Supportive Housing Program	14.235				2,366,297	
Shelter Plus Care	14.238				1,800,199	
Home Investment Partnerships Program (See Note 2)	14.239				24,926,996	
Housing Opportunities for Persons with AIDS	14.241				701,023	

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
CDBG - Disaster Recovery Grants - Pub. L. No. 113-2 Cluster:						
Hurricane Sandy Community Development Block Grant Disaster Recovery Grants (CDBG-DR)	14.269				6,012,904	5,456,163
Fair Housing Assistance Program - State and Local	14.401				185,979	
Housing Voucher Cluster:						
Section 8 Housing Choice Vouchers	14.871				16,516,600	
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900				560,958	
Total U.S. Department of Housing and Urban Development					$ 669,867,009	$ 9,260,918
U.S. Department of the Interior						
Hurricane Sandy Disaster Relief – Coastal Resiliency Grants	15.153				$ 1,257,457	$ 1,191,958
Fish and Wildlife Cluster:						
Sport Fish Restoration	15.605			$ 4,809,796		
Wildlife Restoration and Basic Hunter Education	15.611			2,322,692	7,132,488	
Fish and Wildlife Management Assistance	15.608				29,449	4,236
Cooperative Endangered Species Conservation Fund	15.615				105,775	
Clean Vessel Act	15.616				11,742	3,825
Sportfishing and Boating Safety Act	15.622				340,712	
State Wildlife Grants	15.634				352,078	
Endangered Species Conservation – Recovery Implementation Funds	15.657				14,189	
Hurricane Sandy Disaster Relief Activities - FWS	15.677				24,951	24,938
U.S. Geological Survey - Research and Data Acquisition	15.808				24,310	
Historic Preservation Fund Grants-In-Aid	15.904				590,094	69,063
Outdoor Recreation - Acquisition, Development and Planning	15.916				282,312	
Historic Preservation Fund Grants to Provide Disaster Relief to Historic Properties Damaged by Hurricane Sandy	15.957				837,179	783,372
Total U.S. Department of the Interior					$ 11,002,736	$ 2,077,392
U.S. Department of Justice						
Sexual Assault Services Formula Program	16.017				$ 264,532	$ 242,025
Juvenile Accountability Block Grants	16.523				217	
Juvenile Justice and Delinquency Prevention Program	16.540				445,147	145,259
Missing Children's Assistance	16.543				278,955	
National Criminal History Improvement Program (NCHIP)	16.554				103,330	
National Institute of Justice W.E.B. DuBois Fellowship Program	16.566				1,142,496	
Crime Victim Assistance	16.575				4,713,878	3,897,316
Crime Victim Compensation	16.576				766,559	
Edward Byrne Memorial Formula Grant Program	16.579				18,384	
Crime Victim Assistance/Discretionary Grants	16.582				34,843	34,826
Drug Court Discretionary Grant Program	16.585				225,645	
Violence Against Women Formula Grants	16.588				1,004,386	576,343

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
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590				287,115	167,864
Residential Substance Abuse Treatment for State Prisoners	16.593				49,266	
State Criminal Alien Assistance Program	16.606				750,610	
Bulletproof Vest Partnership Program	16.607				66,261	
Project Safe Neighborhoods	16.609				75	
Public Safety Partnership and Community Policing Grants	16.710				11,544	
Juvenile Mentoring Program	16.726				45,490	
PREA Program: Demonstration Projects to Establish "Zero Tolerance" Cultures for Sexual Assault in Correctional Facilities	16.735				43,020	
Edward Byrne Memorial Justice Assistance Grant Program	16.738				859,930	366,993
DNA Backlog Reduction Program	16.741				108,806	
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742				67,227	
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745				525	
Support for Adam Walsh Act Implementation Grant Program	16.750				57,110	
Harold Rogers Prescription Drug Monitoring Program	16.754				257,387	
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803				12,218	12,169
John R. Justice Prosecutors and Defenders Incentive Act	16.816				32,178	
Vision 21	16.826				21,162	
Equitable Sharing Program	16.922				23,936,916	
Total U.S. Department of Justice					$ 35,605,212	$ 5,442,795
U.S. Department of Labor						
Labor Force Statistics	17.002				$ 735,503	
Compensation and Working Conditions	17.005				15,813	
Employment Service Cluster:						
Employment Service/Wagner-Peyser Funded Activities	17.207			$ 3,365,625		
Disabled Veterans' Outreach Program (DVOP)	17.801			411,215		
Local Veterans' Employment Representative (LVER) Program	17.804			314,837	4,091,677	
Unemployment Insurance (See Note 5)	17.225				171,913,194	
Senior Community Service Employment Program	17.235				465,138	$ 432,337
Trade Adjustment Assistance	17.245				798,149	174,441
WIA/WIOA Cluster:						
WIA/WIOA Adult Program	17.258			3,724,819		891,228
WIA/WIOA Youth Activities	17.259			4,089,647		1,129,231
WIA/WIOA Dislocated Worker Formula Grants	17.278			5,937,899	13,752,365	1,217,026
WIA/WIOA Pilots, Demonstrations, and Research Projects	17.261				568,428	
Incentive Grants - WIA Section 503	17.267				2,428,587	154,242
H-1B Job Training Grants	17.268				690,178	
Reentry Employment Opportunities	17.270				25,136	

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
WIOA National Dislocated Worker Grants/WIA National Emergency Grants	17.277				4,022,986	1,151,753
WIA/WIOA Dislocated Worker National Reserve Technical Assistance and Training	17.281				24,758	
Trade Adjustment Assistance Community College and Career Training (TAACCT) Grants	17.282				738,689	
Workforce Innovation Fund	17.283				3,475	
Apprenticeship USA Grants	17.285				65,815	
Consultation Agreements	17.504				409,161	
Other Department of Labor Awards	17.U01	10.073.1750104			22,716	
Total U.S. Department of Labor					$ 200,771,768	$ 5,150,258
U.S. Department of Transportation						
Airport Improvement Program	20.106				$ 37,413,692	
Highway Planning and Construction Cluster:						
Highway Planning and Construction	20.205			$ 217,338,923		$ 1,775,880
Recreational Trails	20.219			641,374	217,980,297	184,530
Motor Carrier Safety Assistance	20.218				931,093	
Performance and Registration Information Systems Management	20.231				118,968	
Commercial Driver's License Program Implementation Grant	20.232				241,726	
Safety Data Improvement Program	20.234				3,980	
Motor Carrier Safety Assistance High Priority Activities Grants and Cooperative Agreements	20.237				730,704	
ARRA - High-Speed Rail Corridors and Intercity Passenger Rail Service - Capital Assistance Grants	20.319				11,007,404	
Federal Transit Cluster:						
Federal Transit - Capital Investment Grants	20.500			2,480,212		431,536
Federal Transit - Formula Grants	20.507			39,554,567		102,000
Bus and Bus Facilities Formula Program	20.526			25,773	42,060,552	
Formula Grants for Rural Areas	20.509				390,626	
Public Transportation Emergency Relief Program	20.527				3,274,126	
Highway Safety Cluster:						
State and Community Highway Safety	20.600			2,526,439		849,150
Incentive Grant Program to Prohibit Racial Profiling	20.611			26,135		7,422
National Priority Safety Programs	20.616			2,449,789	5,002,363	750,794
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608				1,457,976	109,424
National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	20.614				21,415	
Pipeline Safety Program State Base Grants	20.700				118,808	
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703				107,104	49,483
Payments for Small Community Air Service Development	20.930				277,574	

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
Surface Transportation - Discretionary Grants for Capital Investment	20.932				760,770	
National Infrastructure Investments	20.933				743,189	
Total U.S. Department of Transportation					$ 322,642,367	$ 4,260,219
Equal Employment Opportunity Commission						
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002				$ 123,739	
Total Equal Employment Opportunity Commission					$ 123,739	$ -
General Services Administration						
Donation of Federal Surplus Personal Property (See Note 3)	39.003				$ 7,860,504	$ 6,617,966
Total General Services Administration					$ 7,860,504	$ 6,617,966
National Foundation on the Arts and the Humanities						
Promotion of the Arts - Partnership Agreements	45.025				$ 710,269	$ 454,002
Grants to States	45.310				994,559	
Total National Foundation on the Arts and the Humanities					$ 1,704,828	$ 454,002
U.S. Department of Veterans Affairs						
Grants to States for Construction of State Home Facilities	64.005				$ 49,503,291	
Veterans State Nursing Home Care	64.015				9,460,267	
Veterans Housing - Guaranteed and Insured Loans (See Note 2)	64.114				796,940	
All-Volunteer Force Educational Assistance	64.124				51,687	
Total U.S. Department of Veterans Affairs					$ 59,812,185	$ -
Environmental Protection Agency						
State Indoor Radon Grants	66.032				$ 124,070	
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034				1,003,020	
Healthy Communities Grant Program	66.110				114,393	
Congressionally Mandated Projects	66.202				1,815	
State Public Water System Supervision	66.432				570,019	
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Water Quality Management Planning	66.454				145,089	
Clean Water State Revolving Fund Cluster:						
Capitalization Grants for Clean Water State Revolving Funds	66.458				3,352,628	$ 3,352,628
Drinking Water State Revolving Fund Cluster:						
Capitalization Grants for Drinking Water State Revolving Funds	66.468				5,838,955	3,013,101
Beach Monitoring and Notification Program Implementation Grants	66.472				191,166	
Performance Partnership Grants	66.605				4,260,794	159,842

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
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701				147,024	
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707				203,606	
Pollution Prevention Grants Program	66.708				39,771	
Superfund State, Political Subdivision, and Indian Tribe Site - Specific Cooperative Agreements	66.802				337,466	
Underground Storage Tank Prevention, Detection and Compliance Program	66.804				257,248	
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805				385,741	
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809				130,617	
State and Tribal Response Program Grants	66.817				881,408	20,000
Brownfield Assessment and Cleanup Cooperative Agreements	66.818				240,359	
Total Environmental Protection Agency					$ 18,225,189	$ 6,545,571
U. S. Nuclear Regulatory Commission						
U.S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006				$ (25)	
Total U.S. Nuclear Regulatory Commission					$ (25)	$ -
U.S. Department of Energy						
State Energy Program	81.041				$ 310,204	
Weatherization Assistance for Low-Income Persons	81.042				991,342	$ 956,392
Office of Science Financial Assistance Program	81.049		Brown University *N/A*		23,875	
Renewable Energy Research and Development	81.087				119,369	
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117				2,260	
State Energy Program Special Projects	81.119				115,334	110,331
Nuclear Energy Research, Development and Demonstration	81.121				11,873	
State Heating Oil and Propane Program	81.138				17,616	
Stripper Well Oil Overcharge	81.U01	DE-EE0007489			90,871	
Total U.S. Department of Energy					$ 1,682,744	$ 1,066,723
U.S. Department of Education						
Adult Education - Basic Grants to States	84.002				$ 2,114,377	$ 1,675,893
Student Financial Assistance Cluster: (See Note 6)						
Federal Supplemental Educational Opportunity Grants	84.007			$ 2,511,447		
Federal Work - Study Program	84.033			2,328,798		
Federal Perkins Loan Program - Federal Capital Contributions (See Note 2)	84.038			14,367,544		
Federal Pell Grant Program	84.063			52,065,614		

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2017

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 Direct Student Loans (See Note 2)	84.268			145,713,355		
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379			4,000	216,990,758	
Title I Grants to Local Educational Agencies	84.010				50,921,683	47,628,709
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013				437,015	
Special Education Cluster:						
Special Education - Grants to States	84.027			42,912,269		37,309,534
Special Education - Preschool Grants	84.173			1,565,139	44,477,408	1,041,393
Federal Family Education Loans (Guarantee Agency) (See Note 2)	84.032				751,431,967	
TRIO Cluster:						
TRIO - Student Support Services	84.042			501,814		
TRIO - Talent Search	84.044			554,054		
TRIO - Upward Bound	84.047			691,461		
TRIO - Educational Opportunity Centers	84.066			662,959	2,410,288	
Career and Technical Education - Basic Grants to States	84.048				5,606,309	4,285,863
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126				14,029,095	
National Institute on Disability and Rehabilitation Research	84.133				639	
Independent Living - State Grants	84.169				77,535	
Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	84.177				235,209	
Special Education - Grants for Infants and Families	84.181				1,784,194	479,039
Supported Employment Services for Individuals with the Most Significant Disabilities	84.187				55,143	
Education for Homeless Children and Youth	84.196				184,065	138,218
Assistive Technology	84.224				313,974	
Charter Schools	84.282				20,205	
Twenty-First Century Community Learning Centers	84.287				5,687,209	4,890,380
Special Education - State Personnel Development	84.323				683,853	
Research in Special Education	84.324				(512)	
Research in Special Education	84.324		University of Kansas Center for Research		28,934	
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326				81,970	
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326		University of Connecticut Health Center *N/A*		14,548	
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330				79,433	
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334				3,322,834	3,321,317

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2017

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
Teacher Quality Partnership Grants	84.336		North Providence School Department *N/A*		91,687	
English Language Acquisition State Grants	84.365				2,070,326	1,657,714
Mathematics and Science Partnerships	84.366				840,684	796,631
Supporting Effective Instruction State Grant	84.367				11,487,633	10,475,268
Cooperative Grants for State Assessments	84.368				2,843	2,283
Grants for State Assessments and Related Activities	84.369				3,677,989	
Statewide Longitudinal Data Systems	84.372				200,585	7,440
School Improvement Grants	84.377				147,211	47,093
College Access Challenge Grant Program	84.378				850,721	47,457
Transition Programs for Students with Intellectual Disabilities into Higher Education	84.407				393,634	
ARRA - Race to the Top – Early Learning Challenge	84.412				7,159,581	
Preschool Development Grants	84.419				5,119,278	4,025,355
National Center For Educational Statistics	84.U01	ED-IES-14-C-0100			3,862	
National Assessment Of Educational Programs	84.U02	ED-IES-14-C-0100			78,546	
Total U.S. Department of Education					$ 1,133,112,713	$ 117,829,587
U.S. Department of Health and Human Services						
National Organizations of State and Local Officials	93.011				$ 8,344	
Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041				30,986	
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042				82,962	
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043				68,822	$ 61,395
Aging Cluster:						
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044			$ 2,268,889		1,264,485
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045			2,259,570		1,723,984
Nutrition Services Incentive Program	93.053			419,270	4,947,729	419,025
Special Programs for the Aging - Title IV - and Title II - Discretionary Projects	93.048				300,363	98,250
National Family Caregiver Support, Title III, Part E	93.052				499,794	415,257
Public Health Emergency Preparedness	93.069				80,310	
Environmental Public Health and Emergency Response	93.070				718,879	82,054
Lifespan Respite Care Program	93.072				155,202	74,384
Birth Defects and Developmental Disabilities - Prevention and Surveillance	93.073				295,212	3,309
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074				5,875,352	602,798

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
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	93.079				403,428	
Guardianship Assistance	93.090				628,007	
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092				243,885	108,305
Well-Integrated Screening and Evaluation for Women Across the Nation	93.094				780,762	25,214
Food and Drug Administration - Research	93.103				1,088,464	
Maternal and Child Health Federal Consolidated Programs	93.110				682,682	59,616
Maternal and Child Health Federal Consolidated Programs	93.110		Rhode Island Hospital *N/A*		126,063	
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116				221,216	
Emergency Medical Services for Children	93.127				129,643	
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130				185,396	1,263
Injury Prevention and Control Research and State and Community Based Programs	93.136				2,128,099	356,197
Projects for Assistance in Transition from Homelessness (PATH)	93.150				287,625	287,454
Grants to States for Loan Repayment Program	93.165				150,028	149,953
Disabilities Prevention	93.184				9,789	
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197				288,439	1,060
Family Planning - Services	93.217				1,075,815	720,624
Grants to States to Support Oral Health Workforce Activities	93.236				419,826	16,250
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238				764	
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243				7,828,024	4,680,923
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		Brown University *N/A*		28,681	
Universal Newborn Hearing Screening	93.251				245,817	115,303
Immunization Cooperative Agreements (See Note 3)	93.268				12,598,799	302,354
Adult Viral Hepatitis Prevention and Control	93.270				116,858	
Substance Abuse and Mental Health Services - Access to Recovery	93.275				9	
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283				1,590,747	515,743
State Partnership Grant Program to Improve Minority Health	93.296				190,192	167,559
National State Based Tobacco Control Programs	93.305				1,493,175	389,085
Loan Repayment for Health Disparities Research	93.307				264,789	
State Health Insurance Assistance Program	93.324				221,549	107,304

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2017

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
Behavioral Risk Factor Surveillance System	93.336				249,324	
Student Financial Assistance Cluster: (See Note 6)						
Health Professions Student Loans, Including Primary Care Loans / Loans for Disadvantaged Students (See Note 2)	93.342			1,991,356		
Nursing Student Loans (See Note 2)	93.364			1,821,428	3,812,784	
ACL Independent Living State Grants	93.369				210,775	
Food Safety and Security Monitoring Project	93.448				263,929	
Maternal, Infant and Early Childhood Home Visiting Cluster:						
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505				8,669,127	7,154,809
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	93.511				479,308	
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				2,742,896	
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525				3,597,363	
PPHF Capacity Building Assistance to Strengthen Public Health Immuniziation Infrastructure and Performance Financed in Part by Prevention and Public Health Funds	93.539				181,433	
Promoting Safe and Stable Families	93.556				1,458,674	
TANF Cluster:						
Temporary Assistance for Needy Families	93.558				70,842,705	7,111,579
Child Support Enforcement	93.563				10,208,210	
Refugee and Entrant Assistance - State Administered Programs	93.566				473,548	103,175
Low-Income Home Energy Assistance	93.568				25,724,543	24,068,044
Community Services Block Grant	93.569				3,724,040	3,676,825
CCDF Cluster:						
Child Care and Development Block Grant	93.575			20,868,662		27,954
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596			11,527,955	32,396,617	41,042
Refugee and Entrant Assistance - Discretionary Grants	93.576				389,671	374,038
State Court Improvement Program	93.586				319,039	
Community-Based Child Abuse Prevention Grants	93.590				260,344	
Grants to States for Access and Visitation Programs	93.597				101,028	
Chafee Education and Training Vouchers Program (ETV)	93.599				467,403	
Head Start	93.600				47,826	
Adoption and Legal Guardianship Incentive Payments	93.603				302,228	
The Affordable Care Act - Medicaid Adult Quality Grants	93.609				173,499	
Voting Access for Individuals with Disabilities - Grants to States	93.617				22	

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
ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance	93.624				5,406,492	
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				133,084	112,959
University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632				511,017	
ACA Support for Demonstration Ombudsman Programs Serving Beneficiaries of State Demonstrations to Integrate Care for Medicare-Medicaid	93.634				130,250	
Children's Justice Grants to States	93.643				40,914	
Stephanie Tubbs Jones Child Welfare Services Program	93.645				1,516,109	
Adoption Opportunities	93.652				808,960	
Foster Care - Title IV-E	93.658				12,776,620	
Adoption Assistance	93.659				7,408,409	
Social Services Block Grant	93.667				13,474,766	2,620,313
Child Abuse and Neglect State Grants	93.669				150,222	
Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	93.671				845,674	845,346
Chafee Foster Care Independence Program	93.674				580,767	
Health Information Technology and Public Health	93.729				4,813,841	
Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance - Financed in Part by the Prevention and Public Health Fund (PPHF)	93.733				537,832	
Empowering Older Adults and Adults with Disabilities through Chronic Disease Self-Management Education Programs – Financed by Prevention and Public Health Funds (PPHF)	93.734				(7,151)	
State Public Health Approaches for Ensuring Quitline Capacity – Funded in Part by Prevention and Public Health Funds (PPHF)	93.735				55,414	4,748
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations Financed in Part by Prevention and Public Health Funds	93.752				1,508,079	259,578
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	93.757				5,454,544	2,397,166
Preventive Health and Health Services Block Grant Funded Solely with Prevention and Public Health Funds (PPHF)	93.758				599,979	298,920
Children's Health Insurance Program (See Note 4)	93.767				59,439,480	
Medicaid Cluster:						
State Medicaid Fraud Control Units	93.775			1,040,271		
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777			3,010,859		
Medical Assistance Program (See Notes 4 and 10)	93.778			1,623,794,190	1,627,845,320	

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2017

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
Money Follows the Person Rebalancing Demonstration	93.791				1,618,757	
Organized Approaches to Increase Colorectal Cancer Screening	93.800				571,426	251,743
Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.815				172,399	
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817				292,234	288,733
Section 223 Demonstration Programs to Improve Community Mental Health Services	93.829				438,329	
Child Health and Human Development Extramural Research	93.865				10,022	
The Health Insurance Enforcement and Consumer Protections Grant Program	93.881				166,050	
Grants to States for Operation of Offices of Rural Health	93.913				148,752	
HIV Care Formula Grants (See Note 4)	93.917				6,409,206	159,954
HIV Prevention Activities - Health Department Based	93.940				888,499	158,843
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944				202,266	
Assistance Programs for Chronic Disease Prevention and Control	93.945				1,186,956	128,578
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946				123,032	
Block Grants for Community Mental Health Services	93.958				1,374,776	1,046,757
Block Grants for Prevention and Treatment of Substance Abuse	93.959				7,407,653	6,618,811
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977				281,801	30,556
Maternal and Child Health Services Block Grant to the States	93.994				1,358,846	749,456
Mammography Quality Standards Act	93.U01	HHSF223201610037C			44,671	
Vital Records - National Death Index	93.U02	200-2016-M-89388			555	
Vital Records - SSA Death Data	93.U03	SS00-12-60050			3,347	
Adult Blood Lead	93.U04	214-2012-M-52359			13,718	
Vital Records - SSA Birth Data/EAB	93.U05	SS00-14-61090			67,587	
Food Inspections	93.U06	HHSF223201610058C			179,733	
Vital Records - Data Collection	93.U07	200-2012-50839			126,414	
Total U.S. Department of Health and Human Services					$ 1,980,706,513	$ 71,279,075
Corporation for National and Community Service						
Foster Grandparent/Senior Companion Cluster:						
Senior Companion Program	94.016				$ 339,489	$ 147,304
Total Corporation for National and Community Service					$ 339,489	$ 147,304
Social Security Administration						
Disability Insurance/SSI Cluster:						
Social Security - Disability Insurance	96.001				$ 9,199,197	

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
Social Security - Work Incentives Planning and Assistance Program	96.008				179,457	
Social Security Investigations	96.U01	10.066.3005117			174,277	
Total Social Security Administration					$ 9,552,931	$ -
U.S. Department of Homeland Security						
Boating Safety Financial Assistance	97.012				$ 755,753	
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023				99,400	
Flood Mitigation Assistance	97.029				367,351	$ 367,168
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036				954,204	673,924
Hazard Mitigation Grant	97.039				1,240,075	1,235,898
National Dam Safety Program	97.041				70,062	
Emergency Management Performance Grants	97.042				4,046,416	377,009
State Fire Training Systems Grants	97.043				10,196	
Assistance to Firefighters Grant	97.044				39,760	
Cooperating Technical Partners	97.045				4,442	
Pre-Disaster Mitigation	97.047				979,448	919,859
Homeland Security Grant Program	97.067				3,823,007	1,630,875
National Explosives Detection Canine Team Program	97.072				108,105	
Disaster Assistance Projects	97.088				433,713	426,424
Law Enforcement Officer Reimbursement Agreement Program	97.090				121,120	
Total U.S. Department of Homeland Security					$ 13,053,052	$ 5,631,157
Research and Development Cluster:						
U.S. Department of Agriculture						
Agricultural Research - Basic and Applied Research	10.001			$ 66,680		$ 143
Plant and Animal Disease, Pest Control, and Animal Care	10.025			12,632		
Plant and Animal Disease, Pest Control, and Animal Care	10.025		University of Connecticut - Storrs *119005*	2,096		
Federal-State Marketing Improvement Program	10.156			35,442		11,000
Grants for Agricultural Research, Special Research Grants	10.200		Cornell University *74403-10516*	11,186		
Grants for Agricultural Research, Special Research Grants	10.200		University of Maryland *28598-Z5659005*	53,624		36,959
Grants for Agricultural Research, Special Research Grants	10.200		University of Maryland *Z555106*	36,959		
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203			1,934,333		
Sustainable Agriculture Research and Education	10.215		University of Vermont *GNE16-16-29994*	4,690		
Sustainable Agriculture Research and Education	10.215		University of Vermont *LNE15-342-29994*	38,447		8,560

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
Sustainable Agriculture Research and Education	10.215		University of Vermont *ONE17-291-31064*	2,801		
Sustainable Agriculture Research and Education	10.215		University of Vermont *ONE17-304-31064*	2,191		
Sustainable Agriculture Research and Education	10.215		University of Vermont *SNE15-12-29994*	10,438		
Sustainable Agriculture Research and Education	10.215		University of Vermont *SNE16-12-31064*	1,761		
Sustainable Agriculture Research and Education	10.215		Eastern Connecticut Conservation District	2,272		
Agricultural and Rural Economic Research, CAs and Collaborations	10.250			61,337		
Integrated Programs	10.303			13,732		
Integrated Programs	10.303		University of Connecticut - Storrs *Sub award #6428*	3,074		
Homeland Security - Agricultural	10.304		Cornell University *67826_9906*	(767)		
Homeland Security - Agricultural	10.304		Cornell University *80289_10775*	11,503		
Organic Agriculture Research and Extension Initiative	10.307		West Virginia University *#12-638-URI/50078435*	164,834		
Agriculture and Food Research Initiative (AFRI)	10.310			518,355		138,852
Agriculture and Food Research Initiative (AFRI)	10.310		North Carolina State University *2015-0097-08*	32,315		
Agriculture and Food Research Initiative (AFRI)	10.310		University of Delaware *25882*	11,342		
Agriculture and Food Research Initiative (AFRI)	10.310		University of Vermont *28976 SUB 51706*	11,802		
Agriculture and Food Research Initiative (AFRI)	10.310		State University of New York System *550-1125193-71549*	49,102		
Crop Protection and Pest Management Competitive Grants Program	10.329			158,486		
Crop Protection and Pest Management Competitive Grants Program	10.329		Cornell University *73984-10462*	10,554		
Crop Insurance Education in Targeted States	10.458			219,884		
Cooperative Extension Service	10.500			1,542,797		
Cooperative Extension Service	10.500		Kansas State University *RI 2016 4-H Military*	7,588		
Cooperative Extension Service	10.500		Kansas State University *S17120*	12,281		

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
Cooperative Extension Service	10.500		University of Connecticut - Storrs *99414*	28,775		
Forest Health Protection	10.680			33,018		
Soil and Water Conservation	10.902			31,396		
Soil Survey	10.903			51,706		
Environmental Quality Incentives Program	10.912			43,658		
Regional Conservation Partnership Program	10.932			38,264		
Technical Agricultural Assistance	10.960			363,391		
Other Research and Development - Department of Agriculture	10.RD	16-8244-0694-CA		9,343		
Other Research and Development - Department of Agriculture	10.RD	CELS: NRSP - 8 Worksh	Auburn University *CELS: NRSP - 8 Worksh*	9,500		
Other Research and Development - Department of Agriculture	10.RD	G24493093001		14,092		
U.S. Department of Commerce						
Ocean Exploration	11.011			274,540		
Ocean Exploration	11.011		Ocean Exploration Trust *60105*	85,118		
Integrated Ocean Observing System (IOOS)	11.012		Northeastern Regional Association Of Coastal Ocean Observing Systems *A002-003*	14,836		
Integrated Ocean Observing System (IOOS)	11.012		Remote Sensing Systems *SC 6102*	9,071		
Integrated Ocean Observing System (IOOS)	11.012		Northeastern Regional Association of Coastal Ocean Observing Systems *A008-003*	31,186		
Integrated Ocean Observing System (IOOS)	11.012		Rutgers University *PO# S2384074*	11,436		
Integrated Ocean Observing System (IOOS)	11.012		Rutgers University *S1568768*	61,769		
Sea Grant Support	11.417			2,929,311		414,701
Sea Grant Support	11.417		University of Puerto Rico *2016-2017-006*	12,854		
Sea Grant Support	11.417		Woods Hole Oceanographic Institution *SUB.A101111*	2,263		
Coastal Zone Management Administration Awards	11.419		Restore America's Estuaries *2016-URI-01*	31,568		
Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements	11.427			36,338		17,344

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2017

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
Climate and Atmospheric Research	11.431			79,282		
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432		University of Miami *ORDER NO AC38944*	3,595		
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432		Woods Hole Oceanographic Institution *PO #M219039*	592,940		
Marine Fisheries Initiative	11.433			107,122		38,006
Special Oceanic and Atmospheric Projects	11.460			(1,544)		
Meteorologic and Hydrologic Modernization Development	11.467		University of Delaware *44585*	47,645		
Applied Meteorological Research	11.468			396		
Congressionally Identified Awards and Projects	11.469			26,840		
Unallied Science Program	11.472			15,909		
Office for Coastal Management	11.473		Northeastern Regional Association of Coastal Ocean Observing Systems *A007-003*	57,055		
Center for Sponsored Coastal Ocean Research - Coastal Ocean Program	11.478			72,073		6,290
Other Research and Development - Department of Commerce	11.RD	EE-133R-16-SU-1184		2,410		
Other Research and Development - Department of Commerce	11.RD	WC133R17SU0143		7,499		
Other Research and Development - Department of Commerce	11.RD	Subcontr 2013-11-01	Fisheries Specialists *Subcontr 2013-11-01*	11,903		
Other Research and Development - Department of Commerce	11.RD	41944	University of Delaware *41944*	34,958		
Other Research and Development - Department of Commerce	11.RD	WC-133R-14-SU-1097		6,687		
U.S. Department of Defense						
Collaborative Research and Development	12.114			1,125		
Collaborative Research and Development	12.114		Regents of New Mexico State University SUB#Q01620	50,459		
Basic and Applied Scientific Research	12.300			2,553,808		70,817
Basic and Applied Scientific Research	12.300		HDR / E2m *0000023081*	8,666		
Basic and Applied Scientific Research	12.300		MAR, Inc. *M16-397*	16,210		
Basic and Applied Scientific Research	12.300		Massachusetts Institute of Technology *5710003986*	76,237		

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		McLaughlin Research Corporation *1222.0058.0001.03000*	32,971		
Basic and Applied Scientific Research	12.300		Woods Hole Oceanographic Institution *13045100*	3,858		
Basic and Applied Scientific Research	12.300		McLaughlin Research Corporation *PO-16-0246, Task 4.2*	7,026		
Basic and Applied Scientific Research	12.300		TRITON Systems, Inc. *TSI-2433-14-102661*	1,357		
Basic and Applied Scientific Research	12.300		Ocean Exploration Trust *60201*	17,039		
Basic and Applied Scientific Research	12.300		Ocean Exploration Trust *60201A*	21,142		
Basic and Applied Scientific Research	12.300		Massachusetts Institute of Technology *PO #452114933*	122,124		
Basic and Applied Scientific Research	12.300		Yardney Technical Products *PO# 1484916*	30,974		
Basic Scientific Research - Combating Weapons of Mass Destruction	12.351			302,511		(38,378)
Military Medical Research and Development	12.420			255,783		106,843
Basic Scientific Research	12.431			10,182		
The Language Flagship Grants to Institutions of Higher Education	12.550		Institute for International Education *0054URI18-CHN280-P01*	241,639		
The Language Flagship Grants to Institutions of Higher Education	12.550		Institute for International Education *0054URI18-SCC280-P02*	130,300		
The Language Flagship Grants to Institutions of Higher Education	12.550		Institute for International Education *0054URI18SSC-280-PO3*	114,000		
The Language Flagship Grants to Institutions of Higher Education	12.550		Institute for International Education *NSEP-U631073-URI-CHN*	(654)		
Basic, Applied, and Advanced Research in Science and Engineering	12.630			70,645		
Air Force Defense Research Sciences Program	12.800			502,086		
Air Force Defense Research Sciences Program	12.800		Cherokee Nation Technology Solutions *150057.0044S01-0005*	(66)		

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
Air Force Defense Research Sciences Program	12.800		Defense Engineering Corporation *PO10190Proj-J030*	78,395		
Air Force Defense Research Sciences Program	12.800		Cherokee Nation Technology Solutions #CNTS RFP 15SA15037	40,420		
Air Force Defense Research Sciences Program	12.800		Cherokee Nation Technology Solutions *0115700-0003*	35,277		
Air Force Defense Research Sciences Program	12.800		Cherokee Nation Technology Solutions *CNTS RFQ155A15017-..*	(185)		
Other Research and Development - Department of Defense	12.RD	FA9453-12-C-0208		(135)		
Other Research and Development - Department of Defense	12.RD	PO# 44406-44701	Government of Israel - Ministry of Defense *PO# 44406-44701*	15,957		
Other Research and Development - Department of Defense	12.RD	PO 429	Propel LLC *PO 429*	10,107		
U.S. Department of the Interior						
Hurricane Sandy Disaster Relief - Coastal Resiliency Grants	15.153			380,662		70,949
Bureau of Ocean Energy Management (BOEM) Environmental Studies Program (ESP)	15.423			150,361		6,803
Marine Minerals Activities - Hurricane Sandy	15.424			27,461		
Sport Fish Restoration Program	15.605			1,896		
Fish and Wildlife Management Assistance	15.608			609,779		216,171
Coastal	15.630		Wildlife Management Institute *WMI Service Contract*	46,307		
State Wildlife Grants	15.634		Florida Fish and Wildlife Conservation *# 13218*	(958)		
Migratory Bird Monitoring, Assessment and Conservation	15.655			60,867		
Assistance to State Water Resources Research Institutes	15.805			84,827		
Earthquake Hazards Research Grants	15.807			88,620		
U.S. Geological Survey - Research and Data Collection	15.808			16,349		
National Land Remote Sensing - Education Outreach and Research	15.815			53,014		
National Land Remote Sensing - Education Outreach and Research	15.815		America View *CI - America View Af*	17,862		
Natural Resource Stewardship	15.944			33,648		
Cooperative Research and Training Programs – Resources of the National Park System	15.945			1,285,896		79,928
Other Research and Development - Department of the Interior	15.RD	M16PC00016		84,822		

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 the Interior	15.RD	1000300000288	HDR / e2M *1000300000228*	266,974		63,400
Other Research and Development - Department of the Interior	15.RD	1000300000695	HDR / e2M *1000300000695*	9,351		
U.S. Department of Justice						
Juvenile Justice & Delinquency Prevention	16.540			22,694		
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560			51,860		
U.S. Department of State						
Environmental and Scientific Partnerships and Programs	19.017		Western Indian Ocean Marine Science Association *S-LMAQM-16-GR-1235*	23,689		
Academic Exchange Programs - Scholars	19.401		Institute for International Education *ECA/A/S/S-13-05*	36,040		34,598
U.S. Department of Transportation						
Highway Planning and Construction	20.205		Cornell University *78666-10717*	7,325		
National Aeronautics and Space Administration						
Science	43.001			542,308		24,080
Science	43.001		West Virginia University *SUB: 14-764-URI*	22,446		
Science	43.001		University of Colorado Boulder *1552614*	87,598		
Science	43.001		Woods Hole Oceanographic Institution *23164800*	6,109		
Science	43.001		Massachusetts Institute of Technology *5710004234*	18,666		
Science	43.001		Woods Hole Group, Inc. *23156800 / A101249*	4,262		
Science	43.001		Woods Hole Oceanographic Institution *A101079*	14,811		
Education	43.008		Brown University *00000693*	127,453		
Education	43.008		Brown University *00000785*	69,708		

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
Education	43.008		Brown University *00000800*	9,128		
Education	43.008		Brown University *00000801*	5,854		
Education	43.008		Brown University *00000966*	40,949		
Education	43.008		Brown University *00001012*	42,109		
Other Research and Development - National Aeronautics and Space Administration	43.RD	5710004170	Massachusetts Institute of Technology *5710004170*	46,603		
Institute of Museum and Library Services						
National Leadership Grants	45.129		Rhode Island Council for the Humanities *2016MIN-ORG06*	1,981		
National Leadership Grants	45.129		Rhode Island Council for the Humanities *2017MIN-ORG07*	2,000		
National Leadership Grants	45.130			22,255		
National Leadership Grants	45.312			163,860		7,439
National Science Foundation						
Engineering Grants	47.041			1,022,897		15,670
Mathematical and Physical Sciences	47.049			338,371		
Geosciences	47.050			5,964,325		130,666
Geosciences	47.050		Southern California Earthquake Center *10133577*	(317)		
Geosciences	47.050		University of Southern California *76246595*	54,131		
Geosciences	47.050		Duke University *333-2222*	35,953		
Geosciences	47.050		Research Foundation of CUNY *40F93-F*	775		
Geosciences	47.050		Lamont-Doherty Earth Observatory *PO #G10521*	25,314		

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
Geosciences	47.050		Woods Hole Oceanographic Institution *PO# E117571*	48,367		
Geosciences	47.050		University of Southern California *149704*	2,093		
Geosciences	47.050		Woods Hole Oceanographic Institution *A101300*	37,758		
Computer and Information Science and Engineering	47.070			692,876		
Computer and Information Science and Engineering	47.070		Arkansas State University *SA15-704-15-15*	13,045		
Biological Sciences	47.074			1,516,503		341,715
Biological Sciences	47.074		Yale University *C10D10896*	30,994		
Education and Human Resources	47.076			1,766,188		311,893
Education and Human Resources	47.076		University of Massachusetts, Amherst *12-006782-D 00/PO#00*	43,687		
Polar Programs	47.078		University of Connecticut - Storrs *KFS#5628610, PO13627*	23,177		
Polar Programs	47.078			247,564		
Office of International Science and Engineering	47.079			1,813,003		693,406
Office of International Science and Engineering	47.079		Brown University *N/A*	34,835		
Office of International Science and Engineering	47.079		University of New Hampshire *16-019*	264,816		
Office of Experimental Program to Stimulate Competitive Research	47.081			1,785,994		575,899
Office of Integrative Activiti ties	47.083		University of Southern California *72836502*	31,407		
Office of Integrative Activiti ties	47.083		University of Southern California *88919743*	159,042		
Other Research and Development - National Science Foundation	47.RD	DGE-1244657 -DGE-125		295,928		
Other Research and Development - National Science Foundation	47.RD	AD23041	University of Miami *AD23041*	19,371		
Securities and Exchange Commission						
Securities Investigation of Complaints and SEC Information	58.001			12,627		

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
Small Business Administration						
Small Business Development Centers	59.037			655,713		
U.S. Department of Veterans Affairs						
Veterans Rehabilitation Alcohol and Drug Dependence	64.019			544		
Environmental Protection Agency						
Southeast New England Coastal Watershed Restoration	66.129		International Assoc. of Oil & Gas Produce *JIP22-III-15-11*	51,598		
National Estuary Program	66.456		New England Interstate Water Pollution *CE96184201/2014-025*	53,960		
Great Lakes Program	66.469			90,569		
P3 Award: National Student Design Competition for Sustainability	66.516			14,578		
Other Research and Development - Environmental Protection Agency	66.RD	00A00249	Barnstable County *00A00249*	34,272		
Other Research and Development - Environmental Protection Agency	66.RD	00A00252	Mass Audubon *00A00252*	7,507		
Other Research and Development - Environmental Protection Agency	66.RD	56.000.6200.000	Town of Charlestown *56.000.6200.000*	44,861		
Other Research and Development - Environmental Protection Agency	66.RD	3334792	Environ *3334792*	180		
U. S. Nuclear Regulatory Commission						
U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008			23,130		
U.S. Department of Energy						
Office of Science Financial Assistance Program	81.049		Brown University *00000475/PO# P276735*	546,798		
Office of Science Financial Assistance Program	81.049		Pennsylvania State University *5027-URI-DOE-1090*	90,166		
Conservation Research and Development	81.086		Calstart *FS3-16-3-18*	8,608		
Conservation Research and Development	81.086		Plug In America *URI/Lucht*	3,953		
Conservation Research and Development	81.086			44,893		
Defense Nuclear Nonproliferation Research	81.113			21,779		
U.S. Department of Education						
Undergraduate International Studies and Foreign Language Programs	84.016			12,488		

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2017

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						
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107		Brown University *00000574 PO#P281714*	70,980		
Environmental Health	93.113		Harvard University *114185-102737*	30,345		
Environmental Health	93.113			89,046		
NIEHS Superfund Hazardous Substances - Basic Research and Education	93.143		Brown University *00000846*	23,488		
Research and Training in Complementary and Integrative Health	93.213			168,730		
Research on Health Care Costs, Quality, and Outcomes	93.226		Boston University Medical Center *0370901*	10,178		
Mental Health Research Grants	93.242		University of North Carolina - Greensboro *20110511.1*	158,219		
Mental Health Research Grants	93.242		Rhode Island Hospital *7137207*	75,597		
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		Community Care Alliance *URI/Stein*	18,654		
Advanced Nursing Education Grant Program	93.247			450,960		39,604
Occupational Safety and Health Program	93.262			383,372		165,332
Alcohol Research Programs	93.273			580,956		64,182
Drug Abuse and Addiction Research Programs	93.279		University of Connecticut - Avery Point *130219*	48,638		
Drug Abuse and Addiction Research Programs	93.279		Bay State Medical Center *15-260*	8,109		
Drug Abuse and Addiction Research Programs	93.279			710,943		
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286			191,048		
Trans-NIH Research Support	93.310			302,032		
Nursing Research	93.361		Yale University *M17A12609(A10935)*	114,206		
Cancer Cause and Prevention Research	93.393			92,916		
Cancer Research Manpower	93.398		Brown University *00000941*	13,175		
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	93.511		University of Massachusetts Medical School	93,429		

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
Developmental Disabilities Basic Support and Advocacy Grants	93.630			451,240		322,353
Cardiovascular Diseases Research	93.837		Brown University *SUB AWARD# 00000729*	70,771		
Cardiovascular Diseases Research	93.837		Brown University *00000729/PUR-0018995*	20,418		
Cardiovascular Diseases Research	93.837		University of North Carolina - Chapel Hill *5050218*	(22,339)		
Cardiovascular Diseases Research	93.837		Tufts University *SU0166*	15,171		
Cardiovascular Diseases Research	93.837		University of North Carolina - Chapel Hill *SUBAWARD NO. 5104378*	88,829		
Blood Diseases and Resources Research	93.839			13,529		
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847			39,091		
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		University of California - Los Angeles *1561 G RB069*	31,349		
Allergy and Infectious Diseases Research	93.855			2,758,594		1,760,128
Allergy and Infectious Diseases Research	93.855		Harvard University *114170-5102735*	30,377		
Allergy and Infectious Diseases Research	93.855		University of California - Davis *SUB. 201303042-03*	58,202		
Microbiology and Infectious Diseases	93.856			60,613		
Biomedical Research and Research Training	93.859			5,667,367		2,901,306
Biomedical Research and Research Training	93.859		Brown University *00000938*	33,479		
Biomedical Research and Research Training	93.859		Brown University *00001023*	66,846		
Biomedical Research and Research Training	93.859		Brown University *00001044*	10,116		
Biomedical Research and Research Training	93.859		Yale University *M16A12388 (A10553)*	224,747		
Child Health and Human Development Extramural Research	93.865			1,100,805		303,833
Aging Research	93.866			42,432		
PPHF Geriatric Education Centers	93.969			918,930		306,596

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2017

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
Medical Library Assistance	93.879			3,428		
Other Research and Development - Department of Health and Human Services	93.RD	CDC2016A	Western Connecticut State University *CDC2016A*	59,317		
Corporation for National and Community Service:						
AmeriCorps	94.006		Jumpstart for Young Children, Inc. *340200*	69,233		
AmeriCorps	94.006		Jumpstart for Young Children, Inc. *340200 JS-Site#34*	10,929		
U.S. Department of Homeland Security						
State and Local Homeland Security Training	97.005			226,262		41,850
Centers for Homeland Security	97.061		University of North Carolina - Chapel Hill *5101662*	352,120		
Centers for Homeland Security	97.061		Northeastern University *SUB 505035-78059*	766,005		69,460
Agency for International Development						
USAID Foreign Assistance for Programs Overseas	98.001			7,496,314		2,399,493
USAID Foreign Assistance for Programs Overseas	98.001		World Fish *MOUWF 412015*	35,807		
USAID Foreign Assistance for Programs Overseas	98.001		University of Connecticut Avery Point *SUBAWARD 43878*	11,443		
USAID Foreign Assistance for Programs Overseas	98.001		PACT *USAID 612-A-14-00004*	902,189		76,061
Other Research and Development - Agency for International Development	98.RD	GEM52-UIR-1	The Cadmus Group, Inc. GEM52-UIR-1	2,528		
Total Research and Development Cluster					$ 62,806,162	$ 11,833,952
Total Expenditures of Federal Awards					$ 4,927,814,227	$ 306,315,487

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. The following table details all loans, loan guarantees, and insurance 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, 2017	Loans Assistance June 30, 2017	Loan Outstanding Balance June 30, 2017
11.307	Economic Adjustment Assistance	$ 9,561,908	$ 9,561,908	$ 6,854,882
14.117	Mortgage Insurance – Homes	219,757,571	219,757,571	*N/A*
14.189	Qualified Participating Entities (QPE) Risk Sharing	221,256,033	221,256,033	203,599,347
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	15,146,221	11,754,819	8,771,352
14.239	Home Investment Partnerships Program	24,926,996	24,926,996	22,543,696
64.114	Veterans Housing - Guaranteed and Insured Loans	796,940	796,940	*N/A*
84.032	Federal Family Education Loans (Guarantee Agency)	751,431,967	750,656,105	633,207,347
84.038	Federal Perkins Loan Program – Federal Capital Contributions	14,367,544	14,367,544	12,361,877
84.268	Federal Direct Student Loans	145,713,355	145,713,355	*N/A*
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	1,991,356	1,991,356	1,629,534
93.364	Nursing Student Loans	1,821,428	1,821,428	1,475,929

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: 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 and Non-Entitlement Grants in Hawaii (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 (Guarantee Agency) (CFDA 84.032) are reported at the beginning of the audit period loan balances plus any 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

Expenditures of federal awards include non-monetary assistance in the form of donated food commodities, vaccines, and property. The following table details all non-monetary assistance included in the Schedule of Expenditures of Federal Awards.

CFDA Number	Program	Expenditures of Federal Awards Year Ended June 30, 2017	Nonmonetary Assistance Year Ended June 30, 2017
10.555	National School Lunch Program	$ 35,603,693	$ 4,419,785
10.559	Summer Food Service Program for Children	1,530,332	6,235
10.569	Emergency Food Assistance Program (Food Commodities)	1,583,905	1,583,905
39.003	Donation of Federal Surplus Personal Property	7,860,504	7,860,504
93.268	Immunization Cooperative Agreements	12,598,799	10,710,406

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.

- Donation of federal Surplus Personal Property (CFDA 39.003) is reported at the assessed value provided by the Federal agency.

NOTE 4. REBATES OF PROGRAM EXPENDITURES

The State received the following program expenditure rebates during fiscal 2017:

CFDA Number	Program		Rebate Amount
10.557	Special Supplemental Nutrition Program for Women, Infants and Children	$	5,194,095
93.767	Children's Health Insurance Program		2,352,240
93.778	Medical Assistance Program		83,548,885
93.917	HIV Care Formula Grants		7,287,008

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 2017. 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 $151.2 million funded from the State's account in the federal Unemployment Trust Fund and $20.7 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 $220,803,542.

NOTE 7. ITEMS EXCLUDED FROM THE SEFA

In accordance with guidance included in the OMB Compliance Supplement, and 12 USC 5702, amounts received by the State under the Build America Bonds and State Small Business Credit Initiative programs, respectively, are not included in the Schedule of Expenditures of Federal Awards. The State received $1,877,886 and 2,477,239, respectively, during fiscal year 2017, which were 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, 2017, have elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 10. MEDICAL ASSISTANCE PROGRAM - ACCRUED PROGRAM EXPENDITURES

The Schedule of Expenditures of Federal Awards reports federal expenditures for the Medical Assistance Program (CFDA 93.778) on an accrual basis causing timing differences with federal expenditures claimed on a cash basis on federal reports. These accrued expenditures are typically claimed/reported in the next quarter. In certain instances, as described below, the timing differences may be longer. The following are examples of accruals made for the Medical Assistance Program to properly reflect the following program activity in the State's financial statements:

a) The federal share of advances to nursing home providers required due to delays in determining recipient eligibility was estimated for financial reporting purposes (including the SEFA). These advances will not be claimed on federal reports until eligibility is documented and the related claims are adjudicated through the MMIS.

b) The federal share of contract settlements with managed care organizations was estimated for financial reporting purposes (including the SEFA). These amounts are not claimed on federal reports until final settlements are calculated and paid or received by the State.

c) The federal share of accrued drug rebates was estimated for financial reporting purposes based on the pharmacy claim date of service. These rebate credits are claimed on federal reports when received from the drug manufacturer.

Auditor's Reports

Auditor's Reports

Table of Contents

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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, 2017, 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 27, 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 3% of the revenues of the aggregate remaining fund information;

- the Convention Center Authority, a major fund, which also represents 26% 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 40% of the assets and 24% 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.

Finance Committee of the House of Representatives and
Joint Committee on Legislative Services, General Assembly

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: 2017-002, 2017-008, 2017-014, 2017-015, 2017-021, 2017-022, 2017-023, 2017-024 and 2017-029. Other auditors of the discretely presented component units considered the deficiency described in the accompanying schedule of findings and responses to be a material weakness: Finding 2017-032.

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: 2017-001, 2017-003, 2017-004, 2017-005, 2017-006, 2017-007, 2017-009, 2017-010, 2017-011, 2017-012, 2017-013, 2017-016, 2017-017, 2017-018, 2017-019, 2017-020, 2017-025, 2017-026, 2017-027, 2017-028, 2017-030 and 2017-031. 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: 2017-033, 2017-034 and 2017-036.

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 an instance 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 Finding: 2017-035.

Finance Committee of the House of Representatives and
Joint Committee on Legislative Services, General Assembly

State's Response to Findings

The State's responses and corrective action plans to the findings identified in our audit are described in the accompanying State's Corrective Action Plan (Section E). The State's responses and corrective action plans were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses or corrective action plans.

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 27, 2017

Office of the Auditor General
State of Rhode Island and Providence Plantations - General Assembly
Dennis E. Hoyle, CPA - Auditor General

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY THE UNIFORM GUIDANCE

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

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, 2017.

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.

We did not audit the major federal programs or percentages of federal programs listed below. Those programs were audited by other auditors whose reports on compliance with requirements applicable to each major federal program were furnished to us, and our opinion, insofar as it relates to compliance requirements for these programs, is based solely on the reports of the other auditors except for the Community Development Block Grants program.

2017 Major Programs Audited by Other Auditors

Program Title:	***CFDA Number***
Qualified Participating Entities (QPE) Risk Sharing	14.189
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228
Clean Water State Revolving Fund Cluster:	
Capitalization Grants for Clean Water State Revolving Funds	66.458
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
78% of CDBG expenditures of federal awards audited by other auditors	

Finance Committee of the House of Representatives and
Joint Committee on Legislative Services, General Assembly

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.

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 Adverse Opinion on the Supplemental Nutrition Assistance Program (SNAP) Cluster, Temporary Assistance for Needy Families Cluster, and Child Care and Development Fund Cluster

As identified in the following table and as described in the accompanying schedule of findings and questioned costs, the State did not comply with requirements regarding the following:

CFDA #	Program (Cluster) Name	Compliance Requirements	Findings
10.551 10.561	**Supplemental Nutrition Assistance Program (SNAP) Cluster**	• Reporting • Automated Data Processing (ADP) for SNAP • Electronic Benefits Transmission Reconciliation	2017-041 2017-042 2017-043
93.558	**Temporary Assistance for Needy Families Cluster**	• Eligibility • Reporting • Income Eligibility Verification System	2017-064 2017-065 2017-067
93.575 93.596	**Child Care and Development Fund Cluster**	• Eligibility • Allowable Costs/ Cost Principles • Reporting	2017-068 2017-069

Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to the identified major federal programs.

Finance Committee of the House of Representatives and
Joint Committee on Legislative Services, General Assembly

Adverse Opinion on the Supplemental Nutrition Assistance Program (SNAP) Cluster, Temporary Assistance for Needy Families Cluster, and Child Care and Development Fund Cluster

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinions paragraph, the State did not comply, in all material respects, with the types of compliance requirements referred to above that could have direct and material effect on the Supplemental Nutrition Assistance Program (SNAP) Cluster, Temporary Assistance for Needy Families Cluster, and Child Care and Development Fund Cluster programs.

Basis for Qualified Opinion on the Unemployment Insurance, Medicaid Cluster, and Children's Health Insurance Program

As identified in the following table and as described in the accompanying schedule of findings and questioned costs, the State did not comply with requirements that are applicable to the following major federal programs:

CFDA #	Program (Cluster) Name	Compliance Requirement	Finding
17.225	**Unemployment Insurance (UI)**	• Special Tests and Provisions – UI Program Integrity – Overpayments	2017-048
93.775 93.777 93.778	**Medicaid Cluster**	• Eligibility	2017-070
93.767	**Children's Health Insurance Program**	• Eligibility	2017-070

Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to those major federal programs.

Qualified Opinion on Unemployment Insurance, 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, Children's Health Insurance Program, and Unemployment Insurance for the year ended June 30, 2017.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, based on our audit and the reports of the other auditors, 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, 2017.

Other Matters

Finance Committee of the House of Representatives and
Joint Committee on Legislative Services, General Assembly

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Finding 2017-074. Our opinion on each major program is not modified with respect to this matter.

The State's responses and corrective action plans to the noncompliance findings identified in our audit are described in the accompanying *State's Corrective Action Plan* (Section E). 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 and corrective action plans.

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 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 2017-038, 2017-041, 2017-042, 2017-043, 2017-046, 2017-048, 2017-051, 2017-062, 2017-064, 2017-065, 2017-066, 2017-067, 2017-068, 2017-069, 2017-070, 2017-071, 2017-072, 2017-073, 2017-075 and 2017-076 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 2017-037, 2017-039, 2017-040, 2017-044, 2017-045, 2017-047, 2017-049, 2017-050, 2017-052, 2017-053, 2017-054, 2017-055, 2017-056, 2017-057, 2017-058, 2017-059, 2017-060, 2017-061, 2017-063, 2017-077, 2017-078 and 2017-079 to be significant deficiencies.

Finance Committee of the House of Representatives and
Joint Committee on Legislative Services, General Assembly

The State's responses and corrective action plans to the internal control over compliance findings identified in our audit are described in the accompanying *State's Corrective Action Plan* (Section E). 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 and corrective action plans.

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 28, 2018

Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs

Table of Contents

Basic Financial Statements

1) The independent auditor's report on the basic financial statements expressed the following opinions:

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.*

Federal Awards

4) The audit disclosed significant deficiencies in internal control over major programs, some of which were classified as material weaknesses.

5) The independent auditor's report on compliance for major programs expressed:

an adverse opinion for the following major programs;

Program	CFDA #
SNAP Cluster	10.551 and 10.561
TANF Cluster	93.558
CCDF Cluster	93.575 and 93.596

a qualified opinion for the following major programs; and

Program	CFDA #
Unemployment Insurance	17.225
Children's Health Insurance Program	93.767
Medicaid Cluster	93.775, 93.777 and 93.778

an unmodified opinion for all remaining major programs.

6) The audit disclosed findings that must be reported in accordance with 2 CFR 200.516(a) of OMB Uniform Guidance provisions.

7) Major programs are listed in the table below.

2017 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
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557
Qualified Participating Entities (QPE) Risk Sharing	14.189
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228
Equitable Sharing Program	16.922
Unemployment Insurance	17.225
Highway Planning and Construction Cluster:	
Highway Planning and Construction	20.205
Recreational Trails	20.219
Grants to States for Construction of State Home Facilities	64.005
Clean Water State Revolving Fund Cluster:	
Capitalization Grants for Clean Water State Revolving Funds	66.458
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
TANF Cluster:	
Temporary Assistance for Needy Families	93.558
Child Support Enforcement	93.563
Low-Income Home Energy Assistance	93.568
CCDF Cluster:	
Child Care and Development Block Grant	93.575
Child Care Mandatory and Matching Funds of the Child Care Development Fund	93.596
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke	93.757
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

8) The dollar threshold used to distinguish between Type A and Type B programs was $14,783,443.

9) The State did not qualify as a low-risk auditee as defined by OMB Uniform Guidance.

10) Major Programs audited by other auditors are listed in the table below:

2017 Major Programs Audited by Other Auditors

Program Title:	***CFDA Number***
Qualified Participating Entities (QPE) Risk Sharing	14.189
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii *	14.228
Clean Water State Revolving Fund Cluster:	
Capitalization Grants for Clean Water State Revolving Funds	66.458
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
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Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342
Nursing Student Loans	93.364

The CDBG program was administered by both the primary government (State) and a component unit (Rhode Island Housing)

Finding 2017-001 ***(significant deficiency – repeat finding – 2016-001)***

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.

Background: The State is currently addressing 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. The State has moved towards a piecemeal approach of installing separate software solutions without a comprehensive plan for achieving a fully integrated ERP system.

The State has implemented new budget preparation software and will soon implement grants management software. Both are independent software solutions that require integration with the State's existing Oracle-based financial reporting platform. A new procurement system is being planned and the State is reviewing options to replace its antiquated 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 their intended integration remains a significant concern. Without a comprehensive plan, there is substantial risk that the intended integration of various components may not be achieved. In fact, the State has already experienced such integration issues. It has halted work on a time and effort reporting system project due to an inability to interface the system with other State information systems. The State has expended approximately $2 million ($1.1 million to software vendor and $900,000 of internal allocated personnel costs) on that project to date.

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; and

- the procurement system easily interfaces with the accounts payable module to optimize controls and streamline payment processing.

Criteria: Management is responsible for establishing and maintaining internal control over financial reporting to ensure accurate and complete reporting of transactions in accordance with generally accepted accounting principles. This responsibility includes well-designed financial systems that support internal control over financial reporting.

Condition: 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.

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.

The incomplete implementation of the RIFANS ERP system is the underlying cause for other control related issues as more fully described in *Finding 2017-004* where control weaknesses, in part, result from Treasury personnel recording receipt/revenue and other transactions in the general ledger. Other RIFANS system functionalities to record receipts/revenue haven't been implemented.

Cause: The State's current accounting and financial reporting system lacks the integration and functionality of a comprehensive ERP system. The State owns multiple modules (and continues to pay annual licensing fees for modules that are not utilized) within the Oracle-Business Suite but has decided to explore separate software solutions for many of the ERP functionalities which will require interfacing those solutions with the State's Oracle general ledger and related modules. The State is attempting these implementations without first developing a comprehensive strategic plan to address these issues through an integrated ERP solution.

Effect: Business continuity risks and deficiencies in internal control over financial reporting exist and are exacerbated due to the lack of an integrated ERP system.

RECOMMENDATION

2017-001 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 2017-002 *(material weakness - repeat finding – 2016-010)*

MEDICAL ASSISTANCE PROGRAM COMPLEXITY AFFECTS FINANCIAL REPORTING AND OVERALL PROGRAM CONTROLS

The continued and 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.

Background: 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 40% of the annual budgeted outlays of the State's General Fund. 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 organizations (MCOs) increasing an

already significant segment of Medicaid that is being administered outside of EOHHS's direct financial systems and controls;

- Contracts with MCOs are subject to complex settlement provisions. These settlements are increasingly dependent on data received from the MCOs and require substantial data analysis to evaluate prior to determining if additional payments or recoveries are due and the related accounting recognition of these transactions for financial reporting purposes. EOHHS is largely dependent on contractors to provide the data analysis and tracking of these settlement provisions;

- The State lacks effective auditing and monitoring of MCO financial activity;

- 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; and

- A new eligibility system (UHIP/RIBridges) has caused uncertainties in eligibility determinations which results in claims processing issues including duplicate MCO capitation payments and the inability to process claims for long-term care providers. This required estimated payments to providers in lieu of actual claims processing.

Criteria: Management is responsible for establishing and maintaining internal control over financial reporting to ensure accurate and complete reporting of transactions in accordance with generally accepted accounting principles.

Condition: Significant Medicaid program activity as detailed above is currently being accounted for external to the systemic controls and processes of normal Medicaid activities. In addition, the State relies on contract services to manually accumulate, evaluate and determine settlements and/or payments relating to these program activities. Due to the length of settlement periods, the extended duration of eligibility system issues, and the volume of transactions being accumulated and evaluated independent of regular program controls, risks relating to inaccurate financial activity and federal compliance have increased.

We noted an instance where the State overpaid stop loss expenditures (provision where the State reimburses for certain services not covered under the capitated plan coverage) to an MCO for a contract period and subsequently recouped the amount when the MCO subsequently amended their reporting to the State. This is an example of how the State is reliant on the MCO's reporting, in many instances, when making reimbursements because certain underlying financial activity is not known to the State.

Cause: Ensuring all 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.

Effect: Potential effects of this control deficiency include unrecorded or inaccurately recorded financial transactions, incorrect reimbursements to providers or managed care organizations, and noncompliance with federal regulations.

<u>RECOMMENDATIONS</u>

2017-002a 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.

2017-002b 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 2017-003	***(significant deficiency - repeat finding – 2016-002)***

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.

Background: In 2013, the Committee of Sponsoring Organizations (COSO) revised its internal control framework, and the federal Government Accountability Office (GAO) issued an update to its "Green Book", *Standards for Internal Control in the Federal Government* to tailor this framework to the public environment. 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.

This issue has been communicated to management in recent audits since the revision to COSO's internal control framework and GAO update to the "Green Book". Since initial reporting, the Office of Accounts and Control has 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. While the Office of Internal Audit should play a role in the internal control framework, it is agency management that is ultimately responsible for the documentation, communication, and maintenance of an effective internal control structure.

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.

Criteria: The State's management has responsibility for the design and operation of internal control. 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 and/or the Green Book, 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.

Condition: 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 (both statewide and at the individual agency level) with emphasis on assessing risk and monitoring control results - both essential components of internal control.

Cause: Lack of formalized documentation and comprehensive internal control structure throughout State government that complies with an accepted framework such as COSO and/or the Green Book.

The State could also make better 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. These reports should be considered within the State's documentation of internal controls to ensure that these service organization control reviews are properly mitigating control risks in the State's operations and financial reporting. Additionally, the State must ensure that complimentary State controls being relied on by service organizations are in place and operating effectively. These functionalities are generally important components of the State's overall internal control structure.

Effect: Deficiencies in documenting internal control could result in control weaknesses going undetected and internal control policies and procedures from being improperly communicated and administered by management and employees. The absence of risk assessment and monitoring procedures could also lead to significant control deficiencies not being detected and corrected on a timely basis.

RECOMMENDATION

2017-003 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 framework/Green Book. Reassess, document, and monitor control procedures following the guidelines of the internal control framework.

Auditee views: The auditee partially disagrees with this finding – see Corrective Action Plan in Section E.

Finding 2017-004	***(significant deficiency - repeat finding – 2016-003)***

GENERAL LEDGER ACCESS COMPROMISES SEGREGATION OF DUTIES FUNCTIONS WITHIN THE OFFICE OF THE GENERAL TREASURER

Certain duties performed by the Office of the General Treasurer are not sufficiently segregated which results in control deficiencies.

Background: During fiscal 2017 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. This access allows Treasury to initiate and approve other accounting transactions.

Treasury has enhanced segregation of operational (accounting, funds transfer, bank reconciliation, etc.) responsibilities in response to audit recommendations and as part of staff reorganizations, however, general ledger access and delegation of other operating responsibilities within Treasury still results in control weaknesses due to insufficient segregation of duties. There are additional organizational and procedural changes needed to further segregate certain accounting and reconciliation functions within Treasury.

Criteria: 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.

Condition: The Treasury unit initiates and approves certain accounting transactions that, from a control perspective, is inconsistent with appropriate segregation of duties since the transactions are authorized by individuals also having reconciliation oversight and approval. Certain transactions result in the movement of funds without authorization emanating from the accounting system.

Cause: The lack of a full implementation of the State's RIFANS system has resulted in the Office of the General Treasurer performing certain accounting transactions to meet timelines for funds transfers and to ensure the timely recording of transactions generated by subsidiary accounting systems within other State agencies.

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 structures in place.

Potential corrective actions include reorganizing the Treasury unit that is responsible for bank reconciliations, cash receipt approval, and other accounting and banking related activities into two distinct units without overlapping responsibilities to further segregate duties and streamline the organizational reporting hierarchy and assignment of functional responsibilities. Additionally, the Office of Accounts and Control should be established as the final approver on certain transaction types consistent with the goal of segregating the accounting and funds movement functions.

Effect: Lack of adequate segregation of duties could result in unauthorized transactions, and increases the risk of material misstatement due to fraud or error.

RECOMMENDATION

2017-004 Continue to enhance segregation of duties over cash receipts and disbursements. Consider reorganizing the Treasury receipts/reconciliation unit into two distinct units without overlapping responsibilities thereby enhancing segregation of duties.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2017-005	***(significant deficiency - repeat finding – 2016-005)***

MONITORING RIFANS ACCESS PRIVILEGES AND AGENCY APPROVAL HIERARCHIES

The State can enhance certain system access controls within the RIFANS statewide accounting system.

Background: Authorizing and monitoring access to RIFANS, the State's centralized accounting system, is a key control over financial reporting. The following are 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:

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 still did not have reporting to allow for "super user" access monitoring during fiscal 2017.

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.

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 Accounts and Control in certain circumstances.

Criteria: Controls over system access by users and system administrators is critical to ensure that transactions in RIFANS are properly authorized and recorded for financial reporting purposes. 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.

Condition: The State's lack of adequate monitoring of user and administrator access represents a collective weakness in internal control over financial reporting. "Super user" access monitoring was not performed during fiscal 2017.

Maintaining off-line documentation of agency 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.

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. In fiscal 2017, the resulting changes were not monitored to ensure they were established consistent with Accounts and Control's approval or that other unauthorized changes were not made.

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.

Cause: The State did not have reporting to allow for "super user" access monitoring during fiscal 2017.

Reports designed to identify and review changes made to agency hierarchies were not sufficient during fiscal 2017 to meet their intended purposes and thus, the reports did not address the concerns relating to monitoring of RIFANS user access. Additional modifications are required to provide adequate documentation of the designed and approved access structure which underlies the State accounting system control structure and objectives.

Effect: Potential for unauthorized transactions being recorded in RIFANS.

RECOMMENDATIONS

2017-005a Review activities of "super users" (system administrators) on a scheduled basis to ensure that additions, modifications, and deletions initiated by them are appropriate.

2017-005b 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 2017-006 *(significant deficiency - repeat finding - 2016-006)*

COMPREHENSIVE GENERAL LEDGER CONTROLS OVER RECEIVABLES

Statewide accounting controls over receivables should be enhanced.

Background: 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.

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.

Criteria: 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.

Condition: The State must 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.

Cause: Inadequate general ledger controls over accounts receivable.

Effect: Potential for misstatement or omission of accounts receivable and related revenue in the State's financial statements.

RECOMMENDATION

2017-006 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 2017-007 ***(significant deficiency – new finding)***

FORMAT OF ENACTED BUDGET TO FACILITATE BUDGETARY CONTROL AND REQUIRED BUDGETARY FINANCIAL REPORTING

The form and content of the enacted State annual operating budget should be enhanced to facilitate alignment with the specific funds used to account for activities and to provide more effective planning and monitoring tools.

Background: The State's financial statements include budgetary schedules to compare budgeted to actual results. The State must prepare separate budgetary comparison schedules on a fund basis while the budget is enacted on a comprehensive, state-wide basis, encompassing multiple funds. Budgetary comparison schedules are included in the State's financial statements for the General Fund, Intermodal Surface Transportation Fund, and Temporary Disability Insurance Fund.

Criteria: Generally accepted accounting principles require budgetary comparison schedules be included in governmental financial statements. Effective budgetary control requires continual measurement of actual to budgeted amounts. The format of budgets should reflect current operations and provide meaningful information to measure performance.

Condition: Because the enacted budget is presented on a comprehensive, state-wide basis, significant effort is required to disaggregate the budget data for comparison with the fund level information reported in the State's financial statements. In addition, the process to extract relevant data from the accounting system to prepare the budgetary comparison schedules should be improved and streamlined to ensure consistency with the enacted budget and amounts reported in the fund financial statements.

Net income from the Lottery is a general fund “revenue” source for the State budget; however, the enacted budget also includes certain operational expenses of the Lottery. This is an example of a budget presentation component that doesn’t align with financial reporting practices. Inclusion of a separate proforma operating statement for the Lottery in the annual budget which supports the budgeted net income transfer to the General Fund may be more appropriate.

Transportation activities included in the annual budget are so highly summarized (e.g. infrastructure-engineering) that it limits effective analysis of the budget as a financial compliance and management tool. Transportation funding and activities have significantly changed in recent years without changes in the budget presentation. The enacted budget does not include all the transportation related activity which is now accounted for within four separate special revenue funds. For financial reporting purposes, the four funds are combined into the IST Fund. A complete transportation budget which corresponds with all activity reported in the IST Fund isn’t prepared.

Including fund information within the enacted budget would enhance required budgetary reporting. Other modifications to the format and content of the budget could enhance the effectiveness of the budget as a financial management tool.

Cause: The State’s annual enacted budget is prepared on a comprehensive basis by governmental function which encompasses multiple funds. Generally accepted accounting principles require budgetary comparison schedules to be prepared on a fund basis and must be reconciled to fund financial statements. The format of the budget and the budgetary comparison schedules required for financial reporting purposes are not aligned which adds complexity to using the enacted budget information to ensure budgetary compliance and to prepare reports demonstrating budgetary compliance.

The format of the budget information for transportation activities is too highly aggregated and hasn’t been updated to reflect current operations and to serve as a meaningful planning tool.

Effect: Preparation of required budgetary comparison schedules demonstrating budgetary compliance is more complicated than necessary which also weakens controls over the preparation of the schedules. The budgetary comparison schedule preparation process is prone to error and requires significant year-end effort to ensure that the information is correct and corresponds to financial statement amounts and the enacted budget. Additionally, the current format of the operating budget and the budgetary comparison schedules limits the effectiveness of the information provided as planning and monitoring tools.

RECOMMENDATIONS

2017-007a Reexamine current procedures for preparing the budgetary comparison schedules, to facilitate identification of errors and utilize system data consistent with the preparation of the financial statements. Consider areas where efficiencies can be made with enhanced control processes.

2017-007b Improve the presentation of the budget amounts for transportation activities. Consider changes in the level of detail and include all transportation activity.

2017-007c Modify how the Lottery operations are included in the annual budget by including a separate proforma operating statement supporting the net transfer to the General Fund.

2017-007d Include fund information within the budget to facilitate recording the budget in the accounting system and preparing budget to actual comparisons.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2017-008 ***(material weakness - new finding)***

SYSTEM PAYOUTS AND MANUAL DISBURSEMENTS BY THE MEDICAID FISCAL AGENT

The Executive Office of Health and Human Services (EOHHS) authorized in excess of $200 million in system payouts and manual disbursements in fiscal 2017, representing provider advances, payments to managed care organizations for contract settlements and/or non-claims based financial activity, and other program disbursements. The reporting and internal control processes relating to these types of disbursements are manual and external to other established control procedures. Such amounts are not easily identified or quantified by the Medicaid Management Information System (MMIS).

Background: As indicated in Finding 2017-002, a significant amount of Medicaid program financial activity has commenced external to the normal internal control processes of the program (claims processing and adjudication) and is more reliant on manual control processes for determination of payment amounts and recording of financial activity, much of which is performed by consultants.

Advances to nursing home providers during fiscal 2017 (approximately $60 million) were necessary due to significant delays in processing eligibility through the new RIBridges system. These advances were largely made through manual checks issued by the fiscal agent upon FACN authorization by EOHHS. These advances were (1) tracked manually (in Excel) by the fiscal agent for purposes to identify receivables pending recoupment (2) recorded in the State accounting system by a journal entry prepared by EOHHS, and (3) required additional journal entries to properly report these transactions in the State's financial statements. The level of manual processes employed in the recording of these transactions is characteristic of these types of payments.

Criteria: Management is responsible for establishing and maintaining internal control over financial reporting to ensure accurate and complete reporting of transactions in accordance with generally accepted accounting principles. Such processes should support the validity and accuracy of all payments made by the fiscal agent, the completeness of reported program activity, and to ensure compliance with federal regulations for allowable cost principles and activities allowed or unallowed.

Condition: System payouts and manual disbursements are authorized by EOHHS through the FACN process. EOHHS executes FACN authorizations to the Medicaid fiscal agent for various financial related activities including direction of system payouts and manual disbursements to providers and managed care organizations. FACN authorizations require manual recording and tracking and do not interface into the MMIS. During our audit, we requested a report from the MMIS summarizing system payouts and manual disbursements and discovered that such a report was not currently available through the system. The State's managed care consultant was ultimately able to provide a limited summary of such payments for the fiscal year by querying certain data tables in the MMIS.

Cause: The significant increase in system payouts and manual disbursements coupled with inadequate reporting and management oversight of these types of payments pose a significant risk to internal control over financial reporting and federal compliance.

Effect: Improper payments, errors or omissions in financial reporting and federal noncompliance are possible effects of this control deficiency.

RECOMMENDATIONS

2017-008a Consider alternatives to issuing system payouts and manual disbursements through the State fiscal agent when possible. When using FACN's to authorize disbursements, utilize a unique identification code to facilitate tracking of FACN disbursements.

2017-008b Develop comprehensive reporting for system payouts and manual disbursements to allow for better oversight and monitoring by EOHHS.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2017-009	***(significant deficiency -new finding)***

RIFANS STATEWIDE ACCOUNTING SYSTEMS – LACK OF TIMELY APPLICATION SOFTWARE UPDATES

Failure to install timely updates to the application software results in increased security risk and uncorrected software functionality issues identified by the software developer.

Background: Software developers provide customers with periodic updates to address or correct known system glitches, security deficiencies, or to improve system functionality.

Criteria: Software updates should be installed timely to ensure continued system functionality and to maintain system security features. When software updates cannot be effectively installed, notification should be made to key application users and information technology personnel to assess options and evaluate related risks.

Condition: During fiscal 2017, RIFANS software updates were installed in October 2016; however, subsequent updates through January 2018 had not been installed.

Cause: RIFANS system configuration and other software customization factors typically add complexity to the update installation process. No required notification process exists to alert key application users that the updates could not be successfully installed or to trigger an appropriate risk evaluation/mitigation consideration process.

Effect: Risk was increased by the failure to install updates on a timely basis and because no required notification process exists to alert key application users and information technology personnel to assess options and evaluate related risks.

RECOMMENDATIONS

2017-009a Install software updates timely and at required intervals to ensure continued system operating functionality and maintain system security.

2017-009b Implement a required notification process to alert key application users and information technology personnel to allow an appropriate evaluation of risk and any required risk mitigation efforts.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2017-010	***(significant deficiency - new finding)***

MONITORING RESPONSIBILITY FOR FUNDS ON DEPOSIT WITH FISCAL AGENT

Responsibility for monitoring the investment activity and other compliance aspects of funds on deposit with a fiscal agent (trustee) should be vested with the Office of the General Treasurer.

Background: At June 30, 2017, $432 million was on deposit with fiscal agents (trustees). These amounts generally are bond or certificate of participation proceeds pending disbursement for projects. Amounts are invested pending disbursement. At June 30, 2017, investments included government debt securities, commercial paper, certificates of deposit and money market funds. Monitoring responsibility for these amounts is unclear and fragmented.

Criteria: The safety and liquidity of investments made from undisbursed debt proceeds, as well as compliance with permitted investment limitations, should be actively monitored. The Office of the General Treasurer has similar responsibilities for other State funds and would be the most obvious choice to effect appropriate oversight of these balances.

Condition: Responsibility among various State agencies for monitoring investment activity for funds on deposit with a fiscal agent is unclear and consequently these balances are not adequately monitored. For example, a significant uninvested and uninsured cash balance within one of the trustee accounts was not observed or explained.

Cause: The Office of the General Treasurer generally has responsibility for investment of State funds. Because these amounts are held by trustees and invested independently, they are not included within the oversight of the Office of the General Treasurer. No other State agency has been designated specific responsibility.

Effect: Funds held by fiscal agents are insufficiently monitored to ensure safety, liquidity and compliance with debt related covenants.

RECOMMENDATION

2017-010 Assign responsibility for oversight and monitoring of funds on deposit with fiscal agents to the Office of the General Treasurer.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2017-011	***(significant deficiency - repeat finding – 2016-004)***

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.

Background: 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.

Criteria: 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.

Condition: 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 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 implementing grants management software in a phased approach beginning in Fiscal 2019.

Cause: Federal grant administration has generally been decentralized and performed at the department level without statewide monitoring or uniform grant administration procedures.

Effect: Inefficiencies in grant administration, weakened controls over federal programs, and higher risk of noncompliance with federal program requirements.

RECOMMENDATION

2017-011 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 2017-012 ***(significant deficiency - repeat finding - 2016-007)***

CONTROLS OVER FEDERAL PROGRAM FINANCIAL ACTIVITY

The State can 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.

Background: Federal programs represented 40% of fiscal 2017 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.

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.

Criteria: Federal revenue and expenditures recorded by the State must be consistent with the limitations of grant awards from the federal government and claimed expenditures on federal reports must be consistent with amounts recorded in the State's accounting system.

Time reporting/payroll, grants management, and cost allocation should be performed consistently through statewide processes that are subject to enhanced control and oversight to ensure adherence to federal program requirements and to support the State's financial reporting objectives.

Condition: Knowledge of grant requirements, spending authorizations, and limitations on reimbursable expenditures all rests with departmental managers who administer the federal grant programs. 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 departments to complete a *Federal Grants Information Schedule* (FGIS) to reconcile RIFANS program activity with amounts drawn and claimed on federal reports. The FGIS process has limited effectiveness and there is no other statewide control measure to ensure that grant expenditures do not exceed available award authority.

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 departmental systems - most of which are duplicative and utilize old and sometimes unsupported technology.

For example, during fiscal 2017, the results of a newly developed cost allocation plan developed by a consultant for the Department of Human Services were not being used due to imprecision in time and effort inputs from random moment time studies. This wasn't known or evaluated at a statewide level to assess the impact on the timing of federal reimbursement and amounts reported on federal reports and the State's financial statements.

Cause: Sufficient controls have not been implemented within the statewide accounting system to ensure amounts are consistent with the limitations of grant awards from the federal government and claimed expenditures on federal reports are consistent with amounts recorded in the State's accounting system.

Statewide accounting functionalities that support time reporting/payroll, grants management, and cost allocation have not been implemented for federal programs. 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.

Effect: Federal revenue could be overstated and not detected, errors could occur due to the complexity in cost allocation to federal programs and delays in federal reimbursement can occur due to the time required to distribute costs to federal programs.

RECOMMENDATIONS

2017-012a Improve functionality within the statewide financial systems to facilitate federal grant administration (grants management, cash management, and cost allocation).

2017-012b 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 2017-013	***(significant deficiency - repeat finding - 2016-018)***

DEPARTMENT OF REVENUE – DIVISION OF TAXATION - 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.

Background: 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 taxes receivable. The Division's new STAARS system can provide enhanced data 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.

As the system begins to accumulate data for multiple tax years, STAARS data should be used to refine certain estimates. For example, the allowance for uncollectible and unavailable amounts for certain smaller dollar volume taxes should be developed based on collection history data specific to that tax rather than using the average of other taxes. These smaller taxes were converted during Release 1 of the conversion, and now have two years of data that could be used to develop new and more refined estimates.

Criteria: Accounting estimates should be continually reassessed and reflect the most current and relevant data available.

Condition: Many of the estimates reflect historical patterns experienced over multiple tax years. Due to the recent implementation of STAARS insufficient data has been accumulated to support all the data needed to build the estimates. In some instances, data from the previous tax systems is combined with STAARS data without full consideration of consistency aspects. Collection estimates for certain taxes are based on collection experience for other larger tax types and not the specific collection experience for each tax type. Over time, the STAARS system should provide better data to support collection, final return and refund estimates for each tax type.

Cause: Due to the recent implementation of STAARS insufficient history has been accumulated in the new system. Individual estimates utilizing STAARS data have not been calculated for smaller tax categories.

Effect: The estimates used to account for tax revenues could be insufficiently supported by current tax filing and tax collection experience.

RECOMMENDATION

2017-013 Assess the validity of data used to develop significant tax revenue and refund accrual estimates considering 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 2017-014	***(material weakness - new finding)***

DEPARTMENT OF REVENUE – TAX ABATEMENT INFORMATION

Data to meet newly required disclosures relating to tax abatement agreements (GASB Statement No. 77) for taxes foregone due to tax abatement agreements should be derived from the Division of Taxation's STAARS system rather than accumulated manually. Current control procedures are inadequate to ensure the completeness and reliability of reported amounts.

Background: GASB Statement No. 77 – *Tax Abatements* was newly effective for fiscal 2017 and required the State to disclose a description of the various tax abatement programs implemented by the State and the amount of taxes foregone during the fiscal year because of tax abatement agreements.

Criteria: Financial reporting information must be complete and supported by the accounting system used to prepare the financial statements.

Condition: Data needed to meet the tax abatement required disclosures is not fully available within the Division of Taxation's STAARS system. Not all tax credits are recorded in the Division's tax system (STAARS). Some data is gathered manually and maintained on spreadsheets external to the STAARS system.

We noted errors in the calculation of amounts reported for fiscal 2017. Some credits reported were not recorded in STAARS and some had different amounts in STAARS than in the database. One large credit was included on a return filed in September 2016, however, the tax system did not reflect the credit more than nine months after the return was filed.

The completeness and reliability of the data used for this purpose is enhanced when the data is maintained and derived from a system which includes appropriate controls. The State has recently implemented many economic development initiatives which include tax abatements. For fiscal 2017, many of those agreements had not yet resulted in applied tax credits; however, the scope and volume of information needed to meet these disclosures will increase in future years.

Cause: The Division's new STAARS system has not been fully programmed to meet this objective. There is one key person responsible for the tracking and approval of tax credits in the tax system.

Effect: Due to the lack of controls, ensuring the completeness and reliability of tax abatement information for financial reporting purposes may be challenging.

RECOMMENDATIONS

2017-014a Develop guidelines for monitoring and reporting tax credits applied.

2017-014b Derive tax abatement financial reporting information from the STAARS tax system and implement relevant controls to ensure the completeness and reliability of such information.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2017-015 ***(material weakness – repeat finding - 2016-015)***

DEPARTMENT OF REVENUE – STAARS IMPLEMENTATION AND FINANCIAL REPORTING IMPACTS

Implementation of a new Taxation IT system impacts financial reporting due to new processing functionalities that results in a volume of returns held in suspense pending resolution. This complicates financial reporting estimates due to the uncertain effect of returns that had not fully processed at fiscal year end.

Background: Beginning in November 2015, personal income tax returns were processed by the Division's new State Tax Administration and Revenue System (STAARS). Other taxes were added during fiscal 2017. The new system functionalities suspend returns from complete processing when any variety of conditions exist. A significant volume of returns were held in suspense (posted exceptions report) at June 30, 2017. Due to the relative "newness" of the system, a higher volume of returns in suspense is likely as processing issues are resolved and additional system experience is gained.

Criteria: Revenue recognition for financial reporting purposes involves estimating the effect of returns received but awaiting full processing to determine the likely revenue impact. Other revenue estimates are developed on historical filing patterns which are impacted by complete processing of returns and system data for a tax year.

Condition: For returns held in suspense at fiscal year end, the classification of cause for suspension is not easily used as a basis for estimating the revenue impact (i.e., result in no revenue impact, a refund liability or a receivable) upon final processing. Manual intervention is typically required to clear system processing edits and exceptions - personnel resources have been challenged due to system implementation to meet the peak demand.

Cause: Changes in processing due to the new STAARS system implementation and new data provided by the system to support estimates used for financial reporting. 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.

Effect: Estimates of the impact of returns held in suspense may be inaccurate and could affect revenue amounts used for financial reporting.

RECOMMENDATIONS

2017-015a 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.

2017-015b 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 2017-016 ***(significant deficiency - repeat finding - 2016-014)***

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.

Background: 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.

Criteria: Manual intervention (although limited to a small number of instances) should not be needed to allow the new Taxation's computer system to process some EFT files.

Condition: Limited manual intervention is required for some EFT files so that they can be processed by Taxation's computer system. Although this involvement is limited to ACH credit files that either have a missing or incorrect addendum record, these files are in clear-text format so that they can be edited for upload.

Cause: There are instances when EFT files received by the financial institution require to be manually edited so that they can be processed by Taxation's computer system.

Effect: Manual editing of EFT files creates opportunities for erroneous data manipulation.

RECOMMENDATIONS

2017-016a Develop monitoring and reporting procedures to ensure the proper upload of EFT data files.

2017-016b Develop a method where whenever there is an incorrect/missing addendum record for EFT files, those errors are tracked by the system, presented to the Processing section for resolution, and the resolution be recorded.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2017-017 *(significant deficiency - repeat finding - 2016-019)*

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.

Background: User access roles control the specific functions that an employee may perform within their scope of duties and the data within a system that they are allowed to access.

Criteria: 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.

Condition: We found system user access for some users was broader than necessary.

Cause: During a system implementation, user access is often broader than ultimately necessary.

Effect: Excessive system access could lead to erroneous data manipulation.

RECOMMENDATION

2017-017 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 2017-018	***(significant deficiency – new finding)***

DEPARTMENT OF REVENUE – DIVISION OF TAXATION – CONTROLS OVER COUNTER TAX COLLECTIONS

Controls should be improved over the counter tax collections accepted at the Division of Taxation by upgrading the cashiering technology and integrating that functionality into the Divisions' STAARS system.

Background: The vast majority of tax payments are received electronically or through mail payments, however, some taxpayers make payments in person at the Division of Taxation. Such payments totaled approximately $60 million in fiscal 2017. A cashiering application was internally developed more than a decade ago that lacks appropriate information technology controls. Additionally, the cashiering application is not integrated with the Division's new STAARS system.

Criteria: Adequate application controls must be in place to ensure taxpayer payments are properly recorded and identifiable to the individual employee processing the transaction. Per National Institute of Standards and Technology (NIST) – Information Technology Lab (ITL) bulletin 1997-03, "Audit trails are a technical mechanism that help managers maintain individual accountability".

Condition: The cashiering application lacks an appropriate audit trail to identify the employee performing the transaction, sufficient password access controls, and data back-up procedures. The system is not integrated with STAARS. A manual process is required to create the transaction record so it can be scanned and processed to post to the taxpayer's account.

Cause: Outdated technology and lack of integration and upgrade upon implementation of the new STAARS system.

Effect: Controls over tax collections made in person at the Division of Taxation are weakened.

RECOMMENDATION

2017-018 Upgrade the application and related technology used to process counter payments at the Division of Taxation and ensure the cashiering application is integrated to the Division's STAARS system.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2017-019	***(significant deficiency – new finding)***

DEPARTMENT OF REVENUE - DIVISION OF TAXATION - IT-RELATED RISK ASSESSMENT

There was no demonstrated evidence of written risk assessment policies, procedures, documented methodologies, or conducting of actual technology risk assessments.

Background: Documented periodic comprehensive technology risk assessments are key to uncovering underlying vulnerabilities in the environment as well as providing guidance on where to best spend limited assets to reduce risk.

2017 security breaches identified in the national press demonstrate the ongoing need to periodically assess the technology infrastructure for threats such as unapproved access to back office applications and data.

In addition, 2017 weather events (e.g. hurricanes) also demonstrated the potential risk to the organization's technology assets with regards to the need to periodically assess whether sufficient redundant hardware is in place to enhance system availability and whether remote offsite backup facilities and data are ready to provide recoverability if a disaster should occur.

Criteria: Per the National Institute of Standards and Technology (NIST) RA-1, risk assessment policies and procedures must be documented. Per NIST RA-3, risk assessments should be performed every three years or whenever there are significant changes (e.g. new system implementations).

Condition: We found no written risk assessment policies, procedures or documented methodologies. In addition, there was no evidence that comprehensive IT risk assessments were being performed.

Cause: While informal risk assessment practices are included in the periodic activities, a formal program has never been implemented.

Effect: The lack of a documented formal risk assessment process coupled with no comprehensive periodic risk assessments leaves the agency vulnerable to both existing and emerging technology risks which could result in a security breach and/or impact application availability and recoverability.

RECOMMENDATIONS

2017-019a Develop a documented risk assessment methodology as well as related policies and procedures.

2017-019b Perform risk assessments at least once every three years with the results documented and communicated to management for action.

***Auditee views:* The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2017-020	***(significant deficiency – new finding)***

DEPARTMENT OF REVENUE – DIVISION OF TAXATION – INFORMATION SECURITY

The Division of Taxation can enhance policies and operating procedures to restrict access to personally identifiable information and to ensure the effectiveness of the business continuity plan.

Background: The Division of Taxation's new STAARS system was close to full implementation during fiscal 2017 and consequently we performed a more comprehensive review of system security features. We observed opportunities for the Division to enhance various security features to ensure adequate controls are established and operating effectively to restrict access to personally identifiable information and to ensure the effectiveness of the business continuity plan.

Criteria: Information Security Standards issued by the National Institute of Standards and Technology (NIST) - U.S. Department of Commerce. Specific citations:

- NIST 800-122 provides guidelines to restrict access to personally identifiable information.

- NIST 800-92, section 2.4, “an organization should define its requirements and goals for performing logging and monitoring logs to include applicable laws, regulations and existing organizational policies”.

- NIST 800-124, “organizations should have a mobile device use policy” and consider “requiring device authentication and/or other authentication before accessing organization resources”.

- NIST PE-5 provides guidelines to link individual identity to receipt of output from a device such as a printer

Door locks and external door alarms should be functional to adequately control and restrict access.

Business Continuity Plans must contain complete key personnel contact information to coordinate business operations in the event of an emergency.

Condition: The following conditions were noted during our review:

- Paper state tax returns and checks were observed on both unattended employee desks as well as in boxes on the floor in hallways.

- The Business Continuity plan lacked complete contact information (e.g. phone numbers) for key personnel needed in the event of an emergency.

- The collection of application infrastructure log data was demonstrated, however, there are currently no procedures or personnel assigned to monitor audit logs.

- There were no mobile storage device procedures and controls in use at the agency.

- We found, during a walk-through of the processing batch room, that all three doors were not locked and the external door alarm was not functioning.

- Access controls (such as employee badges) provide enhanced security for report printouts which significantly reduces the likelihood of unauthorized access to sensitive information. Taxation does not have printer access controls to ensure only appropriate access to printed output.

Cause: Policies and operating procedures require enhancement.

Effect: Access to sensitive personally identifiable information may be insufficiently restricted and, in an emergency, the effectiveness of the business continuity plan may be lessened due to incomplete contact information for key personnel.

<u>RECOMMENDATIONS</u>

2017-020a Implement policies and procedures for controlling access to paper tax returns and checks as well as unattended workstations (“clean desk policy”). Implement access controls for shared printers to link the individual’s identity to receipt of the printed output.

2017-020b Add all missing contact information to the agency business continuity plan.

2017-020c Define and implement procedures and assign resources to monitor audit log information and perform required follow-up procedures.

2017-020d Develop and implement procedures and controls to restrict the use of mobile storage devices such as USB sticks and writeable CDs at the agency.

2017-020e Obtain and install locks for all processing batch room doors and fix alarm on external door to sound if opened.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2017-021	***(material weakness – repeat finding – 2016-020)***

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 – see Corrective Action Plan in Section E.*

Finding 2017-022	***(material weakness - repeat finding -2016-016)***

DIVISION OF INFORMATION TECHNOLOGY - DISASTER RECOVERY TESTING AND OFF-SITE STORAGE OF BACKUP FILES

The State did not perform tests of its disaster recovery plan during fiscal years 2015, 2016, or 2017. In addition, off-site storage of agencies' applications backups was not sufficiently geographically diverse enough to provide reasonable assurance of recovery in the event of a regional disaster.

Background: The State has not performed testing of its disaster recovery plan since fiscal year 2014. Tests of the disaster recovery plan are a vital component of an overall business continuity plan to increase the likelihood that critical 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 disaster recovery location and its employees' knowledge and ability to perform restoration of the various systems.

DoIT has a designated disaster recovery facility in New Jersey (operated by a vendor). Since the last test was performed in fiscal year 2014, the State has undergone many changes to its system environment. New systems, such as RIBridges (the State's public assistance system), STAARS (the State's taxation system), and numerous patches to RIFANS (the State's accounting system), along with network and telecommunications configuration changes, have not been part of a disaster recovery test which should be performed at least annually. Additionally, backup media for certain applications remains within the State, instead of being sent to an off-site vendor.

Criteria: Industry best practices stipulate that disaster recovery testing be performed twice a year to accommodate the ever-changing systems environment. The State should perform a full disaster recovery test at least annually. Also, off-site storage of backups should be geographically diverse enough to successfully recover from a regional disaster.

Condition: The State did not perform tests of its disaster recovery plan during fiscal 2015, 2016, or 2017 due to funding limitations. In addition, due to the lack of an amendment to the contract with the designated disaster recovery vendor, off-site storage of agency applications backups was not sufficiently diverse geographically to provide reasonable assurance of recovery in the event of a disaster.

Additionally, recent changes to digital back-ups were implemented without ensuring that all digital back-up files could be moved to the State's designated back-up and disaster recovery site, resulting in lapses in maintaining adequate geographic distribution of back-up files to ensure restoration and recovery of systems in the event of failure or disaster.

Cause: DoIT assigned insufficient priority and did not adequately plan for data back-up procedures and tests of the disaster recovery capabilities which are critical functions. Budgetary limitations were also cited as a reason for not performing disaster recovery testing over the last three years.

Effect: The lack of disaster recovery testing reduces the assurance that all mission critical systems can be restored should a disaster disable or suspend operations.

RECOMMENDATIONS

2017-022a Amend the contract with the designated disaster recovery vendor so that one of DoIT's data domains can be physically relocated to their facilities.

2017-022b Move the data domain to the designated disaster recovery vendor's location.

2017-022c Perform an off-site disaster recovery test at the State's designated disaster recovery site at least annually utilizing geographically disperse digital backup files.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2017-023	***(material weakness - repeat finding - 2016-013)***

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.

Background: Program change controls are a critical component of any IT control environment, which ensures that only authorized changes are made to programs (after adequate and sufficient user acceptance testing) before being placed into a production environment. Additionally, program change control procedures prevent and detect unauthorized program modifications from being made.

Almost all custom-developed computer applications require changes and/or updates throughout their production lifecycles. Consequently, these customized, home-grown applications require a formalized change management system to ensure that only authorized changes are made.

Criteria: The State's 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, auditability, and enhanced integrity of the application systems, which flow through the process. Automated tools help control this process and make the process consistent, predictable, repeatable and aids in the reduction of "human error" in the process.

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, auditable, and repeatable process.

Condition: The State lacks a uniform enterprise-wide program change control management process for the various IT applications operating within State government. This had led to inconsistent methods, as well as, noncompliance and circumvention of DoIT's change control policy and procedures. In a number of instances, we noted no automated change control system to substantiate that only authorized and proper changes had been implemented.

Cause: 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. 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.

Effect: A lack of a uniform enterprise-wide program change control management process increases the risk that unauthorized or inappropriate changes could be made to IT applications without detection.

RECOMMENDATIONS

2017-023a Develop and implement procedures detailing specific requirements for program change control and disseminate and train DoIT support staff in its proper execution.

2017-023b Determine the appropriate combination of operational, procedural and/or technical adjustments required to use change management software to result in adequate program change control for the entire enterprise.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2017-024	**(material weakness - repeat finding) 2016-011**

INFORMATION TECHNOLOGY (IT) SYSTEMS – COMPREHENSIVE INFORMATION SYSTEMS SECURITY POLICIES AND PROCEDURES

The State can enhance its enterprise-wide security policies and procedures and communication of these policies and procedures with State Agencies. Assessments of compliance for all critical IT applications had not been performed through fiscal 2017. The State can enhance its ongoing security posture by periodically performing a risk assessment to identify if mission critical systems comply with the policies and procedures.

Background: 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.

Criteria: 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 the information contained within the State's critical systems. The State needs to ensure its IT security policies and procedures are current and well communicated. 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. Assessments of compliance for all critical IT applications should be performed on a periodic basis.

Condition: The State has updated and created new policies and procedures for its critical information systems; however, it has lagged in approving, communicating, and implementing these policies. Further, the State has not performed a security risk assessment to determine whether its IT systems comply with State IT security policies and procedures.

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 also assist in broadening the monitoring of the State's many systems considering the minimal resources allocated to this function.

Cause: The State maintains IT security policies and procedures on DoIT's website. However, they are not periodically reviewed, updated and appropriately communicated with State agencies. Also, a security risk assessment of mission critical systems has not been conducted. It was noted in the prior year that an outside contractor would be engaged to conduct such an assessment, however this has not yet happened.

Effect: The lack of enterprise-wide security policies and procedures leaves critical systems exposed to security vulnerabilities. Additionally, with the absence of a security risk assessment, the State may not be able to identify risks associated with its critical systems and increases the potential for a security incident occurring.

RECOMMENDATIONS

2017-024a 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.

2017-024b 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.

2017-024c New information systems or significant system modifications should be subjected to a formalized systems risk assessment security certification by DoIT or an external IT security consultant prior to becoming operational.

2017-024d 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 2017-025	***(significant deficiency - repeat finding - 2016-021)***

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 and weakens controls over financial reporting.

Background: The financial statements for the Intermodal Surface Transportation (IST) Fund are prepared primarily from the State's RIFANS accounting system; however, a significant amount of financial reporting data is derived from RIDOT's Financial Management System (FMS). Because these two accounting systems were not designed to easily share data, preparation of annual financial statements for the IST Fund is unduly complex.

Criteria: Management must maintain effective controls over financial reporting to allow preparation of accurate and complete financial statements for the IST Fund.

Condition: 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 for 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.

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 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.

While recording transactions in two accounting systems is inherently duplicative, this process would be less challenging if the configuration and accounting conventions were the same. For example, RIDOT establishes purchase orders for the entire project duration; while RIFANS reflects only the amount expected to be expended during that fiscal year. Fiscal year-end payables and other accruals are recorded in RIFANS for financial reporting purposes but not to the same extent in RIDOT FMS. RIDOT FMS and RIFANS each utilize separate and distinct account structures, which necessitates mapping to "crosswalk" the two charts of accounts. Timing differences exist and must be identified as part of the reconciliation process.

RIDOT has implemented a process of reconciling RIDOT FMS to RIFANS monthly, as a control, to ensure both systems accurately reflect RIDOT activity. Specific areas of the reconciliation process have been automated but the cause of differences must be manually identified and corrected in the appropriate system.

Cause: The two accounting systems were not designed with compatible account structures yet certain critical tasks are required to be executed through RIFANS. RIDOT's FMS system is more comprehensive in scope and is designed to meet RIDOT's project based accounting focus and federal program compliance requirements while RIFANS is used for financial reporting, budgetary control, and vendor payment processing.

Options include better aligning the design and configuration of the two systems or alternatively using the RIDOT FMS for financial reporting purposes rather than RIFANS. Further integration of the two systems would require additional investment.

Ultimately, the continued use of both systems to meet RIDOT and the State's financial reporting requirements should be addressed within the recommended strategic plan for the State's accounting and administrative systems as more fully outlined in *Finding 2017-001*.

Effect: Normal accounting operations require extensive reconciliation and duplicate processing which adds significant complexity to the financial reporting process and diminishes the effectiveness of controls over financial reporting.

RECOMMENDATION

2017-025 Reevaluate the continued operation of two separate accounting systems to support financial reporting for the IST Fund as part of the State's preparation of a strategic plan for its core accounting and administrative functions. Consider using the RIDOT FMS for financial reporting.

Auditee views: The auditee partially disagrees with this finding – see Corrective Action Plan in Section E.

Finding 2017-026	***(significant deficiency - repeat finding - 2016-022)***

INTERMODAL SURFACE TRANSPORTATION FUND – FINANCIAL REPORTING – FUND BALANCE COMPONENTS

Controls can be enhanced over the presentation of fund balance components which reflects the portions of fund balance with restrictions on use or amounts earmarked or committed by management.

Background: 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, various license and registration fees collected by the Division of Motor Vehicles, in addition to the funds received from the sale of excess land to the I-195 Redevelopment District Commission.

Criteria: Fund balance components are to be presented in accordance with generally accepted accounting principles (GASB codification section 1800 paragraphs 177 and 179) reflecting any restrictions on use or commitments by management.

Condition: 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.

We identified misclassifications of various fund balance categories. Changes in fund balance for distinct activities were not consistently allocated causing the fund balance category to be misstated – an adjustment of $37,025,771 was posted by RIDOT to correct the fund balance category. The unrestricted/unassigned category of fund balance was misstated by $1,953,001 thereby requiring audit adjustment.

Cause: During fiscal 2017, 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 2018.

As described in *Finding 2017-025,* RIDOT FMS project level coding is lost when transactions are posted to RIFANS. The revenues and expenditures for the various funding streams included within the IST Fund must be analyzed to present the fund balance components appropriately. The process requires a high-level understanding and analysis of the different IST activities and is not fully supported by the RIFANS accounting system.

Effect: IST fund balance classifications could be misstated.

RECOMMENDATION

2017-026 Ensure the transactions identified through the analysis of each activity and/or funding source within the IST Fund result in the appropriate categorization and reporting of fund balance components.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2017-027	***(significant deficiency - repeat finding - 2016-022)***

INTERMODAL SURFACE TRANSPORTATION (IST) FUND – REVENUES COLLECTED BY THE DIVISION OF MOTOR VEHICLES (DMV) FOR USE WITHIN THE IST FUND

Controls can be improved over the recording of license, registration and surcharge fees collected by the Division of Motor Vehicles (DMV) and deposited in the IST Fund.

Background: IST Fund revenues include amounts collected by the DMV totaling $45.4 million (23%) of taxes and $22 million (98%) of licenses, fines, sales and service revenue.

Criteria: RIDOT must have controls in place to ensure the completeness of revenue reflected within the IST Fund. RI General Law 39-18.1 designates certain fees to be deposited in the IST Fund for transportation purposes.

Condition: RIDOT lacks effective controls to ensure that all revenues collected by the DMV for deposit within the IST Fund have been recorded. RIDOT should have procedures in place to provide reasonable assurance that the appropriate fees have been earmarked for the IST Fund and have been received and recorded as revenue. This should include documentation of the fee structure identified by RI General Law 39-18.1, the surcharge amount being applied to each DMV transactions code, and how the DMV computer system is programmed to identify such amounts for the IST Fund. RIDOT should periodically assess the reasonableness of the actual revenue received.

Cause: RIDOT has not established sufficient controls and monitoring procedures to ensure the completeness of the DMV revenue transferred to RIDOT and has not obtained documentation as to how the surcharge amounts identified in the General Laws are assigned to transaction codes. The DMV does not provide reports that identify the transaction type, number of transactions and respective amount collected on a weekly, monthly or yearly basis.

Effect: Controls to ensure the completeness of DMV revenues earmarked for transportation purposes within the IST Fund are ineffective.

RECOMMENDATION

2017-027 Strengthen and document 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. Implement monitoring procedures to assess the reasonableness of revenue amounts collected by DMV for deposit in the IST Fund.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2017-028	***(significant deficiency - new finding)***

INTERMODAL SURFACE TRANSPORTATION FUND – RECONCILIATION OF TRUSTEE ACTIVITY

Controls can be improved over the reconciliation of trustee activity and RIFANS to ensure proper recording in the State's accounting system and to ensure investment activity is appropriately reported in accordance with generally accepted accounting principles.

Background: Certain debt proceeds for IST projects are held by trustees. The project disbursements originate in the RIDOT FMS, however, disbursements are made by the trustee and the transactions must be recorded in RIFANS.

Criteria: External trustee activity must be recorded in and reconciled to the State's RIFANS accounting system to ensure the IST Fund financial statements include all fund activity. Trustee investment activity must be recorded in the State's RIFANS accounting system consistent with generally accepted accounting principles (GASB Statement No. 72).

Condition: Periodic reconciliation between the trustee statements, RIFANS and FMS is necessary to ensure that all GARVEE project disbursements have been recorded properly in RIFANS which serves as the basis for the IST Fund financial statements.

Within the fiscal 2017 reconciliations, a number of transactions were misclassified causing specific categories of transactions to appear to be incorrectly recorded in RIFANS. Upon further review, it was determined that the transactions were properly recorded in the State's accounting system and the discrepancies resulted from imprecision in the reconciliation process.

Trustee investment activity was not appropriately recorded in the State's RIFANS accounting system to reflect investments at fair value and to include the changes in fair value within investment income. Audit adjustments were required to adjust the balances for financial reporting purposes.

Cause: Additional oversight of the reconciliation process is needed to ensure the results of the reconciliation process are fully evaluated to prompt adjustments to RIFANS or the trustee's statements or to modify/correct the reconciliation.

Changes were made in the types of investments held by the trustee during fiscal 2017 which required more analysis and accounting adjustments to reflect the investments at fair value as required by generally accepted accounting principles.

Effect: Weaknesses in the trustee to RIFANS reconciliation process could result, if not corrected, in misstatements in the IST financial statements.

RECOMMENDATION

2017-028 Enhance and document the policies, procedures and controls to ensure trustee activity is 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 2017-029	***(material weakness - repeat finding -2016-023)***

TRANSPORTATION INFRASTRUCTURE REPORTING

Controls should be improved over the process to identify impaired infrastructure as well as retired/replaced infrastructure assets. Controls over the identification of transportation infrastructure assets have been improved but can be further enhanced to ensure the accuracy of such amounts.

Background: RIDOT implemented a new process in fiscal 2017 to identify transportation infrastructure assets which was a significant enhancement. The new process uses the FMS to identify each project and ensures that total project costs (e.g., design and construction costs) are included in the capitalized amount. Since the source of the information used to identify capitalized infrastructure is FMS and the financial statements are based on RIFANS, the data used must be reconciled between the two systems.

Criteria: Generally accepted accounting principles (GAAP) require recording the State's investment in infrastructure assets to be reflected on the government-wide financial statements. Such amounts should be capitalized and depreciated consistent with the State's adopted accounting policies. Amounts are recorded as construction in progress until placed in service at which time depreciation commences.

GAAP also requires 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.

The cost and related accumulated depreciation associated with infrastructure assets that have been replaced or are no longer in service should be removed from the infrastructure amounts included on the financial statements.

Condition: RIDOT did not document its consideration of transportation infrastructure assets that may be impaired and provide such documentation to the Office of Accounts and Control for the purpose of preparing the State's financial statements. The cost and related accumulated depreciation associated with infrastructure assets that have been replaced or are no longer in service has not been removed from the infrastructure amounts included on the State's financial statements.

RIDOT can further improve its new infrastructure asset process by documenting the process and reconciling the RIDOT Infrastructure Report to RIFANS to ensure completeness. The new process does not include accrued project costs (accounts payable) at fiscal year-end since those amounts are not included in RIDOT's FMS. Documentation supporting the assignment of an infrastructure code to a project could also be enhanced.

We proposed audit adjustments to correct balances at June 30, 2017 - construction in progress was understated by $3,975,562 because an incorrect infrastructure code was assigned. Infrastructure was understated and construction in progress was overstated by $628,776 because a substantially complete project was not appropriately coded.

Cause: RIDOT's infrastructure asset identification process was newly implemented during fiscal 2017 and can be further enhanced going forward. A process to remove estimated costs for retired/replaced infrastructure has not been implemented. The consideration and documentation of impaired infrastructure assets has not been formalized.

Effect: Infrastructure assets and related depreciation expense may be misstated in the State's financial statements.

RECOMMENDATIONS

2017-029a Enhance controls over the recording of transportation infrastructure assets by documenting RIDOT's related policies, procedures and controls.

2017-029b Reconcile the RIDOT Infrastructure Report to RIFANS to ensure completeness. Include fiscal year-end accrued expenditures in the amounts identified as infrastructure assets.

2017-029c Enhance controls over the assignment of the project infrastructure code, by including supporting documentation and project personnel concurrence.

2017-029d Evaluate and document the consideration of whether any of the State's transportation infrastructure has been impaired consistent with GAAP criteria.

2017-029e Implement a process to remove estimated infrastructure assets and related accumulated depreciation when assets have been replaced or taken out of service.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2017-030 ***(significant deficiency - repeat finding -2016-024)***

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.

Background: 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.

Criteria: File modifications should be automated to the extent that technology allows, eliminating the potential for human errors. Where this is not possible, an automated audit log of all changes made should be maintained and periodically reviewed by appropriate personnel (not the individual making the change).

Condition: 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.

Through discussion with management, automated controls could possibly be implemented with future system upgrades.

We also noted that in the federal billing process there are instances where the Highway Planning and Construction drawdown file is modified prior to submission to the Federal Management Information System (FMIS). These modifications to the file are required since RIDOTs Financial Management system (FMS) does not fully provide the level of data required to draw federal funds as required by the Federal Highway Administration.

Cause: RIDOT has not formally documented the reason(s) as to why all instances of manual file modifications cannot be automated.

We observed the following weaknesses in the federal billing process:

- The FMS does not have the capability to link multiple funding source 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.

Effect: The open text format allows anyone who has access to the server directory to modify the file and send it to FMIS. This results in decreased system and data integrity, increased risk of human error and reduced processing efficiency.

RECOMMENDATIONS

2017-030a Review the progress payment file transfer process to identify critical points where automated controls could be implemented to eliminate the need for manual intervention.

2017-030b Explore options to 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 partially disagrees with this finding – see Corrective Action Plan in Section E.*

Finding 2017-031 ***(significant deficiency - new finding)***

RECONCILIATION OF UNEMPLOYMENT INSURANCE BENEFIT PAYMENTS.

The RI Department of Employment and Training (DLT) did not reconcile Unemployment Insurance benefit payments, monthly.

Background: Unemployment benefits are paid through a DLT subsidiary computer system and posted monthly to the state accounting system (RIFANS) and DLT'S business office books. Benefit payments totaled $155.7 million for fiscal 2017.

Criteria: Benefit payments should be reconciled at least monthly between the DLT subsidiary computer system, the state accounting system (RIFANS) and DLT's business office books.

Condition: During state fiscal 2017, the DLT business office did not reconcile unemployment insurance benefit payments between the DLT subsidiary computer system, the state accounting system (RIFANS) and DLT's business office books, monthly, and for the state fiscal year. DLT subsequently prepared such reconciliations in the late summer and fall of 2017.

Cause: This occurred due to a change in personnel. The long-time accountant's position was vacant during most of SFY 2017 due to illness and then retirement; and the position was not filled until the fall of 2017. In the interim, another business office accountant took over many duties of the vacant position, in addition to her own, but was not aware that such reconciliations were required. We noted that DLT does not have a policy that requires supervisory review of a completed reconciliation - which would have detected this condition.

Effect: Failure to reconcile timely is an internal control weakness because an error could occur and not be detected on a timely basis.

RECOMMENDATION

2017-031 Reconcile unemployment insurance benefit payments, monthly and for the state fiscal year, on a timely basis. Require supervisory review of completed reconciliations.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2017-032 ***(material weakness - repeat finding - 2016-025)***

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

2017-032 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 2017-033 ***(significant deficiency - repeat finding – 2016-026)***

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

2017-033 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 2017-034 **_(significant deficiency - repeat finding – 2016-029)_**

RHODE ISLAND CONVENTION CENTER AUTHORITY - REVIEW OF BANK RECONCILIATIONS, JOURNAL ENTRIES AND EVENT SETTLEMENTS

Criteria: Management is responsible for establishing and maintaining internal control to ensure the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America.

Condition: During our review of journal entries, we could not obtain evidence that reviews of journal entries, account reconciliations and event settlements took place.

Context: During our 2017 audit, we noted the following:

1. Of 32 journal entries we reviewed from the Rhode Island Convention Center and the Dunkin' Donuts Center, we noted:

   a. Per the journal entry backup, 24 of the 32 journal entries that we reviewed did not have a signature from a reviewer on the journal entry.

   b. Subsequent to January 1, 2017, we noted that of 20 journal entries that were tested, 3 journal entries did not list a preparer, 8 journal entries did not have a reviewer and 1 journal entry was missing from the journal entry log.

c. Subsequent to January 1, 2017, we noted that of the 20 journal entries that were tested, there were 15 instances where the documentation of the preparer and reviewer sign off (if any) on the journal entry did not agree to the journal entry log maintained (if any).

d. We observed the journal entry logs for the Rhode Island Convention Center for the months of March 2017, May 2017, and June 2017 and the journal entry logs for the Dunkin' Donuts Center for the months of January 2017, March 2017, May 2017 and June 2017. We noted that the logs were not complete, noting that the logs did not appear complete and many entries were missing preparer sign-offs and reviewer sign-offs.

2. Of 17 account reconciliations reviewed for reconciliation testing, we were not able to obtain evidence that reviews were properly performed. In addition, we noted:

   a. The Dunkin' Donuts Cash Operating account had an "other reconciling item" labeled as "miscellaneous (immaterial)" for $909.92 and $7,285.94 for January 2017 and May 2017, respectively.

   b. The Event Liability reconciliation for January 2017 had a line item labeled "Pbruins-1/29/17-Paid against???" for $2,383.66. We noted that the Event Liability had a line item labeled "Various" for $42,230.19 on the January 2017 and May 2017 reconciliations.

3. Of the 10 event settlements that were reviewed between the Rhode Island Convention Center and the Dunkin' Donuts Center:

   a. 0 of 10 event settlements had a sign-off by a reviewer.

   b. Of the 5 Rhode Island Convention Center event settlements tested:

      i. 1 of 5 event settlements had evidence of the promoter's approval (e.g., authorized signature) on the settlement sheet.

      ii. The event settlements were completed within 11-22 days of the event.

   c. Of the 5 Dunkin' Donuts Center event settlements tested:

      i. The Finance Director had signed off as preparer. Four event settlements were completed the same day as the event and one settlement was completed two days later.

      ii. There were two events on February 2, 2017 and March 4, 2017 that were resettled on March 29, 2017. We noted no additional documentation relating to the resettlement.

Cause: Management was not reviewing or documenting their review of journal entries, account reconciliations and event settlements.

Effect: When journal entries, account reconciliations and event settlements are not appropriately reviewed, it is possible that errors at the Rhode Island Convention Center and the Dunkin' Donuts Center, whether accounting errors, bank errors, or fraud, would not be prevented or detected and corrected, on a timely basis. In addition, it is also reasonably possible that not all expenses are captured during the event settlement process, meaning the Authority likely absorbed more expenses than contractually obligated. The impact of these issues, combined with the expenses being absorbed rather than being reimbursed as allowed in the event agreements, create a possibility that would not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct, misstatement on a timely basis.

RECOMMENDATION

2017-034 We recommend that SMG management ensure that all bank reconciliations, journal entries and event settlements be reviewed by an individual not involved in the preparation of the bank reconciliation, journal entries and event settlements as a customary part of the accounting process.

SMG personnel should document who reviewed account reconciliation and document when the review was completed. This can be done by signing off on the appropriate document with the date the review was completed.

The SMG personnel performing the review should ensure that all necessary and appropriate information is attached to the bank reconciliation, journal entry and entry settlement.

***Auditee views:* The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2017-035	***(material noncompliance - repeat finding – 2016-030)***

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, 2017 and 2016, 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, 2017 and 2016, the Authority was unable to fund the Renewal and Replacement requirement of the restrictive covenant for the DDC pursuant to the indenture.

Context: The authority is currently in violation of its debt indentures.

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.

RECOMMENDATION

2017-035 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 2017-036	***(significant deficiency – new finding)***

RHODE ISLAND INFRASTRUCTURE BANK – INTERNAL CONTROL OVER FINANCIAL REPORTING

Criteria: Internal control over financial reporting.

Condition: During the final quarter of fiscal year 2017, two long-tenured members of the Bank's finance team resigned. The new finance team inherited a poorly defined and poorly documented financial closing and reporting process. There was no internal control procedures manual which would have provided the new finance team with a "roadmap" to effectively perform these procedures. While management did locate source documentation for some of the Bank's footnote disclosures, which, theoretically, supported the preparation of the prior year financial statements, they were poorly labeled, haphazardly defined and, in many cases, did not agree to the final balances reported in the prior year financial statements. Most could not be located. In effect, they had to develop these procedures which were undertaken last year to calculate the amortization/accretion of bond premiums/discounts were not updated during the year, were not retained and/or did not agree to balances reported in the prior year financial statements. An instance was also noted whereby a change which had been communicated by an external third party related to bond arbitrage rebate liabilities at June 30, 2016 was not updated in the prior year nor was it adjusted during the year until identified by the new finance team during the close process.

Cause: As a result, several adjustments were required during the audit process to allow for a proper close of the financial records to support the audit. Based on our assessment of the aggregated adjustments recorded during the audit process, we conclude that a material error could have occurred and not been identified in a timely manner by management and accordingly, this matter is considered a significant deficiency in internal controls over financial reporting.

Effect: As noted above, the new finance team has effectively remediated this issue going forward by virtue of the fact that they had to develop these procedures during the current audit process.

RECOMMENDATION

2017-036 We recommend that management take the opportunity to de-brief in the aftermath of the current year audit process and take the time to formally document the internal control process developed this year over the financial closing and reporting process to eliminate the possibility that these issues will recur in subsequent years.

***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	2017-038, 2017-039, 2017-040, 2017-041, 2017-042,2017-043
State Administrative Matching Grants for the SNAP Program	10.561	
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	2017-037
Qualified Participating Entities (QPE) Risk Sharing	14.189	None
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	2017-044, 2017-045, 2017-046
Equitable Sharing Program	16.922	2017-047
Unemployment Insurance	17.225	2017-048, 2017-049, 2017-050
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	2017-051, 2017-052, 2017-053, 2017-054, 2017-055
Recreational Trails	20.219	
Grants to States for Construction of State Home Facilities	64.005	2017-056
Clean Water State Revolving Fund Cluster:		
Capitalization Grants for Clean Water State Revolving Funds	66.458	None
Student Financial Assistance Cluster:		
Federal Supplemental Educational Opportunity Grants	84.007	2017-057, 2017-058, 2017-059, 2017-060
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	
TANF Cluster:		
Temporary Assistance for Needy Families	93.558	2017-038, 2017-039, 2017-064, 2017-065, 2017-066, 2017-067
Child Support Enforcement	93.563	None
Low-Income Home Energy Assistance	93.568	2017-061, 2017-062, 2017-063
CCDF Cluster:		
Child Care and Development Block Grant	93.575	2017-038, 2017-039, 2017-068, 2017-069
Child Care Mandatory and Matching Funds of the Child Care Development Fund	93.596	
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke	93.757	2017-037
Children's Health Insurance Program	93.767	2017-038, 2017-039, 2017-070, 2017-071, 2017-072, 2017-075, 2017-076

Table of Findings by Major Program		
Program Title	**CFDA**	**Applicable Findings**
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	2017-038, 2017-039, 2017-070, 2017-071, 2017-072, 2017-073, 2017-074, 2017-075, 2017-076, 2017-077, 2017-078, 2017-079
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777	
Medical Assistance Program	93.778	

Finding 2017-037 ***(significant deficiency – new finding)***

WIC SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN – CFDA 10.557
Federal Award Agency: Department of Agriculture
Award Years: Federal Fiscal Years 2016-2017
Federal Award Numbers: 201616W100344; 201717W100344
STATE AND LOCAL PUBLIC HEALTH ACTIONS TO PREVENT OBESITY, DIABETES, HEART DISEASE AND STROKE (PPHF) – CFDA 93.757
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2016-2017
Federal Award Numbers: NU58DP004837-03; NU58DP004837-04; NU58DP005511-02; NU58DP005511-03
Administered by: Rhode Island Department of Health (RIDOH)
Compliance Requirement: Allowable Costs/Cost Principles

TIME AND EFFORT REPORTING

RIDOH can enhance controls over time and effort reporting to ensure accurate allocations and reimbursements from federal programs.

Background: Employee time and effort is tracked, generally through timesheets, which are used to allocate costs and seek reimbursement from applicable federal programs.

Criteria: 2 CFR section 200.430(i)(1) requires that: Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

(i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
(ii) Be incorporated into the official records of the non-Federal entity;
(iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS);
(iv) Encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy;
(v) Comply with the established accounting policies and practices of the non-Federal entity (See paragraph (h)(1)(ii) above for treatment of incidental work for IHEs.); and
(vi) [Reserved]
(vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

Condition: Amounts allocated to federal programs for personnel costs were not adequately supported by time sheets and other time reporting by RIDOH personnel and were not fully reflective of actual effort for specific grant activities.

Hours allocated to specific programs on timesheets were based on budgeted time allocations for each employee’s work plan and not reflective of the actual time spent on the various programs/projects.

This was previously noted by the Office of Internal Audit, within the Office of Management and Budget, in a report dated October 21, 2016.

RIDOH implemented department-wide policies and procedures beginning in April 2017 to improve its time and effort reporting process.

For CFDA 10.557, we found 4 instances (employee personnel costs allocated to the program) in our sample of 12 where the allocation was not adequately supported.

For CFDA 93.757, we found 9 instances (employee personnel costs allocated to the program) in our sample of 15 where the allocation was not adequately supported. We also noted 2 instances in the same sample of 15 in which controls were not operating effectively to ensure the timesheets reflected the correct information.

Additionally, for both programs, we noted that timesheets were signed off before the week ending date.

Cause: Policies and procedures were ineffective to ensure amounts claimed and reimbursed by federal programs for personnel costs were reflective of the actual work performed on the various programs/projects listed.

Effect: Personnel costs reimbursed from federal programs may be over or under allocated based on the actual employee for specific federal grant activities.

Questioned Costs: Unknown

Valid Statistical Sampling: No

RECOMMENDATION

2017-037 Enhance policies and procedures to ensure personnel costs allocated to federal programs are accurately reflecting the work performed, in accordance with 2 CFR section 200.430.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2017-038 ***(material weakness – repeat finding – 2016-072)***

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) CLUSTER – CFDA 10.551 and 10.561
Federal Award Agency – Department of Agriculture
Award Year: Federal Fiscal Year: 2015-2016, 2016-2017
Federal Award Number: 2016IS251444 and 2017IS251444
CCDF CLUSTER – CFDA 93.575 AND 93.596
Federal Award Agency: Department of Health and Human Services (DHHS)
Award Years: Federal Fiscal Years: 2015-2016, 2016-2017
Federal Award Numbers: G1601RICCDF and G1701RICCDF
TANF CLUSTER – CFDA 93.558
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Year: 2015-2016, 2016-2017
Federal Award Number: G1602RITANF and G1702RITANF
Administered by: Department of Human Services (DHS)
CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services (DHHS)
Award Years: Federal Fiscal Years 2015-2016 and 2016-2017

Federal Award Numbers: 1605RI5021 and 1705RI0301

MEDICAID CLUSTER – CFDA 93.775, 93.777, and 93.778

Federal Award Agency: Department of Health and Human Services

Award Years: Federal Fiscal Years: 2015-2016 and 2016-2017

Federal Award Numbers: 05-1605RI5MAP and 05-1705RI5MAP

Administered by: Executive Office of Health and Human Services (EOHHS)

Compliance Requirement: Special Tests and Provisions

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 to fully comply with federal regulations relating to ADP risk and system security review. The plan must be sufficiently comprehensive and include timely reaction to and consideration of identified security issues and risk factors.

Criteria: 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.

EOHHS and DHS are charged with managing and securing ADP systems, which administer various federal DHHS and State programs (Medicaid, TANF, etc.). In fiscal 2017, these programs had eligibility, benefit determinations, and payments processed mainly by two systems – MMIS and RIBridges (formerly UHIP which replaced INRHODES in September 2016). These systems are vital to the processing of eligibility and payments (in the billions) for the respective programs making them two of the State's most critical systems. Since each of these systems was involved with the administration of DHHS programs, State agencies were required to determine appropriate ADP security requirements based upon recognized industry standards for each system, optimally within a comprehensive plan.

Condition: 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 largely utilizes an independent service organization control (SOC) report to meet their security and risk monitoring activities for the MMIS. 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 2017, the auditors modified their opinion on the effectiveness of certain internal control procedures and highlighted issues requiring resolution. The SOC report also relies on several complimentary user controls that EOHHS is responsible for ensuring are in place and operating effectively which require more formalized consideration. Examples of areas in need of improvement include the reliability and consistency of data transmitted from RIBridges to the MMIS and improved monitoring of system access by the MMIS system contractor.

ADP risk and system security considerations for RIBridges requires more formalization by the State. The internal revenue service conducted a review of certain system policies and procedures during fiscal 2017 and cited a number of issues requiring corrective action. The State (EOHHS, DHS, and the Division of Information Technology) needs to document a more formalized risk assessment and IT system security consideration for RIBridges to more fully comply with federal regulations relating to the ADP risk analysis and system security review.

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.

Cause: Failure to fully comply with federal requirements to 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.

Effect: Federal non-compliance with requirements relating to ADP risk analysis and system security review and exposure to the information system security and program integrity risks that those regulations are designed to mitigate.

Questioned Costs: Not applicable

Valid Statistical Sampling: Not applicable

RECOMMENDATIONS

2017-038a Enhance compliance with federal ADP Risk Analysis and System Security Review requirements by creating a comprehensive, integrated plan for RIBridges and the MMIS.

2017-038b Ensure that the formalized plan includes a comprehensive risk assessment for both systems, critical controls deemed effective in mitigating those risks, and specific monitoring procedures to ensure the effective operation of those policies and procedures, including reliance on external contract services when required.

Auditee views*: *The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2017-039 ***(significant deficiency – new finding)***

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) CLUSTER – CFDA 10.551 and 10.561
State Administrative Matching Grants for the SNAP - CFDA 10.561
Federal Award Agency – Department of Agriculture
Award Year: Federal Fiscal Years: 2015-2016, 2016-2017
Federal Award Numbers: 2016IS251444 and 2017IS251444
TANF CLUSTER – CFDA- 93.558
Federal Award Agency: Department of Health and Human Services, Administration for Children and Families
Award Years: 2015-2016, 2016-2017
Federal Award Numbers: G1602RITANF and G1702RITANF
CCDF CLUSTER – CFDA 93.575 AND 93.596
Federal Award Agency: Department of Health and Human Services (DHHS)
Award Years: Federal Fiscal Years: 2015-2016, 2016-2017
Federal Award Numbers: G1601RICCDF and G1701RICCDF
Administered by: Department of Human Services (DHS)
CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767

Federal Award Agency: Department of Health and Human Services (DHHS)
Award Years: Federal Fiscal Years 2015-2016 and 2016-2017
Federal Award Numbers: 1605RI5021 and 1705RI0301

MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2015-2016 and 2016-2017
Federal Award Numbers: 05-1605RI5MAP and 05-1705RI5MAP

Administered by: Executive Office of Health and Human Services (EOHHS)

Compliance Requirement: Allowable Costs/Cost Principles

CONTROLS OVER COST ALLOCATION AND SYSTEM DEVELOPMENT COSTS ALLOCATED THROUGH THE IMPLEMENTATION ADVANCE PLANNING DOCUMENT

Controls can be enhanced to ensure consistent allocation of costs to multiple federal programs in compliance with cost allocation plans and the federally approved Implementation Advance Planning Document (IAPD) for RIBridges system development costs.

Criteria: § 200.416 Cost allocation plans and indirect cost proposals.

(a) For states, local governments and Indian tribes, certain services, such as motor pools, computer centers, purchasing, accounting, etc., are provided to operating agencies on a centralized basis. Since federal awards are performed within the individual operating agencies, there needs to be a process whereby these central service costs can be identified and assigned to benefitted activities on a reasonable and consistent basis. The central service cost allocation plan provides that process.

The RIBridges integrated eligibility computer system was eligible for enhanced federal financial participation as outlined and approved in an Implementation Advance Planning Document (IAPD).

Condition: The Department of Human Services implemented a new cost allocation plan during the last quarter of fiscal 2016. The plan was developed by a consultant and is pending federal approval. Due to various factors, the cost allocation plan results were not fully utilized to distribute costs to various federally funded programs. Adjustments were made at the close of the fiscal year to distribute certain personnel costs using some of the outputs of the cost allocation plan. Subsequently, the cost allocation plan has been reprocessed to correct various observed deficiencies in the operation of the plan. Those updated results for fiscal 2017 are being reviewed and further adjustments are contemplated. Adjustments to reflect the final recomputed fiscal 2017 cost allocation results will be reflected on federal reports when complete. Insufficient oversight and controls were in place during fiscal 2017 to ensure appropriate and consistent use of the Department's cost allocation plan to allocate costs to multiple programs and ultimately obtain federal reimbursement.

The IAPD governs how the various system development costs for the RIBridges system are allocated to federal programs including the applicable federal financial participation rate for specific cost elements and tasks. Certain tasks are allocable to only certain federal funding sources and certain tasks qualify for enhanced federal financial participation (FFP). Due to the multiple challenges associated with the implementation of RIBridges, the plan has been amended multiple times, increasing total project costs and modifying how the costs are allocated to specific federal programs. Due to the (1) complexity and continual modifications of the IAPD, (2) credits obtained from the lead system developer for undelivered functionalities and other incremental costs, (3) changing and varied scope of work for certain vendors, and (4) number of agencies and individuals involved in the administration of the system development project, ensuring adherence to the IAPD is challenging. Many vendors bill for hours expended at an hourly rate. The links between vendor billing documentation and the specific IAPD task or cost element and the applicable program and FFP rate could be improved in certain instances. Further, vendor payments for the IAPD project could be approved at multiple departmental points. Controls over compliance with the IAPD and its cost allocation provisions for multiple federal programs should be enhanced.

Cause: Oversight of the newly implemented cost allocation plan was impacted by vacancies in key departmental financial positions and the challenges of implementing the new RIBridges system. The IAPD grew increasingly complex and required more frequent amendments as the RIBridges implementation deficiencies became apparent and required additional development resources, as well as other resources, to alleviate the effects of the delayed eligibility determinations and payment of benefits.

Effect: Weakened controls over the distribution of federal program administrative and system development costs.

Questioned Costs: Unknown

Valid Statistical Sampling: No

RECOMMENDATIONS

2017–039a Adjust the departmental cost allocation plan as required to appropriately allocate costs among various federal programs. Complete the determination of the final adjusted allocation of costs for fiscal 2017 and make required accounting and financial reporting corrections.

2017-039b Obtain federal approval of the cost allocation plan which is currently pending.

2017–039c Improve oversight and documentation of system development costs identified and allocated to federal programs through the IAPD.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2017-040	*(significant deficiency – new finding)*

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) CLUSTER – CFDA 10.551 and 10.561
Federal Award Agency – Department of Agriculture
Award Year: Federal Fiscal Years: 2015-2016, 2016-2017
Federal Award Numbers: 2016IS251444, 2017IS251444
Administered by: Department of Human Services (DHS)
Compliance Requirement: Reporting

FEDERAL REPORTING – FINANCIAL REPORTS

DHS can improve its controls over federal reporting to ensure that SNAP program expenditures are properly reported.

Criteria: Federal reports must be based on the financial system used to prepare the State's financial statements. Reports should be accurate and agree to supporting documentation. When costs are allocated among various programs, allocations should be consistent with Uniform Guidance requirements and a federally approved cost allocation plan.

Condition: Certain information included on the quarterly fiscal reports was based on estimates and not directly from the cost allocation system/plan. Due to various factors, the cost allocation plan results were not fully utilized to distribute costs to various federally funded programs. Adjustments were made at the close of the fiscal year to distribute certain personnel costs using some of the outputs of the cost allocation plan. Approximately 77% of the expenditures reported were calculated using these estimates. As described in *Finding 2017-039*, fiscal 2017 cost allocation amounts are being reprocessed for subsequent adjustment.

Amounts reported for in-kind match for the Outreach Program did not agree to supporting documentation. The amount reported for in-kind match for the Outreach Program was an amount equal to the amount paid the vendor and not the amount of match reported by the agencies providing the in-kind services, which was less.

Cause: Oversight of the newly implemented cost allocation plan was impacted by vacancies in key departmental financial positions and the challenges of implementing the new RIBridges system.

Effect: The federal reports detailing administrative expenditures for the program may be incorrect.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATION

2017–040 Enhance controls to ensure expenditures are properly matched and reported. Report administrative expenditures based on the approved cost allocation system.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2017-041 ***(material noncompliance / material weakness – new finding)***

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) CLUSTER – CFDA 10.551 and 10.561
Federal Award Agency – Department of Agriculture
Award Year: Federal Fiscal Years: 2016-2017
Federal Award Numbers: There are no award numbers for SNAP benefits
Administered by: Department of Human Services (DHS)
Compliance Requirement: Reporting

FEDERAL REPORTING – SPECIAL REPORTS

Implementation of the RIBridges eligibility system limited the Department's ability to submit timely and accurate federal reports required for the program.

Background: The State implemented RIBridges, a federally-approved computer system to manage multiple healthcare and human service programs utilizing an integrated eligibility platform. Administration of SNAP benefits through RIBridges began in September 2016. The RIBridges system implementation has been problematic and resulted in diminished functionality through fiscal 2017. RIBridges was designed to allow for integrated eligibility across programs, enhanced client accessibility, and periodic validation of client attested data through multiple electronic interfaces.

Criteria: State agencies are required to automate their SNAP operations and computerize their systems for obtaining, maintaining, utilizing, and transmitting information concerning SNAP (7 CFR sections 272.10 and 277.18). This includes generating data necessary to meet federal issuance and reconciliation reporting requirements. Federal reports required for the program include:

FNS-46 - *SNAP Issuance Reconciliation Report (OMB No. 0584-0080).* This monthly report is used to account for benefits issued during a report month for each issuance reconciliation point.

FNS-209 - *Status of Claims Against Households (OMB No. 0584-0069).* If a household receives more SNAP benefits than it is entitled to receive, the State must establish a claim against that household and demand repayment (7 CFR section 273.18 (a)). The State is required to create and maintain a system of records for monitoring these claims against households.

Condition: DHS submitted monthly FNS-46 reports after implementation of the RIBridges benefits system (September 2016); however, the reports contained numerous errors and were rejected by USDA's Food and Nutrition Service. DHS is working with both the systems developer and FNS to correct the reports.

DHS has not submitted FNS-209 reports since implementation of the RIBridges eligibility system in September 2016.

Cause: The data reporting capabilities of the new benefit system, RIBridges, are not fully functioning and are not reliable to support the preparation of accurate federal reports for SNAP. There is no capability in the system for recording collections of previous over-payments other than recoupment of current benefits.

Effect: DHS has not complied with applicable federal reporting requirements for the SNAP program.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATION

2017-041 Ensure the RIBridges system provides complete and accurate data to meet all the federally required reporting for SNAP. Correct previously submitted FNS-46 reports as required.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2017-042	***(material noncompliance / material weakness – new finding)***

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) CLUSTER – CFDA 10.551 and 10.561
Federal Award Agency – Department of Agriculture
Award Year: Federal Fiscal Years 2016-2017
Federal Award Numbers: There are no award numbers for SNAP benefits
Administered by: Department of Human Services (DHS)
Compliance Requirement: Special Tests and Provisions

AUTOMATED DATA PROCESSING (ADP) SYSTEM FOR SNAP

The RIBridges eligibility system does not currently meet all the functional requirements of an automated data processing system as outlined in federal SNAP regulations.

Background: The State implemented RIBridges, a federally-approved computer system, to manage multiple healthcare and human service programs utilizing an integrated eligibility platform. Administration of SNAP benefits through RIBridges began in September 2016. The RIBridges system implementation has been problematic and resulted in diminished functionality through fiscal 2017. RIBridges was designed to allow for integrated eligibility across programs, enhanced client accessibility, and provide for periodic validation of client attested data through multiple electronic interfaces.

Criteria: State agencies are required to automate their SNAP operations and computerize their systems for obtaining, maintaining, utilizing, and transmitting information concerning SNAP (7 CFR sections 272.10 and 277.18). This includes: (1) processing and storing all case file information necessary for eligibility determination and benefit calculation, identifying specific elements that affect eligibility, and notifying the certification unit of cases requiring notices of case disposition, adverse action and mass change, and expiration; (2) providing an automatic cutoff of participation for households which have not been recertified at the end of their certification period by reapplying and being determined eligible for a new period (7 CFR sections 272.10(b)(1)(iii) and 273.10(f) and (g)); and (3) generating data necessary to meet federal issuance and reconciliation reporting requirements.

Condition: We reviewed a sample of 25 eligibility determinations made through the new RIBridges eligibility system to assess system functionality. In 10 out of 25 cases (40%), we could not verify the calculation of the benefit amount due to insufficient documentation available in the RIBridges case record. We noted one converted case where the yearly income amount was converted to a monthly amount and the case was closed.

Because of a backlog of cases, DHS did not fully meet the automatic cut-off of participation for households which had not been recertified at the end of their recertification period. If recertification information was received, DHS continued benefits, regardless of whether the recertification information was processed through RIBridges. Processing of the recertification information through RIBridges could result in a change to or elimination of benefits.

Designed interfaces intended to validate self-attested client income, were not implemented or operational during fiscal 2017 which compromised the effectiveness of controls over the eligibility determination process.

Scanning of client documents supporting data, critical to the eligibility determination process, was problematic during fiscal 2017. Documents were not scanned and indexed to the case record on a timely basis - many scanned documents still await indexing. Appending/indexing scanned documents to a case record in support of the eligibility determination process was critical since the planned electronic matching of client self-attested income to various external interfaces was nonoperational.

As described in *Finding 2017-043* regarding the required Electronic Benefit Transmission Reconciliation, the RIBridges eligibility system is not producing reports to allow daily reconciliation of electronic benefits authorized and disbursed and to ensure accurate and timely completion of federal reports.

Due to overall RIBridges system performance issues specifically related to SNAP, a special master has been appointed by the U.S. District Court in connection with litigation filed related to the timeliness of eligibility determinations and benefit delivery for SNAP applicants.

Cause: Certain RIBridges eligibility components were insufficiently designed and/or not fully functional in fiscal 2017 which compromised the effectiveness of the controls over the SNAP eligibility determination process.

Effect: The RIBridges eligibility system does not currently meet all the functional requirements of an automated data processing system as outlined in federal SNAP regulations. Consequently, controls over the determination of eligibility and establishment of benefit amounts is weakened. Benefits could be paid to ineligible individuals or benefits could be denied to eligible individuals. Controls are weakened over the daily settlement and reconciliation of EBT SNAP benefits due to incomplete RIBridges reporting.

Questioned Costs: Unknown

Valid Statistical Sampling: Not applicable

RECOMMENDATION

2017-042 Complete efforts to ensure that the RIBridges systems development vendor implements all designed system features including those directed at eligibility determination and the SNAP benefit issuance and reconciliation requirements.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2017-043	***(material noncompliance / material weakness – new finding)***

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) CLUSTER – CFDA 10.551 and 10.561
Federal Award Agency – Department of Agriculture
Award Year: Federal Fiscal Years: 2016-2017
Federal Award Numbers: There are no award numbers for SNAP benefits
Administered by: Department of Human Services (DHS)
Compliance Requirement: Special Tests and Provisions

ELECTRONIC BENEFIT TRANSFER (EBT) RECONCILIATION

The new RIBridges eligibility system is not producing reports to allow daily reconciliation of electronic benefits authorized and disbursed and to ensure accurate and timely completion of federal reports.

Criteria: States must have systems in place to reconcile all the funds entering into, exiting from, and remaining in the system each day with the State's benefit account with Treasury and EBT contractor records. This includes a reconciliation of the State's issuance files of postings to recipient accounts with the EBT contractor. States (generally through the EBT contractor that operates the EBT system) must also have systems in place to reconcile retailer credit activity as reported into the banking system to client transactions maintained by the processor and to the funds drawn down from the EBT benefit account with Treasury.

EBT system processors should maintain audit trails that document the cycle of client transactions from posting to point-of-sale transactions at retailers through settlement of retailer credits. The financial and management data that comes from the EBT processor is reconciled by the State to the SNAP issuance files and settlement data to ensure that benefits are authorized by the State and funds have been properly drawn down. States may only draw federal funds for authorized transactions, i.e., electronic point-of-sale purchases supported by entry of a valid personal identification number (PIN) or purchases using manual vouchers with telephone verification supported by a client signature and an EBT contractor authorization number (7 CFR sections 274.3(a)(1), and 274.4(a)).

Condition: The State is not performing all required daily reconciliations of EBT activity. The USDA's Food and Nutrition Service performed a fiscal 2017 Electronic Benefits Transfer review and issued their report dated March 2, 2018. That report highlighted deficiencies in the required reconciliation of EBT activity between the various systems utilized to authorize and disburse benefits.

Cause: RIBridges does not provide adequate reporting to allow the required daily reconciliation. DHS staff have not fully assessed the information required from RIBridges to perform the daily reconciliation required by SNAP regulation.

Effect: Controls are weakened over the daily settlement and reconciliation of EBT SNAP benefits due to incomplete RIBridges reporting. Differences between RIBridges and the EBT system could go undetected.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATION

2017-043 Complete efforts to ensure that the RIBridges systems development vendor implements all designed system features including those for the SNAP benefit issuance and reconciliation requirements.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2017-044 *(significant deficiency- repeat finding- 2016-034)*

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)
Compliance Requirement: Cash Management

CASH MANAGEMENT

The State is responsible for minimizing the time between the drawdown of federal funds and disbursement. During fiscal 2017, while significant improvement was made in cash management procedures for the Community Development Block Grant (CDBG), there were still instances of delays between the drawdown and disbursement of federal funds.

Criteria: Federal cash management regulations require the State to limit the amount of federal funds on hand prior to disbursement for program purposes. The State is required to draw cash for these programs in accordance with 31 CFR 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."

Condition: In conjunction with testing of cash balances for the program, we noted that the receipt of the federal funds occasionally 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. Although, there was substantial improvement in the timing of drawdowns in fiscal 2017 compared to fiscal 2016, there were still significant periods of positive cash balances for the program during the fiscal year.

Cause: This appears to have been largely due to settings in the State's accounts payable module, which are designed to minimize delays in payments to State vendors by scheduling payments at 30 days from the invoice date. As a result, we found that the delay between the approval and actual payment could, at times, exceed four days. An improvement has been made in comparison to fiscal 2016; however, the lag in timing is still evident in fiscal 2017, prior to the procedural changes implemented to address prior year audit findings.

Effect: There were significant positive cash balances in excess of immediate cash needs in the CDBG program throughout the fiscal year.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATION

2017-044 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 2017-045	***(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
Administered by: Rhode Island Office of Housing and Community Development (OHCD)
Compliance Requirement: Reporting

FEDERAL REPORTING

The HUD 60002, Section 3 Summary Report, Economic Opportunities for Low and Very Low Income Persons was not completed with accurate information due to insufficient procedures utilized by the department to track and review data required to complete the federal report in advance of its submission.

Background: OHCD does not currently have adequate procedures in place to compile and track the necessary data from CDBG program subrecipients for the HUD-60002, *Section 3 Summary Report*, *Economic Opportunities for Low and Very Low Income Persons* in order to submit the report in a timely manner.

Criteria: According to 24 CFR sections 135.3(a)(1) and 135.90, each recipient (State) that administers covered public and Indian housing assistance, regardless of the amount expended, and each recipient (State) that administers covered housing and community development assistance in excess of $200,000 in a program year must submit HUD 60002 information using the automated Section 3 Performance Evaluation and Registry System (SPEARS).

Condition: The HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low Income Persons is not completed with accurate information.

Cause: Due to problems with HUD's reporting system (SPEARS), OHCD has been unable to formally submit the report to HUD since it was brought on-line during fiscal 2016. OHCD has been able to enter and save data into the system pertaining to fiscal 2017 (program year 2016). However, the functionality of SPEARS prevented OHCD from formally submitting the data collected to HUD for review.

The collection of relevant data has been performed; however, the procedures to review and track the relevant data have not been formalized. As a result, information regarding one subrecipient's activities meeting the HUD 60002 Section 3 threshold was excluded from the data input. Given that OHCD does not report a large number of activities that meet the Section 3 threshold, the exclusion of such data is significant.

Effect: There are not adequate procedures in place to ensure that OHCD is submitting accurate information required for federal reporting.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATION

2017-045 Enhance procedures for ensuring that data required for completion of required federal reporting is received in advance of the reporting deadline via tracking sheets or regular meetings between management and staff to update the status on subrecipients' responses outstanding.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2017-046	***(material weakness- repeat finding- 2016-035)***

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)
Compliance Requirement: Subrecipient Monitoring

SUBRECIPIENT MONITORING

The Office of Housing and Community Development (OHCD) can enhance its monitoring of subrecipients as required by federal program requirements.

Background: 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.

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.

Criteria: Under Uniform Guidance, the State is required to evaluate each subrecipient's risk of noncompliance with federal regulations. A critical piece of this evaluation is the 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.

Condition: Through much of fiscal 2017, when the financial monitoring was performed, the OHCD monitoring staff reviewed the most recent audit reports issued by the city or town to identify any relevant issues. However, not until late fiscal 2017 were procedures in place to annually review all audit reports for subrecipients to evaluate potential issues that may have an effect on the CDBG program. In late fiscal 2017, OHCD performed a review of the most recent subrecipient audit reports. This review was subsequently utilized in preparing the calendar year 2018 risk analysis.

Additionally, we noted that while program monitoring reviews were performed, the findings and results of the monitoring were not completed and communicated to the relevant communities in a timely manner. In order to ensure compliance and, when applicable, appropriate corrective action, monitoring reviews should be conducted and completed timely with their resolution appropriately documented and tracked.

Cause: OHCD is in the process of restructuring and experienced some turnover / staff absences during fiscal 2017 that complicated the completion of various monitoring responsibilities. Further, in response to prior audit findings, OHCD temporarily suspended communication of the results of monitoring to make necessary improvements to program monitoring procedures and documentation.

Effect: OHCD's procedures for subrecipient monitoring could be improved in order to provide additional assurance that CDBG funding is awarded to responsible communities.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATIONS

2017-046a Review annual subrecipient audit reports and, in instances where there are audit findings, ensure that the subrecipient takes appropriate and timely corrective action.

2017-046b Complete subrecipient monitoring reviews in a timely manner and perform timely follow up to ensure corrective action by subrecipients.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2017-047	***(significant deficiency – new finding)***

EQUITABLE SHARING PROGRAM – CFDA 16.922
Federal Awarding Agency: US Department of Justice, Criminal Division
Federal Fiscal Year: Not Applicable.
Federal Award Numbers: Not Applicable.
Administered by: RI State Police, RI Department of Attorney General and RI National Guard.
Compliance Requirement: Program Income

INTEREST INCOME

The State did not have procedures in place to comply with requirements to allocate and report interest earnings on Equitable Sharing Program cash balances during fiscal 2017.

Background: Each of the three State agencies draw Equitable Sharing cash from the US Department of Justice to finance their federal program operations. The cash is recorded in the State's General Fund bank account and receipts are recorded in separate revenue accounts (for each of the three State agencies) established within the State accounting system (RIFANS) which are used solely for funds from the US Department of Justice Equitable Sharing Program.

Criteria: Federal regulations {*Sections IX. A. 3 and X. A. of the Guide to Equitable Sharing for State and Local Law Enforcement Agencies (April 2009*)} provide that the state or local participating law enforcement agency must deposit any interest income earned on equitably shared funds in the same revenue account or under the accounting code established solely for the shared funds. In addition, interest earnings must be reported in the *Equitable Sharing Agreement and Certification Form (ESACF)*, annually. Interest income is required to be used for law enforcement purposes and is subject to the same use restrictions as shared cash.

Condition: During fiscal 2017, the State did not record interest earnings on cash balances in the Equitable Sharing program revenue accounts and did not report it in the annual ESACF report.

Cause: The State did not have procedures in place to calculate and allocate interest earnings on the Equitable Sharing Program's cash balances.

Effect: Non-compliance with federal regulations. Interest income was not available for program operations.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATION

2017-047 Calculate interest income on the Equitable Sharing program's cash balance and record such interest earnings in the applicable federal program revenue accounts in the State accounting system (RIFANS). Report interest income in the *Equitable Sharing Agreement and Certification Form*, annually.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2017-048	***(material non-compliance/material weakness - repeat finding - 2016-037)***

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)
Compliance Requirement: Special Tests and Provisions

UNEMPLOYMENT INSURANCE 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.

Criteria: 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)).

Condition: We tested a random sample of 25 benefit overpayments during fiscal 2017 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:

- 15 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.

Cause: DLT management advised us that UI computer system programming changes to effect penalties were not implemented due to 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.

Effect: Noncompliance with federal and State law.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATION

2017-048 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 2017-049	***(significant deficiency - new finding)***

UNEMPLOYMENT INSURANCE – CFDA - 17.225
Federal Awarding Agency: US Department of Labor / ETA Division of Federal Assistance Award Years: Federal Fiscal Years 2014, 2015, 2016, and 2017
Federal Award Numbers: UI-28001-16-55-A-44, UI-29921-17-55-A-44, TA-25312-14-55-A-44, TA-26749-15-55-A-44 and TA-28075-16-55-A-44.
Administered by: Department of Labor and Training (DLT)
Compliance Requirement: Reporting

FEDERAL PERFORMANCE REPORTING – TRADE ACT PARTICIPANT REPORT

The Department of Labor and Training (DLT) 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.

Background: The quarterly Trade Act Participant Report (TAPR) details trade assistance provided to participants and their employment and wage information. The report is prepared from client data maintained within DLT's employment services computer system and wage information obtained from DLT's Wage Record computer system. All data is electronically populated in the TAPR report by a contractor that maintains the employment services computer system. DLT Workforce Development Service

Reporting Unit staff reviews the TAPR for reasonableness and obvious errors and submits the report electronically to the US Department of Labor.

Criteria: *Trade Act Participant Report (TAPR) (OMB No. 1205-0392)* TAPR - SWAs are required to submit quarterly reports on participant characteristics, services and benefits received, and outcomes achieved on a rolling four-quarter basis (TEGL No. 6-09). This requires DLT to report each participant's wages for the three quarters prior to participation and the four quarters after the exit quarter.

Condition: For a sample of 19 participants reported in the TAPR for the quarter ended March 31, 2017 and 20 participants reported in the TAPR for the quarter ended June 30, 2017, we compared the wages reported in the TAPR with the wages in the DLT wage record system to determine that actual participant wages were properly reported. We found that the wages for two participants were not reported for certain prior to participation quarters, i.e., three quarters (in 2012 and 2013) for one participant in the TAPR for the quarter ended March 31, 2017, and two quarters (in 2011) for one participant in the TAPR for the quarter ended June 30, 2017. We investigated further and determined that, both participant's wages for the prior to participation quarters had been previously reported in the TAPR for the quarter ended September 30, 2016 but were subsequently reported as $-0- in the TAPR for the quarters ended December 31, 2016, March 31, 2017 and June 30, 2017. We observed that wages reported for other participants were similarly affected. DLT did not submit corrected reports to the U.S Department of Labor.

Cause: DLT advised us that the wage request file for the TAPR Quarter Ended 12/31/2016 was submitted correctly to the vendor, however, the file produced by the vendor included wage requests for additional quarters outside of the appropriate timeframe. The Department is investigating the specific cause.

Effect: Incomplete reporting of required wage data.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATION

2017-049 Investigate the cause of the omitted wages and take corrective action to strengthen controls to ensure that participant wages are properly reported. Submit the corrected federal report(s) as necessary.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2017-050	***(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)

Compliance Requirement: Reporting

FEDERAL FINANCIAL REPORTING – UI FINANCIAL TRANSACTION SUMMARY (ETA 2112)

The Department of Labor and Training (DLT) reported June 30, 2017 Employment Security Clearing Account balance does not agree with the State accounting system (RIFANS) general ledger balance.

Background: The *UI Financial Transaction Summary (OMB No. 1205-0154)* is a monthly summary of transactions, which accounts for all funds received in, passed through, or paid out of the State unemployment fund (ET Handbook 401). It classifies transactions and reports a cumulative balance for the Clearing Account and the Benefit Payment Account which are the two state bank accounts for the UI program and the federal Unemployment Trust Fund account which is maintained by the US Treasury.

Criteria: The reported balance should agree with the State accounting system (RIFANS) general ledger balance.

Condition: The DLT reported June 30, 2017 Employment Security Clearing Account balance of $2,938,587 does not agree with the State accounting system (RIFANS) general ledger balance of ($222,483). The difference is $3,161,070 (report greater than RIFANS general ledger).

Cause: The reported balance comes from DLT's departmental records (ledger for the Employment Security Clearance account) which does not agree with the State accounting system (RIFANS) general ledger balance. DLT management advised us that the difference was initially detected many years ago. DLT attempted to identify the reason for the variance, but concluded that the cause could not be determined or when it initially occurred. DLT has reflected the variance as a permanent reconciling item affecting the cumulative balance in its department records. DLT believes the variance may have existed for approximately 20 years and that activity has been accurately reported during that period with the variance affecting only the cumulative reported balance. State accounting system balances have been consistently reconciled to bank activity.

Effect: The reported cumulative balances included on the ETA 2112 federal report are not aligned with the State accounting system (RIFANS) general ledger balance.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATION

2017-050 Adjust the ETA 2112 cumulative reported balance into agreement with the State accounting system (RIFANS) general ledger balance.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2017-051	***(material weakness – repeat finding – 2016-042)***

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER – CFDA 20.205 and 20.219
Federal Award Agency: US Federal Highway Administration (FHWA)
Award Years: Various
Federal Award Number: Various
Administered by: Rhode Island Department of Transportation (RIDOT)
Compliance Requirement: Special Tests and Provisions

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.

Background: 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.

Criteria: 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'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.

Condition: For fiscal 2017, we tested 184 materials tests related to 23 projects. 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, 22 of 184 material tests were not available at the construction sites. In many instances, obtaining the test results required follow-up; however, RIDOT ultimately was able to provide evidence for all 22 materials tests that were not available at the construction site.

Specialty items are non-standard items that require different tests than those included in the Master Schedule of Testing (MST). Of the 184 required tests, 124 relate to specialty items linked to standard tests. The Design 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.

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.

Cause: There appears to be a lack of 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.

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, in some instances, non-standard items (specialty items) are assigned testing requirements by staff creating the Project Materials Test Book. These staff members may not have the specific engineering training or experience to assign the appropriate materials test.

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 Design 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.

Effect: Controls over the quality assurance program are not adequate to ensure materials used in the construction of roads and bridges meet RIDOT's and FHWA standards.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATIONS

2017-051a Enforce existing policies designed to better link testing results to projects by establishing a uniform file naming convention for test results shared on the RIDOT network.

2017-051b Update the Procedures for Uniform Record Keeping (PURK) manual to include all current policies and procedures. Maintain and distribute the PURK manual electronically.

2017-051c Enhance coordination among the three sections of RIDOT that have shared responsibility for the overall operation of the Department's Quality Assurance Program.

2017-051d Implement a single department-wide information technology solution to ensure the Quality Assurance Testing is timely, reliable and available to the Resident Engineers responsible for projects and to enhance overall departmental efficiencies.

2017-051e 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 2017-052 ***(significant deficiency - repeat finding – 2016-043)***

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER – CFDA 20.205 and 20.219
Federal Award Agency: US Federal Highway Administration
Award Years: Various
Federal Award Number: STPBCSC002
Administered by: Rhode Island Department of Transportation (RIDOT)
Compliance Requirement: Special Tests and Provisions

UTILITY ACCOMMODATION REQUIREMENTS

Documentation of utility accommodation requirements for projects should be enhanced.

Background: RIDOT is required to develop policies and procedures pertaining to the use, accommodation and/or relocation of public and private utility facilities on highway rights-of way using federal-aid highway funds in accordance with 23 CFR section 645.

Criteria: Plans, Specifications and Estimate (PS&E) packages for 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));

Condition: Controls over documentation of Utility Accommodation requirements can be improved. We selected 25 projects requiring 31 Utility agreements for testing. In a number of instances, the Utilities Section within RIDOT was unable to initially provide the required documentation but the documentation was subsequently provided except that for five 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.

Cause: RIDOT's Utility Accommodations Policy was implemented in July 2016 and only applied to projects beginning after the implementation date. There are many projects that entered the pipeline prior to the policy implementation date causing some documents to be missing from the utility accommodations files.

Effect: The lack of required documentation increases the risk that the Department will not comply with limitations on the use of public highway right-of-way's or the use of public funds to relocate utility facilities to accommodate highway construction.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATION

2017-052 Improve Utility Accommodation file documentation to demonstrate compliance with federal requirements.

<u>Auditee views</u>: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2017-053	***(significant deficiency - repeat finding – 2016-044)***

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER – CFDA 20.205 and 20.219
Federal Award Agency: US Federal Highway Administration
Award Years: Various
Federal Award Number: None
Administered by: Rhode Island Department of Transportation (RIDOT)
Compliance Requirement: Special Tests and Provisions

<u>VALUE ENGINEERING</u>

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 improve compliance with federal requirements relating to value engineering analyses by establishing a control structure in accordance with 2 CFR 200.

Background: State transportation departments must perform a Value Engineering (VE) analysis on all applicable projects and incorporate all resulting, approved recommendations 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.

Criteria: Federal Regulation 23 CFR 627 requires RIDOT to have and implement a Value Engineering analysis policy. The federal regulation indicates many requirements to include:

- 627.5(f) VE analysis if delivered using CM/GC contracting method
- 627.9(d) For projects delivered using CM/GC contracting method, VE analysis is not required prior to the preparation and release of the RFP for the CM/GC contract.
- 627.9(e)(3)(vii) Report must include - VE report retention policy (3 years)
- 627.9(g) Use of qualified consultants and ensure no conflict of interest by State or LPA
- 627.9(i) Proposals to accelerate construction after the contract award will not be considered a VECP and will not be eligible for FHWA participation.

Condition: We noted that RIDOT's Value Engineering policy does not include 5 of the 31 requirements as outlined in 23 CFR 627, although we acknowledge that the policy was approved by FHWA in May 2016.

Cause: RIDOT’s drafting of its value engineering policy didn’t include all the required elements outlined in 23 CFR 627.

Effect: The Value engineering policy and related controls established by the Department are not sufficient to ensure the Value Engineering Program is in compliance with 23 CFR 627.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATION

2017-053 Enhance the Value Engineering analysis policies to include all requirements contained in 23 CFR 627 and maintain effective controls to ensure compliance with the Value Engineering analysis requirement contained in 23 CFR 627.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2017-054	***(significant deficiency –new finding)***

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER – CFDA 20.205 and 20.219
Federal Award Agency: US Federal Highway Administration
Award Years: Various
Federal Award Number: BRO0200007, NHP0578002
Administered by: Rhode Island Department of Transportation (RIDOT)
Compliance Requirement: Special Tests and Provisions

PROJECT EXTENSIONS

RIDOT can enhance its controls to ensure compliance with Title 23, U.S.C Section 106(c)(3).

Criteria: Title 23, U.S.C. Section 106(c) (3) requires FHWA and the State DOT to enter into an agreement relating to the extent to which the State DOT assumes project responsibilities. This Stewardship and Oversight Agreement (S&O Agreement), includes information on specific project approvals and related responsibilities, and provides the requirements for FHWA oversight of the FAHP (Federal-aid Highway Program), as required by 23 U.S.C. 106(g). Change orders for projects identified as FHWA oversight, per the Stewardship and Oversight Agreement must be approved by FHWA. The approval is documented by a signature of the appropriate FHWA local office personnel on the change order.

Condition: Two of the twenty-five construction projects tested ((1) 2012-CB-078 Providence Viaduct Southbound Bridge No. 578 and (2) 2012-CB-046 Washington #200 - Pedestrian Bridge & Warren Avenue Bridge) did not have the required FHWA approval for change orders prior to implementation and payment of the change order. In total RIDOT implemented and paid for $214,516 of changes to the projects without FHWA authorization.

Cause: Identification as to which projects have FHWA oversight is manual. Currently, RIDOT maintains a list of every project that indicates who has oversight (FHWA or RIDOT). RIDOT personnel must review the oversight list for each change order and then route the change order to the proper oversight personnel. Additionally, the oversight list is being updated on a monthly basis without the lists history being maintained.

Effect: In total, RIDOT implemented and paid for $214,516 of changes to the projects without FHWA authorization.

Questioned Costs: $214,516

Valid Statistical Sampling: No

RECOMMENDATION

2017-054 Ensure compliance with the Oversight Agreement and strengthen controls over obtained FHWA approval for all federal oversight projects.

Auditee views*: *The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2017-055	***(significant deficiency – repeat finding – 2016-046)***

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER – CFDA 20.205 and 20.219
Federal Award Agency: US Federal Highway Administration
Award Years: Various
Federal Award Number: Various
Administered by: Rhode Island Department of Transportation (RIDOT)
Compliance Requirement: Allowable Costs/Cost Principles

CALCULATION OF INDIRECT COSTS

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.

Background: Development of the indirect cost rate is negotiated and accepted by the federal grantor.

Criteria: 2 CFR 225 Appendix E – D. Submission and Documentation of Proposal – 2. Documentation of proposals details the documentation and other requirements supporting the indirect cost rate plan.

Condition: Our testing of the fiscal 2016 final indirect cost rate calculated during fiscal 2017 identified a number of errors in both the formula's used, percentages applied and amounts used to calculate the indirect cost rate, ultimately leading to RIDOT understating the indirect cost by $225,693 as follows:

- RIDOT applied the incorrect Departmental Indirect (DI) percentage to facility charges.
- The data processing charges used in the calculation of the ICR rate were understated by $10,000.
- RIDOT excluded the proportionate share of SWCAP, DoIT, HR and Purchasing expenditures from one class of employee and applied it to another class.
- The ICR rate should include 100% of the salaries identified as Capital Indirect (CI), the Department excluded one category of employees classified as CI by applying a rate of 0%.

Cause: Controls are not adequate to ensure the indirect cost rate is properly calculated including a secondary review of the formula's, percentages and amounts used in the calculation. The differences 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. 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.

Effect: Fiscal 2017 indirect costs were understated by $225,693.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATION

2017-055 Improve controls over the calculation of the Indirect Cost Rate.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2017-056 ***(significant deficiency – new finding)***

GRANTS TO STATES FOR CONSTRUCTION OF STATE HOME FACILITIES – CFDA 64.005
Federal Award Agency: Department of Veterans Affairs
Award Years: Federal Fiscal Years 2013 -2017
Federal Award Numbers: FAI 44-013
Administered by: Department of Human Services (DHS)
Compliance Requirement: Activities Allowed or Unallowed

DOCUMENTATION OF ALLOWABLE COSTS

DHS did not sufficiently document the specific project costs reimbursed through the federal grant. Controls should be enhanced to ensure adequate documentation is maintained to demonstrate that only eligible costs allowable for federal participation are charged to the program.

Background: Total Rhode Island Veterans Home project costs are being funded with both federal grants and bond proceeds. All expenditures for the construction of the Rhode Island Veterans Home are initially recorded in the State's Bond Capital Fund. Adjusting journal entries moved aggregate amounts of expenditures from the bond account to the federal account for CFDA 64.005. The federal grant award outlined the areas of project costs eligible for federal reimbursement.

Criteria: Costs reimbursed through federal grants must be sufficiently detailed to allow determination of compliance with federal program requirements and limitations. Specifically, OMB Standard Form (SF 424C - OMB Approval No. 0348-0041) – identified allowable costs (lines 1c – 16c, not to exceed the applicable federal sharing percentage), and costs on line 17 that were ineligible for federal reimbursement.

Condition: Staff did not support the journal entries with the detail of costs reimbursed when aggregate costs were moved to the account created for the federal share of project costs. Consequently, controls were insufficient to ensure and demonstrate compliance with the limitations of the grant award and to ensure that only costs allowable for federal participation as identified on the SF 424C were charged to the program. Our testing indicated that the amounts reimbursed during fiscal 2017 complied with the grant award limitations for project costs eligible for federal reimbursement.

Cause: Supporting documentation to identify the specific project costs reimbursed by the federal grant was not prepared at the time journal entries were processed to move costs to the federal account. This was necessary to demonstrate compliance with the limitations of the grant award which identified areas of project cost that were not eligible for federal reimbursement.

Effect: Costs were insufficiently documented to demonstrate compliance with the federal award limitations which increased potential for unallowed costs to be improperly charged to the grant award.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATION

2017-056 Support project costs allocated to the federal grant with adequate documentation delineating the specific costs reimbursed. Enhance controls to ensure adequate documentation is maintained to demonstrate that only eligible costs allowable for federal participation are charged to the program.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2017-057	***(significant deficiency – new finding)***

STUDENT FINANCIAL ASSISTANCE CLUSTER (SFA) - CFDA 84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.342, 93.364
Federal agency: U.S. Department of Education ("ED")
Award year: 2017
Administered by: University of Rhode Island
Compliance Requirement: Special Tests and Provisions

SFA CLUSTER – UNIVERSITY OF RHODE ISLAND - FEDERAL PELL GRANT PROGRAM (84.063) AND FEDERAL DIRECT STUDENT LOANS (84.268)

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 the U.S. Department of Education 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 sixty-one students with enrollment status changes, two students' effective dates were reported incorrectly to NSLDS.

Cause: The Enrollment Services department did not have effective policies and procedures in place for the manual entry of effective dates to NSLDS, which minimize the risk of human error for reporting.

Effect: Withdrawal dates were not reported correctly which may result in the students entering repayment status later than the required timeframe.

Questioned Costs: None

Perspective: Our sample was not, and was not intended to be, statistically valid. Of sixty-one students selected for testing, 2 students, or 3% of our sample, were determined to have a status change not reported timely to the NSLDS.

RECOMMENDATION

2017-057 We recommend that the Enrollment Services department review and update or implement policies and procedures for manual entries of effective dates for NSLDS reporting.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2017-058	***(significant deficiency – new finding)***

STUDENT FINANCIAL ASSISTANCE CLUSTER (SFA) - CFDA 84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.342, 93.364
Federal agency: U.S. Department of Education ("ED")
Award year: 2017
Administered by: Rhode Island College
Compliance Requirement: Special Tests and Provisions

SFA CLUSTER – RHODE ISLAND COLLEGE - FEDERAL PELL GRANT PROGRAM (84.063) AND FEDERAL DIRECT STUDENT LOANS (84.268)

Criteria: *According to 34 C.F.R. 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.

Also, 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. In a sample of forty students who either graduated, withdrew from the institution, or became enrolled on less than half-time basis, we noted the following:

- Three students that graduated were never reported to NSLDS.
- One student that graduated was not reported to NSLDS within the required time frame.

- The time frame to report the status change was 170 days, which was 110 days late.

Cause: Our procedures disclosed that, although the College 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 instances in which the College failed to correct enrollment files within an adequate time frame to ensure timely reporting.

Effect: Student enrollment status changes were not reported accurately and within the required time frame, which may result in the students entering repayment status later than the required time frame.

Questioned Costs: None

Perspective: Our sample was not, and was not intended to be, statistically valid. Of 40 students selected for testing, 4 students or 10% of our sample was determined to have either no status change reported to NSLDS or a status change not reported timely to NSLDS.

<u>RECOMMENDATION</u>

2017-058 We recommend that management strengthen their oversight of the NSLDS reporting to ensure that timely and accurate reporting of enrollment information is made to the NSLDS in order for them to be in compliance with the requirements. We also recommend that management establish and enforce specific administrative procedures, according to which students who unofficially withdraw from the College will be identified and subsequently reported to the NSLDS within prescribed time frames. We recommend that the College discuss the reason(s) for the delay in reporting from the NSC to NSLDS with the NSC audit resource team. Submitting additional roster files would also reduce the likelihood of this finding occurring in the future.

<u>Auditee views</u>: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2017-059 **_(significant deficiency – new finding)_**

STUDENT FINANCIAL ASSISTANCE CLUSTER (SFA) - CFDA 84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.342, 93.364
Federal agency: U.S. Department of Education ("ED")
Award year: 2017
Administered by: Rhode Island College
Compliance Requirement: Allowable Costs/Cost Principles

<u>SFA CLUSTER - RHODE ISLAND COLLEGE - FEDERAL DIRECT STUDENT LOANS (84.268)</u>

Criteria: The Higher Education Act of 1965, as amended Section 471 states that except as otherwise provided therein, the amount of need of any student for financial assistance under this title (except subparts 1 or 2 or part A) is equal to –

(1) the cost of attendance of such student, minus
(2) the expected family contribution for such student, minus
(3) estimated financial assistance not received under this title (as defined in section 480 (j)).

Condition: The Financial Aid Office is responsible for awarding student federal, state and institutional financial aid. The Federal Government requires the College to compare the students Cost of Attendance ("COA") with the students Estimated Family Contribution ("EFC") and Estimated Financial Assistance ("EFA"). EFA must include all grants and scholarships the College anticipates the student will receive regardless of the source. The total aid awarded to a student cannot exceed the students COA. Federal, state and institutional aid is awarded by the Financial Aid Office. Testing revealed that 1 student was over-awarded Title IV aid.

A student had a COA of $17,166, was awarded $5,815 of Pell, a Subsidized Direct Loan for $5,500, $6,500 of outside scholarships, and had an EFC of $-0-.

Cause: The student received an over-award of Title IV financial aid due to the unanticipated increase of an outside scholarship. Therefore, the student received aid that they were not entitled to receive.

Effect: Of the 40 students selected for testing, one student was over-awarded Title IV aid.

Questioned Costs: $649

Perspective: Our sample was not, and was not intended to be, statistically valid. Of 40 students selected for testing, one student or 2.5% of our sample was awarded financial aid in excess of the students' cost of attendance.

RECOMMENDATION

2017-059 The College should strengthen the review of packaging and disbursing aid to ensure that financial aid is not awarded in excess of the students' cost of attendance.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2017-060	***(significant deficiency – repeat finding – 2016-048***

STUDENT FINANCIAL ASSISTANCE CLUSTER (SFA) - CFDA 84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.342, 93.364
Federal agency: U.S. Department of Education ("ED")
Award year: 2017
Administered by: Community College of Rhode Island
Compliance Requirement: Special Tests and Provisions

SFA CLUSTER - COMMUNITY COLLEGE OF RHODE ISLAND - FEDERAL PELL GRANT PROGRAM (84.063) AND FEDERAL DIRECT STUDENT LOANS (84.268)

Criteria: *According to 34 C.F.R. Section 65.309(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:

- Enrolled at that school but has ceased to be enrolled on at least a half-time basis;
- 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

- 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, four students' 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.

Questioned Costs: N/A

Perspective: Our sample was not, and was not intended to be statistically valid. For 4 out of our sample of 40 students selected for testing, students who withdrew were not reported within the required timeframe. The time to report the students ranged from 77 days to 212 days from the date of determination that the students withdrew from the Community College.

RECOMMENDATION

2017-060 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 2017-061 *(significant deficiency – new finding)*

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Federal Award Agency: Department of Health and Human Services, Administration for Children and Families
Award Years: 2014, 2015, and 2016
Federal Award Numbers: 2014G992201, 2014G995623, 2015G992201, 2015G995623, 2016G992201, 2016G995623
Administered by: Department of Human Services (DHS)
Compliance Requirement: Cash Management

SUBRECIPIENT CASH MANAGEMENT

Payments made to subrecipients were not consistently supported by information reflecting subrecipient cash balances and the estimates of each agency's immediate cash needs.

Criteria: The pass-through entity must implement procedures to ensure that the time elapsing between the transfer of federal funds to the subrecipient and the disbursement of such funds for program purposes by the subrecipient was minimized (2 CFR section 200.305(b)(1)).

Condition: Subrecipients were not paid on a regular basis. The amounts paid did not always agree to the agency's request for funds. Cash balances reported by requesting agencies could not be verified and requests for program cash were not adequately supported by system reports detailing benefits awarded pending payment.

Cause: The control deficiency is, in part, attributable to staff turnover. Additionally, the Department has not formalized a process to provide for frequent and regular payments to program subrecipients which reflect their immediate cash needs.

Effect: DHS had insufficient controls in place to ensure subrecipient cash balances were limited to their immediate needs. Agencies may have had excess cash on hand.

Questioned Costs: Unknown

Valid Statistical Sampling: No

RECOMMENDATION

2017-061 Implement a frequent and regular payment schedule for all subrecipients which reflects reliable and documented estimates of immediate cash needs.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2017-062	***(material weakness – repeat finding – 2016-056)***

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Federal Award Agency: Department of Health and Human Services, Administration for Children and Families
Award Years: 2014, 2015, and 2016
Federal Award Numbers: 2014G992201, 2014G995623, 2015G992201, 2015G995623, 2016G992201, 2016G995623
Administered by: Department of Human Services (DHS)
Compliance Requirement: Period of Performance and Reporting

LIHEAP PERIOD OF PERFORMANCE AND FINANCIAL REPORTING REQUIREMENTS

DHS must improve controls to ensure compliance with the LIHEAP period of performance requirements and related federal reporting requirements.

Criteria: 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).

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.

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).

Condition: DHS did not meet the period of performance requirement for federal fiscal 2014 and 2015 grant awards (90% expended or obligated by September 30) based on guidance provided by the grantor regarding valid obligations (previously reported in the 2016 Single Audit Report). However, the SF-425 reports filed for federal fiscal years 2014 and 2015 as of September 30, 2016 included amounts of unliquidated obligations, which were not supported by the State's records. DHS could not demonstrate that the balance of the grant awards was obligated through contracts with the local community action agencies. The unobligated balance of federal funds was incorrectly stated on both SF-425 reports relating to LIHEAP 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 the unobligated balance reported on the SF-425.

During fiscal 2017, DHS charged $3,079,818 to accounts established for the federal fiscal year 2014 LIHEAP awards. The allowed period of performance for that LIHEAP award year had lapsed due to failure to expend or obligate as reported in the 2016 Single Audit; therefore these amounts are questioned. DHS had available award authority for more current federal award years to charge those expenditures.

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.

Cause: DHS has not implemented strategies to accelerate the expenditure of LIHEAP grant funds or obligate the funds consistent with federal requirements within the period of performance guidelines for the program. 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. Program reports have not accurately reflected the amount of obligated funds.

Effect: Due to the failure to meet period of performance for the fiscal 2014 and 2015 grant awards as previously reported, the Department of Human Services will likely need to relinquish award amounts totaling $4,976,606 from those award years. State fiscal year 2017 program expenditures totaling $3,079,818 are questioned because they were charged to accounts established for the federal fiscal year 2014 awards.

Questioned Costs: $3,079,818

Valid Statistical Sampling: No

RECOMMENDATIONS

2017-062a 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.

2017-062b Maintain documentation to support the calculations confirming compliance with period of performance requirements.

2017-062c Ensure that the Carryover and Reallotment Report is consistent with supporting documentation and strengthen controls over the report to ensure accurate detail is submitted.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2017-063 ***(significant deficiency – new finding)***

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Federal Award Agency: Department of Health and Human Services, Administration for Children and Families
Award Years: 2014, 2015, and 2016
Federal Award Numbers: 2014G992201, 2014G995623, 2015G992201, 2015G995623, 2016G992201, 2016G995623
Administered by: Department of Human Services (DHS)
Compliance Requirement: Federal Reporting

SPECIAL REPORTING – ANNUAL REPORT ON HOUSEHOLDS ASSISTED BY LIHEAP

Documentation available was insufficient to adequately support the number of families receiving LIHEAP benefits as included on the federal *Annual Report on Households Assisted by LIHEAP* report.

Criteria: *Annual Report on Households Assisted by LIHEAP (OMB No. 0970-0060)* - as part of the application for block grant funds each year, a report is required for the preceding fiscal year of (1) the number and income levels of the households assisted for each component and any type of LIHEAP assistance (heating, cooling, crisis, and weatherization); and (2) the number of households served that contained young children, elderly, or persons with disabilities, or any vulnerable household for each component.

Condition: DHS was unable to provide all documentation necessary to support the *Annual Report on Households Assisted by LIHEAP* filed as of September 30, 2016. Information on the report either did not agree to documentation or was inadequately supported. Certain of the information needed to complete the report is derived from the computer system (Hancock) used by the subrecipient agencies in administering the program. The DHS personnel with access to the system is very limited. Upon the departure of a key program staff person, remaining staff did not have access to the system (Hancock) used to record subrecipient activity and could not locate all of the records used by the report preparer. The report was submitted by the Program Administrator without other management review.

Cause: The reporting deficiencies are, in part, attributable to staff turnover and insufficient supervisory review of the report preparation. Other program staff did not have system access to retrieve information to support the reported amounts.

Effect: The report, detailing the number of families served through the LIHEAP program, may be inaccurate.

Questioned Costs: None

Valid Statistical Sampling: Not applicable

RECOMMENDATIONS

2017-063a Ensure that information reported on the Annual Report on Households Assisted by LIHEAP is adequately supported by accurate information from the systems used to administer the program. Implement management review prior to submission of reports, including support for all amounts reported.

2017-063b Cross-train program staff on the use of the Hancock system to enhance controls over program operation and ensure key data is retrievable.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2017-064	***(material noncompliance/material weakness – new finding)***

TANF CLUSTER - CFDA 93.558
Federal Award Agency: Department of Health and Human Services, Administration for Children and Families
Award Years: 2016-2017
Federal Award Numbers: G1702RITANF
Administered by: Department of Human Services (DHS)
Compliance Requirement: Eligibility

ELIGIBILITY – RIBRIDGES ELIGIBILITY SYSTEM

Due to the limited operation and effectiveness of controls over eligibility for the TANF program during fiscal 2017, the State did not comply with the TANF eligibility requirements, collectively.

Background: The State implemented RIBridges, a federally-approved computer system to manage multiple health care and human service programs utilizing an integrated eligibility platform. Eligibility for TANF was determined through RIBridges beginning in September 2016. The RIBridges implementation has been problematic and resulted in diminished functionality through fiscal 2017. RIBridges was designed to allow for integrated eligibility across programs, enhanced client accessibility, and provide for periodic validation of client attested data through multiple electronic interfaces.

Criteria: Federal regulation 45 CFR 260.20 requires that a family be needy in order to be eligible for TANF Cluster assistance and job preparation services. Federal regulation 45 CFR 205.60(a) requires (the state agency) to maintain records to support eligibility, including facts to support the client's need for assistance. The state's policies and procedures require that documentation used to verify eligibility be maintained in the case file."

Condition: Operational and control deficiencies resulting from the RIBridges system implementation resulted in material noncompliance with eligibility requirements for the TANF program.

Sufficient documentation to support eligibility in many cases tested was lacking in RIBridges during fiscal 2017. RIBridges lacks sufficient historical case data to evaluate past eligibility determinations, especially for client attested data and external resource panel results which only provide current data reported in the system.

Required redeterminations of eligibility were not performed during fiscal 2017.

Designed interfaces to validate self-attested client income were not implemented or operational during fiscal 2017 which compromised the effectiveness of and controls over the eligibility determination process. This is more fully described in *Finding 2017-068 - INCOME ELIGIBILITY AND VERIFICATION SYSTEM (IEVS)*

Scanning of client documents supporting data critical to the eligibility determination process was problematic during fiscal 2017. Documents were not scanned and indexed to the case record on a timely basis - many scanned documents still await indexing. Appending/indexing scanned documents to a case record in support of the eligibility determination process was critical since the planned electronic matching of client self-attested income to various external interfaces was nonoperational.

We tested a random sample of 60 TANF cases processed through RIBridges in fiscal 2017. Of the 60 cases, 54 cases included a benefit payment for the month selected for testing. Our universe also included denied applicants. We found the following:

- For 6 client cases, we could not validate the benefit amount due to insufficient RIBridges documentation available (e.g., inability to access certain RIBridges screens, information couldn't be found, or error messages within RIBridges).

- 19 cases did not have a signed application in the system. Policy requires an actual signature (scanned and indexed to the case record) or an electronic signature.

- 10 cases had earned income – the income was validated by client provided paystubs but not through electronic system interfaces (e.g., SWICA).

Cause: All RIBridges designed eligibility components were not fully functional in fiscal 2017 which compromised the effectiveness of the controls over the TANF eligibility determination process. Certain RIBridges system functionalities were insufficiently designed and not fully operational.

Effect: Ineffective controls over the eligibility process for TANF. Potential for payment of benefits to ineligible families and/or payment of incorrect benefit amounts.

Questioned Costs: Unknown

Valid Statistical Sampling: Yes

RECOMMENDATIONS

2017-064a Require the RIBridges system development vendor to address the system deficiencies which result in material noncompliance with federal regulations regarding TANF eligibility.

2017-064b Complete a plan to ensure all designed system controls over TANF eligibility are fully operational.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2017-065 ***(material noncompliance, material weakness – new finding)***

TANF CLUSTER - CFDA 93.558
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Year: 2016-2017
Federal Award Number: G1702RITANF
Administered by: Department of Human Services (DHS)
Compliance Requirement: Reporting

TANF – FEDERAL REPORTING

Implementation of the new RIBridges eligibility system affected the availability and reliability of data needed to prepare timely and accurate federal reports.

Criteria: ACF-196R, *TANF Financial Report (OMB No. 0970-0446)* – Each State files quarterly expenditure data on the State's use of federal TANF funds.

ACF-199, *TANF Data Report* (*OMB No. 0970-0338*) (*OMB No. 0970-0215*) (65 FR 8545, Appendix A, February 18, 2000). States are required to submit case data quarterly.

Condition: *TANF Financial Report* - the Department implemented a new cost allocation plan during the last quarter of fiscal 2016. The plan was developed by a consultant and is pending federal approval. Due to various factors, the cost allocation plan results were not fully utilized to distribute costs to various federally funded programs. The results were also not used when preparing the quarterly federal financial reports. Staff developed their own estimates for administrative and system development costs.

TANF Data Report - various issues with the implementation of RIBridges resulted in problems with the transmission of data to DHHS – Administration for Children and Families. The Department provided its initial transmission of data on time, but made additional revised transmissions as RIBridges system data improved. Revised data transmission files were in process for fiscal 2017 quarters at the time of our audit.

We compared case data randomly selected for eligibility testing to the most recent fiscal 2017 data transmission file made available to us. We found one case in our testing where a client had received benefits in January and February of 2017, but the transmitted file only contained data for the month of January.

Cause: Oversight of the newly implemented cost allocation plan was impacted by vacancies in key departmental financial positions and the challenges of implementing the new RIBridges system. RIBridges data reporting functionalities were deficient during fiscal 2017 which impacted the preparation of the data transmission files which constitute the ACF-199 TANF Data report.

Effect: Financial reports and data transmissions of case data may be inaccurate.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATIONS

2017-065a Prepare financial reports using information from the federally approved cost allocation plan.

2017-065b Continue efforts to improve the reliability of RIBridges data reporting to allow timely and accurate federal reporting of TANF case data.

***<u>Auditee views</u>*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2017-066 ***(material weakness – new finding)***

TANF CLUSTER - CFDA 93.558
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Year 2016-2017
Federal Award Number: G1702RITANF
Administered by: Department of Human Services (DHS)
Compliance Requirement: Special Tests and Provisions

<u>WORK VERIFICATION PLANS</u>

The RIBridges system did not prompt employment and career advisors to update/develop new work participation plans for clients upon the expiration of an existing plan.

Background: All work eligible parents who receive cash assistance must enter into and comply with an employment plan to prepare for and enter employment as soon as possible. The first activity for most parents will be a job search. Other employment, education, or training may be possible. Work activities include: employment, unpaid work experience or community service, job training and job search/job readiness. Failure to meet or comply with work requirements, as defined in each individual's employment plan, could result in financial penalty, reduction of cash benefits, or termination of program eligibility.

Criteria: The State agency must maintain adequate documentation, verification, and internal control procedures to ensure the accuracy of the data used in calculating work participation rates. In so doing, it must have in place procedures to (a) determine whether its work activities may count for participation rate purposes; (b) determine how to count and verify reported hours of work; (c) identify who is a work-eligible individual; and (d) control internal data transmission and accuracy.

Each State agency must comply with its HHS-approved Work Verification Plan in effect for the period that is audited. HHS may penalize the State by an amount not less than one percent and not more than five percent of the SFAG for violation of this provision (42 USC 601, 602, 607, and 609); 45 CFR sections 261.60, 261.61, 261.62, 261.63, 261.64, and 261.65).

Condition: We tested a sample of 24 clients who were work-eligible and assessed whether each had a work participation plan in place for the applicable test period. For the 24 cases tested, one client was working and 12 had work participation plans in place. The remaining 11 work eligible clients did not have work participation plans in place during the month selected because the period of the plan had lapsed. These clients were properly reported as not taking part in qualifying work activities, thus affecting the State's compliance rate.

Cause: The RIBridges system did not prompt the DHS employment and career advisors to contact the client to develop a new work participation plan. The Department's policy of supervisory review of a sample of cases was not adhered to due to the totality of other RIBridges implementation issues.

Effect: Potential federal sanctions/penalties for failure to meet the required work participation rate, and questioned costs due required, but unprocessed, reductions in cash benefits due to client noncompliance with the work verification plan.

Questioned Costs: Unknown

Valid Statistical Sampling: Yes

RECOMMENDATION

2017-066 Improve RIBridges functionality to prompt employment and career advisors when clients must update expiring work participation plans.

Auditee views*: *The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2017-067 ***(material noncompliance/material weakness – new finding)***

TANF CLUSTER - CFDA 93.558
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Year 2016-2017
Federal Award Number: G1702RITANF
Administered by: Department of Human Services (DHS)
Compliance Requirement: Special Tests and Provisions - IEVS

INCOME ELIGIBILITY AND VERIFICATION SYSTEM (IEVS)

The State did not comply with the Income Eligibility and Verification System requirements upon implementation of the new RIBridges integrated eligibility system in fiscal 2017.

Background: States are required to participate in the Income Eligibility and Verification System (IEVS) which requires coordinated data exchanges with other federally assisted benefit programs and use of income and benefit information when making eligibility determinations.

Criteria: Section 1137 of the Social Security Act as amended and 42 USC 1320b-7; 45 CFR section 205.55. State Wage Information Collection Agency (SWICA), Unemployment Compensation, Social Security Administration, U.S. Citizenship and Immigration Services information is required to be obtained and used to determine eligibility and the amount of TANF benefits

Condition: The required IEVS data interface functionalities were not operating from the time of RIBridges implementation in September 2016 and through the end of fiscal 2017 (June 30, 2017).

Cause: The RIBridges system implementation has been problematic and resulted in diminished functionality through fiscal 2017. The RIBridges IEVS data interface functionalities had not been deployed during fiscal 2017.

Effect: DHS did not comply with the TANF IEVS requirement and, as a result, controls over eligibility and TANF benefit amounts related to verification and validation of client attested income data was weakened.

Questioned Costs: Unknown

Valid Statistical Sampling: Not applicable

RECOMMENDATION

2017-067 Implement and ensure the continued operation of federally required data interfaces within the RIBridges eligibility system to meet the IEVS TANF program requirement.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2017-068	***(material non-compliance/material weakness – new finding)***

CCDF CLUSTER - CFDA 93.575 and 93.596
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Year 2016-2017
Federal Award Numbers: G1701RICCDF
Administered by: Department of Human Services (DHS)
Compliance Requirement: Eligibility and Allowable Costs/Cost Principles

CONTROLS OVER INCOME VALIDATION, DETERMINATION OF PARENT COST-SHARING AMOUNTS, AND CHILDCARE PROVIDER PAYMENTS

The RIBridges eligibility system lacked effective income validation controls during fiscal 2017 which impacted program eligibility determinations and the amount of required parent cost-sharing amounts. RIBridges was not consistently calculating correct cost-sharing amounts for both parents and providers, which required supplemental payments to childcare providers.

Background: The State implemented RIBridges, a federally-approved computer system to manage multiple health care and human service programs utilizing an integrated eligibility platform. Eligibility for CCDF was determined through RIBridges beginning in September 2016 The RIBridges system implementation has been problematic and resulted in diminished functionality through fiscal 2017. RIBridges was designed to allow for integrated eligibility across programs, enhanced client accessibility, and provide for periodic validation of client attested data through multiple electronic interfaces. RIBridges determines eligibility for a child care subsidy and the amount of parental co-pay based on family income. Payments to licensed child care providers are made through RIBridges.

Criteria: Lead agencies must have in place procedures for documenting and verifying eligibility in accordance with Federal requirements, as well as the specific eligibility requirements selected by each State in its approved Plan. A lead agency is the designated State, territorial or tribal entity to which the CCDF grant is awarded and that is accountable for administering the CCDF program.

Lead agencies shall establish a sliding fee scale, based on family size, income, and other appropriate factors, that provides for cost sharing by families that receive CCDF child care services (45 CFR section 98.42). Lead agencies may exempt families below the poverty line from making copayments and shall establish a payment rate schedule for child care providers caring for subsidized children (45 CFR section 98.43).

Condition: The RIBridges system lacked effective income validation controls to reliably and accurately determine program eligibility, calculate parent co-shares, if required, and determine payments to child care providers. Required redeterminations of eligibility were not consistently performed during fiscal 2017.

Some children were dropped from enrollment without prior notice. There were instances where parents and providers were provided different parent cost-sharing amounts which resulted in disputed payments requiring resolution and supplemental payments to the providers.

We randomly selected 60 CCDF cases for testing and found the following:

- Two cases required a parent co-pay amount when the co-pay should have been $-0- per the fee scale.
- One case with an incorrect determination of parent co-pay – the difference was $96 weekly resulting in an underpayment by the parent(s).
- One case with a provider overpayment - $40.43 weekly.
- One case determined to be ineligible for the childcare program but payments were made to the childcare provider in the amount of $161.71 weekly.
- Union dues were incorrectly withheld from certain provider payments when the provider was not participating in the union.

Sufficient documentation to support eligibility in most cases reviewed was lacking in RIBridges during fiscal 2017. RIBridges lacks sufficient historical case data to evaluate past eligibility determinations, especially for client attested data and external resource panel results which only provide current data reported in the system.

Designed interfaces to validate self-attested client income were not implemented or operational during fiscal 2017 which compromised the effectiveness of controls over the eligibility determination process.

Scanning of client documents supporting data critical to the eligibility determination process was problematic during fiscal 2017. Documents were not scanned and indexed to the case record on a timely basis - many scanned documents still await indexing. Appending/indexing scanned documents to a case record in support of the eligibility determination process was critical since the planned electronic matching of client self-attested income to various external interfaces was nonoperational.

Cause: All RIBridges designed eligibility components were not fully functional in fiscal 2017 which compromised the effectiveness of the controls over the CCDF eligibility determination process. Certain RIBridges system functionalities were insufficiently designed and not fully operational.

Problems during case conversion resulted in some children being disenrolled. RIBridges did not calculate cost-sharing amounts consistently and correctly for parents and providers.

Effect: Providers were both overpaid and underpaid in certain instances. Parent co-shares were incorrectly determined for some cases which also affected provider payments. Supplemental payments were required to correct the payment errors. Controls over the administration of the program were weakened.

Questioned Costs: Known questioned costs in our sample totaled $596.28 based on a bi-weekly payment cycle.

Valid Statistical Sampling: Yes

RECOMMENDATIONS

2017-068a Ensure RIBridges consistently and correctly calculates cost-sharing amounts for parents and providers.

2017-068b Complete a plan to ensure all designed system controls over CCDF eligibility, parent co-shares, and provider payments are fully operational.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2017-069	***(material non-compliance/material weakness – new finding)***

CCDF CLUSTER - CFDA 93.575 and 93.596
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2015-2016 and 2016-2017
Federal Award Numbers: G1601RICCDF, G1701RICCDF
Administered by: Department of Human Services (DHS)
Compliance Requirement: Reporting

FINANCIAL REPORTING

Financial reports were not filed during fiscal year 2017 for the CCDF Cluster Programs.

Criteria: The Administration for Children and Families' Program Instructions ACYF-PI-CC-04-02 require States to use the ACF-696 to report estimates and expenditures for the Child Care Mandatory Fund, the Matching Fund, and the Discretionary Fund. The report is to be filed each quarter.

Condition: DHS did not submit any required quarterly reports during state fiscal year 2017. Reports required were for the fourth quarter of federal fiscal year 2016, and any subsequent activity until the grant was fully expended, and for the first three quarters of federal fiscal year 2017.

Cause: DHS staff attributed the failure to prepare federal quarterly reports to the implementation of a new cost allocation system.

Effect: Noncompliance with reporting requirements.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATIONS

2017-069a Submit required federal reports for the CCDF program.

2017-069b Assess the availability and reliability of data required to meet program reporting requirements.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2017-070 ***(material non-compliance/material weakness - repeat finding – 2016-061)***

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2015-2016 and 2016-2017
Federal Award Numbers: 1605RI5021 and 1705RI0301
MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2015-2016 and 2016-2017
Federal Award Numbers: 05-1605RI5MAP and 05-1705RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)
Compliance Requirement: Eligibility

CONTROLS OVER MEDICAID AND CHIP ELIGIBILITY DETERMINATION – MATERIAL NONCOMPLIANCE

Due to the limited operation and effectiveness of controls over eligibility for the Medicaid and CHIP programs during fiscal 2017, the State did not comply with the Medicaid and CHIP program eligibility requirements, collectively.

Background: The State implemented RIBridges, a federally-approved computer system to manage multiple health care and human service programs utilizing an integrated eligibility platform. Eligibility for certain Medicaid and CHIP cases was determined through RIBridges in prior fiscal years (e.g., cases involving modified adjusted gross income (MAGI) requirements implemented by the Affordable Care Act); however, all categories of Medicaid and CHIP cases were processed through RIBridges beginning in September 2016 (fiscal 2017). The RIBridges system implementation has been problematic and resulted in diminished functionality through fiscal 2017. RIBridges was designed to allow for integrated eligibility across programs, enhanced client accessibility, and provide for periodic validation of client attested data through multiple electronic interfaces.

Criteria: Enhanced federal funding for new eligibility systems was approved on a basis that new systems would provide more efficient, economical, and effective administration of the State plan.

42 CFR 435.916 requires the periodic renewal of recipient Medicaid eligibility. The 12-month period mandated for MAGI-eligible recipients pertains to the majority of Medicaid and CHIP recipients in Rhode Island.

42 CFR 431.810 requires the State to conduct reviews for the MEQC pilot in accordance with the requirements specified in § 431.812 and other instructions established by CMS.

42 CFR 435.940 which covers income and eligibility verification requirements for Medicaid, requires State-administered public assistance programs to establish procedures for obtaining, using and verifying information relevant to determinations as to eligibility and the amount of assistance. Section 1902(a)(4) of the Act allows the Secretary to prescribe methods of administration found necessary for the proper and efficient operation of a State's Medicaid plan. This requirement mandates the maintenance of information, as enumerated in 42 CFR 435.960, to exchange for the purpose of enabling any agency or program referenced in § 435.945(b) to verify income, eligibility of, and the amount of assistance for its

applicants and recipients.

Condition: Operational and control deficiencies resulting from the RIBridges system implementation resulted in material noncompliance with eligibility requirements for the Medicaid and CHIP programs. Specifically:

- Redeterminations of eligibility are required annually -- eligibility redeterminations were suspended and were not performed during fiscal 2017.

- RIBridges was designed to include a Periodic Eligibility Verification (PEV) process where data from certain interfaces is compared periodically to case information – differences prompt requests for additional client information and require eligibility technician resolution. The PEV process was not routinely performed for all cases during fiscal 2017 – only subsets of cases were subjected to the PEV process on an intermittent basis.

- The MEQC Unit continues to experience challenges in obtaining the information needed to verify eligibility determinations made by RIBridges due to insufficient system documentation and insufficient system history. A significant volume of systemic issues identified by the MEQC process are pending RIBridges corrective action.

- Significant eligibility discrepancies exist between RIBridges and the State's claims payment system (MMIS) resulting in duplicate cases and capitation paid to managed care organizations, delays in terminating ineligible recipients, and MMIS cases without a corresponding RIBridges eligibility determination.

- Medicaid applicants seeking long-term care services and supports have been significantly delayed causing advances to providers serving clients with pending eligibility.

- Enrollment of newborns in RIBridges to initiate and document eligibility continues to be problematic resulting in amounts owed and advances to MCO's which are covering the child from birth.

We tested the eligibility of 167 recipient cases during fiscal 2017. Of 120 cases where claims were paid for individuals during fiscal 2017, 56% of the cases tested did not have documentation of timely redetermination in accordance with federal regulations. Of 47 cases where RIBridges made an eligibility determination during fiscal 2017, evidence of client data being verified by external resource interfaces was not documented in 72% of the cases reviewed. Sufficient documentation to support eligibility in most cases reviewed was lacking in RIBridges during fiscal 2017. RIBridges lacks sufficient historical case data to evaluate past eligibility determinations, especially for client attested data and external resource panel results which only provide current data reported in the system.

Cause: All RIBridges designed eligibility components were not fully functional in fiscal 2017 which compromised the effectiveness of the controls over the Medicaid and CHIP eligibility determination process. Certain RIBridges system functionalities were insufficiently designed and not fully operational (e.g., complex Medicaid and those applying for long-term care services and supports and the newborn enrollment process). Required eligibility determinations were not conducted in accordance with program regulations. MEQC reviews were delayed due to system limitations and required corrective actions are still pending.

Effect: Material noncompliance with federal requirements relating to recipient eligibility and ineffective controls over the determination of eligibility for Medicaid and CHIP.

Questioned Costs: Unknown

Valid Statistical Sampling: Yes

RECOMMENDATIONS

2017-070a Require the RIBridges system developer to address the system deficiencies which result in material noncompliance with federal regulations regarding Medicaid eligibility.

2017-070b Formalize and implement a plan to ensure all designed system controls over eligibility are fully operational.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2017-071	***(material weakness – repeat finding – 2016-062)***

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2015-2016 and 2016-2017
Federal Award Numbers: 1605RI5021 and 1705RI0301
MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2015-2016 and 2016-2017
Federal Award Numbers: 05-1605RI5MAP and 05-1705RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)
Compliance Requirement: Eligibility

MEDICAID ELIGIBILITY QUALITY CONTROL (MEQC) PROGRAM

The effectiveness of the MEQC program is diminished by the continued RIBridges functional limitations. The MEQC Unit continues to experience challenges in obtaining the information needed to verify eligibility determinations made by RIBridges. A significant volume of systemic issues identified by MEQC processes are currently pending corrective action in RIBridges.

Criteria: 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. 42 CFR 431.810 requires the State to conduct reviews for MEQC pilots in accordance with federal regulations and other instructions established by the Centers for Medicare and Medicaid Services (CMS). States have been required to develop MEQC pilot planning proposals, report their findings, and implement corrective action plans in accordance with federal regulations and CMS requirements.

MEQC works in conjunction with the federal Payment Error Rate Measurement (PERM) Program. In 2014, federal regulations required that State MEQC units perform a series of pilot projects in lieu of their normal performance monitoring samples to measure compliance with changes made by 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 (ACA). The pilot studies were scheduled to run between 2014 through 2016 but were extended into 2017.

The federal government intends to integrate pilot study findings into future PERM program requirements. The federal regulations pertaining to MEQC and the PERM program were substantially revised in July 2017 and include ongoing monitoring, pilot study, and PERM program requirements for State fiscal 2018 and later years.

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 State Medicaid agency must collect and verify all information necessary to determine the eligibility status of each individual included in the test samples. 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. Routine monitoring of active and negative cases was temporarily superseded by the pilot study program initiated in 2014. Routine monitoring will resume and pilot studies will continue in fiscal 2018 according to the recently revised regulations. EOHHS, the State Medicaid agency, has delegated the operation of the MEQC program to the Department of Human Services (DHS).

Condition: The MEQC unit had submitted four of the required five pilot projects by June 30, 2017. Pilots 2, 3, and 4 were submitted without corrective action plans. CMS has agreed to accept the corrective action plan filed with Pilot 5 for all previous pilots. EOHHS recently provided a listing of required corrective actions identified by MEQC pilots that detailed more than 100 systemic issues pending to be addressed in RIBridges.

The MEQC unit continues to experience serious challenges in obtaining the information necessary to validate eligibility determinations made by RIBridges because of ongoing major system functional deficiencies. The inability to access information from the system in a timely and efficient manner delays completion of CMS mandated reporting within the required time frames.

The 2019 PERM audit starting in July 2018 will require that eligibility information supporting claims paid in the past be available for inspection. RIBridges does not include an audit function. This significant system limitation makes it difficult or impossible for auditors to conclude on whether a recipient met program eligibility requirements at the time that service was provided. Retrospective evaluation of recipient eligibility can only be accomplished by the subcontractor using time-consuming manual procedures that are not accessible to auditors.

Cause: Many long-term and ongoing RIBridges functional deficiencies prohibit the MEQC unit from accessing the information needed to verify the eligibility determinations made by the system in a timely manner. The system does not provide an audit trail and poses significant obstacles to evaluating eligibility retrospectively. The MEQC unit must employ multiple work-arounds to meet its federal monitoring and reporting responsibilities.

Effect: UHIP/RIBridges' functional limitations prohibit timely monitoring and reporting by the MEQC unit within the required time frames. The upcoming PERM audit will be similarly impacted by these system limitations.

Questioned Costs: Unknown

Valid Statistical Sampling: Not Applicable

RECOMMENDATIONS

2017-071a Complete required corrective action plans to address issues identified in the MEQC sampling process.

2017-071b Utilize the RIBridges system deficiencies highlighted through the MEQC process to support and prioritize needed system fixes and enhancements. Enhance RIBridges functionalities to facilitate timely and effective MEQC testing.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2017-072	***(material weakness - repeat finding –2016-064)***

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2015-2016 and 2016-2017
Federal Award Numbers: 1605RI5021 and 1705RI0301
MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2015-2016 and 2016-2017
Federal Award Numbers: 05-1605RI5MAP and 05-1705RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)
Compliance Requirement: Eligibility and Allowable Costs/Cost Principles

NEWBORN ENROLLMENT DELAYS IN RIBRIDGES

Delays in the enrollment of Medicaid eligible newborns within RIBridges resulted in significant and related delays in provider claims adjudication and payments to managed care organizations (MCOs). EOHHS advanced $6.5 million to MCOs covering newborns at June 30, 2017 whose eligibility was still pending. The MCOs were due capitation of approximately $12.4 million at June 30, 2017 for coverage provided to newborns since birth - $6.5 million in advance payments were made for such amounts.

Background: The implementation of RIBridges has resulted in delays in newborns being enrolled in Medicaid and CHIP. RIBridges requires the applicant to initiate and enter changes in household composition such as the birth of a child. This has resulted in delayed capitation to MCO's which are covering the children of Medicaid-eligible mothers from birth and backlogs for other claims payments (neonatal services).

Criteria: Federal regulation 42 CFR 435.1002(b) indicates that federal funding is available only for services provided to eligible beneficiaries. Federal regulation 42 CFR 435.914 requires that case record documentation be maintained to support the eligibility decision. Medicaid payments should only be disbursed for recipients documented and determined eligible for the program by the State's eligibility system of record.

42 CFR 435.911 established maximum time standards for determining eligibility for Medicaid at 90 days for applicants applying for coverage on the basis of disability and 45 days for all other applicants.

Condition: EOHHS had advanced $6.5 million in capitation to MCOs covering newborns at June 30, 2017 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. The MCOs have been providing health coverage for newborns since birth and were due capitation of $5.9 million in addition to these advances at June 30, 2017 ($12.4 million of capitation likely owed less $6.5 million advanced). The newborn is likely Medicaid eligible through the mother's classification as Medicaid eligible. The issue has involved the timely addition of the newborn to the family unit within RIBridges and the subsequent effective transmission of eligibility to the MMIS.

This issue commenced in fiscal 2015 and now requires reconciliation of outstanding amounts to ensure that MCOs were not over-reimbursed for newborn capitation and that MCO contract settlements appropriately accounted for capitation and claims for newborns pending eligibility establishment. EOHHS should identify and implement the corrective actions needed to resolve the delays in the enrollment of newborns and discontinue MCO advances.

Cause: The RIBridges functionality for adding newborn family members is too complex and problematic from a system user and eligibility technician perspective. System challenges include establishing eligibility to commence with the date of birth to allow processing of claims for services provided from birth and subsequently.

Effect: MCO advances weaken program controls and require subsequent manual reconciliation once eligibility has been established. Such reconciliations are manually intensive and are complicated by the timing and impact on risk share/gain share settlements for managed care contracts. Advances have also been made to hospitals for neonatal intensive care services. Newborn eligibility is not effectively established within the federally required time interval.

Questioned Costs: Unknown

Valid Statistical Sampling: Not applicable

RECOMMENDATIONS

2017-072a Implement a long-term solution to streamline the functionality of enrolling Medicaid eligible newborns in RIBridges.

2017-072b Resolve the backlog of newborn enrollments and reconcile outstanding advances to the MCOs.

Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.***

Finding 2017-073 *(material weakness – new finding)*

MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2015-2016 and 2016-2017
Federal Award Numbers: 05-1605RI5MAP and 05-1705RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)
Compliance Requirement: Eligibility

NONCOMPLIANCE WITH TIMELY ELIGIBILITY DETERMINATION REQUIREMENTS

In many instances, particularly for Medicaid applicants requiring long-term care services and supports, the State is not complying with timely determination of Medicaid eligibility requirements. Processing Medicaid applications for long-term care services in RIBridges continues to be problematic resulting in significant delays in determining eligibility and necessitating advances to long-term care service providers.

Criteria: 42 CFR 435.911 established maximum time standards for determining eligibility for Medicaid at 90 days for applicants applying for coverage on the basis of disability and 45 days for all other applicants.

Condition: EOHHS has experienced significant challenges in processing Medicaid applications for individuals requiring long-term care services and supports since the RIBridges implementation. This resulted in a significant backlog of approximately 6,000 Medicaid applications as of June 30, 2017, which was an improvement from approximately 9,000 applications at December 31, 2016. Approximately 800 of the 6,000 applications related to MAGI Medicaid cases with the remainder relating to non-MAGI Medicaid with long-term care applicants being the majority.

Cause: Inadequate functionality within the RIBridges system to process Medicaid applications for individuals requiring long-term care services and supports.

Effect: Noncompliance with federal requirements relating to the timely determination of Medicaid eligibility.

Questioned Costs: Not applicable

Valid Statistical Sampling: Not applicable

RECOMMENDATION

2017-073 Improve RIBridges system functionality and performance to allow compliance with the timely determination of eligibility requirement particularly for applicants seeking long-term services and supports.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2017-074 ***(questioned costs only – new finding)***

MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2015-2016 and 2016-2017
Federal Award Numbers: 05-1605RI5MAP and 05-1705RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)
Compliance Requirement: Allowable Costs / Cost Principles

ADVANCES TO NURSING FACILITY PROVIDERS

EOHHS made advance payments totaling $12.5 million to nursing home providers between September 2016 and January 2017 due to delays in processing eligibility for nursing home patients with pending Medicaid eligibility. The advances made in this period were federally reimbursed (at

the applicable federal financial participation rate) but did not meet criteria for reimbursement. The advances to nursing facility providers remain outstanding.

Criteria: Section 200.403 of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards cites the lack of documentation as a factor affecting the allowability of costs. In Medicaid, payments to providers are required to be documented by claims for services provided to eligible Medicaid recipients.

Condition: EOHHS disbursed advance payments totaling $12.5 million (federal share - $6.4 million) to nursing home providers between September 2016 and January 2017 as cash flow assistance to providers negatively impacted by the State's inability to effectively process Medicaid eligibility for long-term care applicants through RIBridges.

Cause: Inability to process Medicaid applications for recipients of long-term care services due to problems experienced by the new eligibility system.

Effect: Questioned costs for undocumented payments to providers.

Questioned Costs: $6.4 million

Valid Statistical Sampling: Not applicable

RECOMMENDATION

2017-074 Recoup the advances to providers and credit the federal grantor for their portion of advances made.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2017-075 ***(material weakness - repeat finding – 2016-063)***

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2015-2016 and 2016-2017
Federal Award Numbers: 1605RI5021 and 1705RI0301
MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2015-2016 and 2016-2017
Federal Award Numbers: 05-1605RI5MAP and 05-1705RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)
Compliance Requirement: Eligibility

INCONSISTENCY OF ELIGIBILITY DATA BETWEEN RIBRIDGES AND MMIS

Data discrepancies exist between the systems used to determine Medicaid and CHIP eligibility (RIBridges) and the claims/capitation payment system (MMIS). As of June 30, 2017, the MMIS reported 16,000 recipients more than RIBridges. This impacts controls to ensure payments are only made on behalf of eligible individuals and has resulted in duplicate capitation payments being made to managed care organizations.

Background: Eligibility for certain Medicaid and CHIP cases was determined through RIBridges in prior fiscal years (e.g., cases involving modified adjusted gross income (MAGI) requirements implemented by the Affordable Care Act); however, all categories of Medicaid and CHIP cases were processed through RIBridges beginning in September 2016 (fiscal 2017). The RIBridges system implementation has been problematic and resulted in diminished functionality through fiscal 2017. RIBridges was designed to allow for integrated eligibility across programs, enhanced client accessibility, and provide for periodic validation of client attested data through multiple electronic interfaces.

Medicaid and CHIP eligibility is determined in the RIBridges system and transmitted daily to the MMIS system which pays capitation and claims for eligible individuals.

Criteria: Claims and capitation payments should only be made on behalf of individuals deemed Medicaid and CHIP eligible as evidenced by the RIBridges eligibility system.

Condition: Deficiencies associated with the new RIBridges system have resulted in eligibility data within the MMIS system being incorrect, outdated, and duplicated, significantly impacting the reliability of claims and capitation being paid only for individuals determined eligible for Medicaid Assistance in accordance with federal regulations. Eligibility record case discrepancies approximated 16,000 during the fiscal year based on tracking by EOHHS and their contractors. Potential duplicate records (unique Medicaid ID numbers) have been identified for approximately 6,200 individuals in the MMIS (based on an analysis of a file of approximately 425,000 unique Medicaid ID numbers with some period of eligibility during fiscal 2017) and the managed care organizations estimate they have received duplicate payments approximating $500,000 for 440 individuals (with multiple Medicaid ID numbers) during the fiscal year. Reported unique Medicaid ID numbers deemed eligible at June 30, 2017 totaled 326,646 for comparison purposes.

Progress in resolving data and case differences between the two systems has been slow. The State faces a significant reconciliation effort to synchronize these systems to an acceptable level to ensure that claims and capitation are paid for only eligible individuals.

Eligibility data variances between the two systems increased due to a variety of issues involving data conversion from the old INRHODES system to RIBridges, communication issues between RIBridges and the MMIS, and control deficiencies associated with the master client index that was designed to prevent duplicate records from being created for the same applicant.

Cause: Deficiencies associated with the new RIBridges system have resulted in eligibility data within the MMIS system being incorrect, outdated, and duplicated, significantly impacting the reliability of claims and capitation being paid only for individuals determined eligible for Medicaid Assistance in accordance with federal regulations.

Effect: Claims and capitation paid on behalf of individuals ineligible for Medicaid or duplicated in certain instances for eligible individuals where multiple cases have been established in the MMIS and/or RIBridges.

Questioned Costs: Unknown

Valid Statistical Sampling: Not applicable

RECOMMENDATIONS

2017-075a Identify and resolve the underlying causes of eligibility data discrepancies between the MMIS and RIBridges systems.

2017-075b 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 2017-076	***(material weakness - repeat finding – 2016-066)***

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2015-2016 and 2016-2017
Federal Award Numbers: 1605RI5021 and 1705RI0301
MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2015-2016 and 2016-2017
Federal Award Numbers: 05-1605RI5MAP and 05-1705RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)
Compliance Requirement: Activities Allowed/Unallowed and Allowable Costs / Cost Principles

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 63% of Medicaid benefit expenditures. 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.

Background: During fiscal 2017, the State paid approximately $1.6 billion in capitation payments to participating MCOs covering 287,241 Medicaid eligible individuals (as of June 2017) (approximately 90% of total Medicaid enrollees). These capitation payments related to the following managed care programs within the State's Medicaid program:

Program Name	Enrollment (June 2017)	Expenditures (in millions)
Rite Care (Core, CSHCN, Foster Care)	170,261	$601
Rhody Health Partners (certain adults with disabilities)	14,806	$224
Rhody Health Options (long-term care population)	24,295	$346
Medicaid Expansion (newly eligible due to ACA implementation)	77,879	$438
Total	**287,241**	**$1,609**

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.

Recognizing the significance of managed care services within the Medicaid program and the need to strengthen fiscal integrity and accountability controls over these services, the Center for Medicare & Medicaid services recently overhauled managed care regulations for the first time in more than a decade. The revised regulations are designed to strengthen fiscal transparency and integrity of managed care services provided in the Medicaid and CHIP programs.

Since managed care services provided within the RI Medicaid and CHIP programs involve complex rate setting and contract settlement provisions, the reliability and completeness of the mandated data provided by managed care organizations to the State is vital to fiscal integrity and accountability controls.

Criteria: 42 CFR 438.6, titled *Contract Requirements*, section (g) requires States to perform inspection and audit of financial records. Risk contracts must provide that the State agency and the Department may inspect and audit any financial records of the entity or its subcontractors.

42 CFR 438.604, titled *Data that must be certified*, section (a) requires that when State payments to an MCO or PIHP are based on data submitted by the MCO, the State must require certification of the data as provided in § 438.606. The data that must be certified include, but are not limited to, enrollment information, encounter data, and other information required by the State and contained in contracts, proposals, and related documents.

42 CFR 438.242, titled *Health information systems*, section (a) requires that States must ensure, through its contracts, that each MCO maintains a health information system that collects, analyzes, integrates, and reports data and can achieve the objectives of this subpart. The system must provide information on areas including, but not limited to, utilization, grievances and appeals, and disenrollments for other than loss of Medicaid eligibility. (b) Basic elements of a health information system. The State must require, at a minimum, that each MCO comply with the following: (1) Collect data on enrollee and provider characteristics as specified by the State, and on services furnished to enrollees through an encounter data system or other methods as may be specified by the State. (2) Ensure that data received from providers is accurate and complete by— (i) Verifying the accuracy and timeliness of reported data; (ii) Screening the data for completeness, logic, and consistency; and (iii) Collecting service information in standardized formats to the extent feasible and appropriate. (3) Make all collected data available to the State and upon request to CMS, as required in this subpart.

Condition: 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. In addition, problems experienced by RIBridges have resulted in significant challenges within managed care to ensure that recipients of long-term care services and supports get properly coded and disbursed at the correct capitation levels.

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. MCO contract settlements for fiscal 2016 (which included a claim runout period through June 30, 2017) were outstanding as of the completion of our audit eight months after the runout date. Delays in contract settlements further diminish the effectiveness of this important control process over hundreds of millions in managed care expenditures.

The State needs to formally identify and 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 amount of contract activity. Since the MCO contract settlement process is performed solely by a contractor, EOHHS staff need to provide more oversight.

Cause: Inadequate controls over the fiscal monitoring and contract settlement for its managed care organizations (MCOs). The State does not receive complete and accurate encounter data to fully support contract settlement (based on established risk corridors) to ensure adequate control over managed care expenditures. In addition, EOHHS relies too heavily on its managed care contractor for oversight of managed care expenditures without sufficient monitoring procedures to ensure sufficient control over this material class of expenditures.

Effect: Inaccurate reimbursements to MCO's for contract services provided to Medicaid enrollees.

Questioned Costs: Unknown

Valid Statistical Sampling: Not applicable

RECOMMENDATIONS

2017-076a Develop a comprehensive risk assessment and monitoring plan to ensure that managed care expenditures are validated and settled each contract period.

2017-076b 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.

2017-076c 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 2017-077 ***(significant deficiency – repeat finding – 2016-069)***

MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2015-2016 and 2016-2017
Federal Award Numbers: 05-1605RI5MAP and 05-1705RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)
Compliance Requirement: Special Tests and Provisions

CONTROLS OVER INPATIENT HOSPITAL AND LONG-TERM CARE FACILITY RATE SETTING

The State has not fully complied with federal requirements and State plan provisions relating to annual review of rate components stipulated in the State Plan and provider audit requirements outlined within the CMS-approved methodologies.

Background: *Inpatient Reimbursement* - EOHHS reimburses hospitals using a Diagnosis Related Groups (DRG) methodology. This 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: changes 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."

Nursing Facility Reimbursement - EOHHS reimburses long-term care providers using a full Resource Utilization Groups ("RUG") system. 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 the 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.

The CMS-approved RUG methodology requires that 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. The State Plan amendment also requires audits of the financial and statistical records of each participating provider.

Criteria: 42 CFR section 447.250 requires that the State Plan provide for payment of hospital and long-term care facility services through 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, regulations, and quality and safety standards. 42 CFR section 447.253(g) requires that the Medicaid agency "must provide for periodic audits of the financial and statistical records of participating providers."

Condition: *Inpatient Reimbursement* - Although EOHHS has made annual adjustments to the base DRG rate for inflation and State budget factors and has updated the DRG software for new releases, it has not conducted the annual comprehensive reviews required by the State plan. In addition, provider coding has a material impact upon the payments made under the DRG methodology and EOHHS does not have controls in place to ensure that hospital providers are coding hospital claims in compliance with federal requirements.

Nursing Facility Reimbursement - EOHHS suspended provider desk and field audits in 2010. The agency has not complied with the triennial rate review required by CMS in its approval of the RUG methodology. EOHHS has also not complied with the periodic audit requirements of the financial records of providers as required by the CMS-approved State Plan.

Cause: EOHHS has implemented alternative but less comprehensive procedures to adjust inpatient and long-term care rates than those mandated in the approved State Plan.

Effect: Rates paid to both inpatient and long-term care providers may not comply with federal and State Plan requirements.

Questioned Costs: Unknown

Valid Statistical Sampling: Not applicable

RECOMMENDATIONS

2017-077a EOHHS should either comply with the federal and State plan rate review and periodic audit requirements for both inpatient and long-term care providers or amend the State Plan with CMS approval.

2017-077b Controls should be implemented to detect provider "upcoding" due to the potential material impact upon inpatient payments.

***Auditee views:* The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2017-078	***(significant deficiency – repeat finding – 2016-073)***

MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2015-2016 and 2016-2017
Federal Award Numbers: 05-1605RI5MAP and 05-1705RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)
Compliance Requirement: Federal Reporting

FEDERAL REPORTING

Controls should be improved over the quarterly reporting of Medicaid administrative expenditures by reconciling reported administrative expenditures to the State's accounting system.

Criteria: Federal regulations require that expenditures for the Medical Assistance Program (Medicaid) be accurately reported on Form CMS-64. The State's RIFANS accounting system is the official record of federal expenditures thus federal reporting should be based on and reconciled to RIFANS as a control over federal reporting. Currently, timing differences relating to cost allocation procedures and required adjustments to RIFANS cause differences between what is reported on federal reports and the State's accounting system. Such differences should be reconciled by EOHHS as a control over federal reporting.

Condition: RIFANS, the State's accounting system, is the official record of federal expenditures thus federal reporting should be reconciled with RIFANS as a control over federal reporting. Currently, timing differences relating to cost allocation procedures and required adjustments to RIFANS cause differences between what is reported on federal reports and the State's accounting system. Such differences should be reconciled by EOHHS as a control over federal reporting.

Cause: Failure to reconcile administrative expenditures reported on federal reports with Medicaid administrative accounts in RIFANS.

Effect: Potential for inaccurate federal reporting of administrative expenditures.

Questioned Costs: None

Valid Statistical Sampling: Not applicable

RECOMMENDATIONS

2017-078a Reconcile administrative expenditures reported on federal reports with Medicaid administrative accounts in RIFANS.

2017-078b Modify processes as needed to minimize reconciling items between federal reporting and RIFANS.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2017-079	***(significant deficiency – new finding)***

MEDICAID CLUSTER – CFDA 93.775, 93.777and 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2015-2016 and 2016-2017
Federal Award Numbers: 05-1605RI5MAP and 05-1705RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)
Compliance Requirement: Special Tests and Provisions

SURVEILLANCE UTILIZATION REVIEW ACTIVITIES

EOHHS needs to reassess all activities considered surveillance utilization review services (SURS) performed within the Medicaid program to comply with federal regulations and amend the State Plan to accurately reflect the State's current practices.

Criteria: 42 CFR section 456 requires State Medicaid agencies to implement a statewide surveillance and utilization control program that (a) safeguards against unnecessary or inappropriate use of Medicaid services and against excess payments; (b) assesses the quality of those services; (c) provides for the control of the utilization of all services provided under the plan in accordance with subpart B of this part; and (d) provides for the control of the utilization of inpatient services in accordance with certain specific requirements outlined in the section of the federal regulations.

Condition: The State currently conducts a variety of procedures relating to SURS and related program integrity activities. The State, however, does not have comprehensive documentation of how these various activities collectively meet the federal requirements relating to SURS. In addition, the State's procedures have changed over the years without amending the State plan to specifically align with the State's current practices. Changes in regulations over the years have allotted states greater flexibility in designing their SURS procedures and best practices have been documented by a variety of States and CMS. In addition, program changes such as the significant shifting of Medicaid claiming to managed care organizations, require that State's reevaluate their processes to ensure that SURS controls are in place over all significant Medicaid claiming components.

The State's current SURS practices include a more comprehensive mix of procedures (manual and systemic), both before and after claim payment, that need to be formally documented by the State as evidence of compliance with federal regulations.

Cause: EOHHS has not recently reassessed and documented how various activities collectively meet the federal requirements relating to SURS. The Medicaid State plan has not been amended to accurately reflect the State's current practices relating to SURS.

Effect: Potential federal noncompliance with federal regulations relating to SURS. Failure to identify significant claiming areas where surveillance utilization control review services are not operating effectively.

Questioned Costs: Not applicable

Valid Statistical Sampling: Not applicable

RECOMMENDATION

2017-079 Reassess and formally document the State's comprehensive activities designed to materially comply with federal requirements relating to SURS. Amend the Medicaid State plan to accurately reflect the State's current practices relating to SURS.

***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 2017-001 - corrective action plan

DoIT has been hiring into key roles that will help execute an enterprise strategy. March of 2018 saw DoIT hire new Chief of Vendor Management, Chief of Enterprise Architecture, and Chief of IT Applications. These new additions will help drive the comprehensive strategic plan which will be a living document that prioritizes resources and efforts. An outside vendor will also be brought in by the end of Q2 2018 to provide expertise and direction. The applications that are used across state government including systems like RIFANS, Payroll, HR will be at the center of the strategic planning efforts.

Anticipated Completion Date: June 30, 2018

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Finding 2017-002 - corrective action plan

2017-002a – EOHHS has delineated responsibilities handled by contractors, as outlined below, and now provides State oversight via a Deputy Medicaid Program Director, Finance. Managed care year-end journal entries, including all supporting documentation, are provided by a contractor's finance staff to EOHHS' accounting staff annually. These year-end journal entries include financial data that has been received and reconciled with the MCOs, and include accruals for outstanding risk/gain share contracts, SOBRA payments, Stop Loss and FQHC payments, drug rebates, FFS managed-care claim payments, and provider incentives due to the MCOs. These accruals are submitted to EOHHS' accounting staff and reviewed for reasonableness with the State's auditors shortly after submission.

Throughout the fiscal year, EOHHS' contractors monitor payments to the Health Plans and the Health Plan's monthly financial reporting. This is done on an ad-hoc basis so that the contractor can maintain an estimate of EOHHS' current liabilities inclusive of any outstanding accruals. Examples of accruals and/or adjustments that EOHHS' financial contractors monitor include: anticipated adjustments to capitated payments for changes in rates and/or enrollments not yet reflected in MMIS; manual payments for non-capitated services (e.g. performance goal program or incentive payments) or providers (e.g. changes to FQHC wrap payments); changes to prior-period risk share estimates reflected in year-end accruals; and/or year-to-date risk share liabilities, among other potential adjustments.

This accounting is reviewed with EOHHS finance staff for purposes of the November and May Caseload Estimating Conferences and EOHHS' calculation of year-end accruals.

With respect to the various risk share arrangements, the following documents the current control processes in place for purposes of reconciling final payments:

The risk share provisions in the MCO contracts are designed to minimize the financial risks associated with the Medicaid managed care contracts. Each month, the health plans submit to EOHHS cumulative risk/gain share statements for the open contract periods up until the contract run-out period occurs. These financial statements are recorded by EOHHS' contractors and reconciled with the MCOs' Finance team monthly and annually.

There are generally three fiscal years' worth of contracts open at any time (current SFY, prior SFY awaiting the allowed run-out, and SFY currently being reconciled), and with five or six products per contract and two to three health plans per product, the number of discrete liabilities being routinely monitored is significant. Further, each product may have multiple risk share programs.

The risk share contract run-out period occurs 12 months after the contract end date. Final risk/gain share settlements are based on claims paid experience only. No allowance is provided for incurred but not reported (IBNR) claims. For example, if the contract period is July 1, 2015 – June 30, 2016, the contract remains open for 12 months for claims run-out, or until June 30, 2017. At the end of the 12-month claims run-out period, the contracts call for a final risk/gain share contract settlement statement with the MCO. Notwithstanding previous reviews and/or interim payments, the risk share reports received from the health plans at the end of the run-out period undergo a thorough systematic review and analysis to determine the final settlement amounts.

To ensure the accuracy of these statements, EOHHS' contractors compare the total member months, the medical premiums paid to the MCOs, and the actual medical expenses, as reported in the risk/gain share statements, to the derived member months, medical premiums, and medical expenses provided from EOHHS' MMIS system. If required, EOHHS may request the health plan to submit a claims file that supports the claims dollar payments that appear on their risk/gain share statements. The difference after any reconciliation must be within one percent of each other.

Once the health plan's final risk/gain share contract settlement statement is deemed to be accurate, the risk/gain share final contract settlement is presented to EOHHS senior management for final review and approval prior to final monetary settlement with the MCOs.

An important component of this reconciliation is the complete and accurate claims data reported by the MCOs in MMIS. EOHHS has recently implemented a process to improve the delivery of encounter data from the MCOs to the MMIS System. A dedicated team from EOHHS, DXC, and the MCOs meets weekly to work through rejected encounter data and to upgrade the MMIS System to ensure encounter claims are accepted into the System. MCO Contract Amendments now require that 98 percent of encounter claims must be accepted into MMIS within 75 days of the date the claim was paid. If an MCO is not compliant, the MCO may be placed on a corrective action plan or be subject to a financial penalty.

2017-002b – Approximately 90 percent of all members eligible for Rhode Island Medicaid are enrolled in a managed care plan responsible for the delivery and payment of all eligible medical services. In total, over $1.6 billion in capitation is paid to the managed care plans.

Given the magnitude of these expenditures, EOHHS has sought to improve its financial oversight of these Health Plans who remain outside of EOHHS' direct financial systems and controls. EOHHS finance staff and its contractors recently reviewed all the financial controls governing the claims processing and financial accounting system of the State's major managed care plan partners—Unitedhealthcare Community Plan of New England, Neighborhood Health Plan of Rhode Island, and Tufts Health Plan.

The Health Plans' controls included the following:

a. Annual Audited Financial Statements, including Opinions, from external auditors;
b. Annual Actuarial Opinions from external auditors;
c. NAIC and DBR Statutory Filings, including Risk-Based Capital Reports;
d. Model Audit Rule compliance;
e. Monthly and Annual Financial Result Reviews with Senior Management, including General Ledger Account Reconciliations;
f. Comprehensive Financial Account Analyses;
g. Various Internal and External Systems Controls including Claims Processing, Accounts Payable, and General Ledger Systems;
    a. UnitedHealthcare and Tufts Health Plan conduct SOC-type Audits;
    b. UnitedHealthcare reported its compliance with the Sarbanes-Oxley Act;

h. Neighborhood Health Plan of RI has received an extension from the DBR to be fully compliant with the Model Audit Rule by June 30, 2018. The MCO has retained an outside firm to finalize the company's overall risk assessment, including implementation and expects to hire additional staff to ensure on-going MAR compliance.

To further ensure the integrity of the Health Plan's controls and financial reporting, EOHHS' contracts require that the Health Plan's external auditors, in their Annual Report of Independent Auditors, specifically address their review and testing of the health plans' risk/gain share financial statements and the health plans' various receivables and/or payables to/from EOHHS, as of December 31 of each year.

EOHHS also requires that all financial statements provided to EOHHS be accompanied by an attestation document, signed by an officer or senior administrator of the MCO, attesting to the accuracy and completeness of the financial statements. The reports are used to estimate EOHHS's outstanding liabilities to the Health Plans for purposes of caseload estimating conference and year-end accruals.

The above controls and reporting requirements adhered to by the Health Plans give EOHHS significant confidence in the financial reporting by the Health Plans.

Anticipated Completion Date: February 2018

Contact Person(s): Katie Alijewicz, Deputy Medicaid Program Director, Finance
Executive Office of Health and Human Services
Phone: 401.462.0136

Finding 2017-003 - corrective action plan

We do not completely agree with the recommendation because states are not required to adopt the COSO framework and the "Green Book" is only required for federal agencies. The respective CFO's and agency directors are responsible for the design of the internal control systems for their agencies. Due to recent key financial staff turnover, the Office of Internal Audit in cooperation with the Office of Accounts and Control will repeat trainings to communicate best practices to agency CFO's to assist agencies in fulfilling their responsibility to document internal control policies and implement procedures to strengthen controls.

The Office of Internal Audit is preparing to implement a continuous and automated data analytics program which will monitor certain key risks in various areas of State government operations. This program will determine whether control activities designed to mitigate those key risks are functioning as intended. The OIA will notify the applicable process owners when control deficiencies are noted so corrective action can be taken. This process will be refined as it matures.

Anticipated Completion Date: September 2019

Contact Person(s): Jennifer Pate, Administrator, Financial Management
DOA, Office of Accounts and Control
Phone: 401.222.5098

Finding 2017-004 - corrective action plan

As noted by the Auditor, this is a repeat finding from prior fiscal year audits. 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 certain transactions.

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 to ensure the timely recording of transactions generated by subsidiary accounting systems within other state agencies.

Management believes that adequate restrictions and segregation of access levels have been established over the financial and banking systems accessed by Treasury staff. Below are examples of our current process for recording journals into our financial system:

Requesting Journal entries: Performed by an individual with no access to recording or approving journals and no banking processing privileges.

Recording Journal entries into RIFANS (Financial system): Performed by an individual with no access to approving journals and no banking processing privileges.

Approving Journal entries: performed by an individual with no access to recording journal entries or banking processing privileges.

Based on the current configuration of financial system and banking access, there is no risk that would result in unauthorized transactions or misstatement due to fraud or error by one single individual. Furthermore, the risk of fraud is negligible since all movement of funds at issue in the finding relate to internal bank transfers between State owned bank accounts or to the funding of controlled disbursement accounts for which the underlying payables were authorized through a separate, agency-controlled approval structure.

In 2016, to further enhance segregation of duties, Treasury Management contracted a public accounting firm to analyze current policies and practices and recommend necessary changes. The recommendations developed by the firm were finalized in February 2017 and management has implemented the recommendations.

In addition to changes related to work roles and responsibilities, Management requested configuration changes in the RIFANS system to provide additional control over certain journal entries. As of July 2017, new journal categories for the following entries were created and are being used accordingly:

- o Non-sufficient funds
- o Account reconciliation
- o Replacement checks

These categories are also configured with approval thresholds so that transactions are approved by two distinct individuals in Treasury and, when material, by a third individual in Accounts and Control. New transactions categories will be created for Medicaid and Tax Returns funding transactions.

While we are confident that adequate controls and segregation of duties are in place, we are committed to continuous process improvement, and will continue to examine ways to further enhance controls where appropriate.

Anticipated Completion Date: July 2018

Contact Person(s): Jexsy Armstrong, Chief Fiscal Manager
Office of General Treasurer
Phone: 401.462.7668

Finding 2017-005 - corrective action plan

2017-005a – Shortly after FY18 started, DOIT and Accounts and Control enhanced the monthly reporting for the critical data. These reports are now reviewed monthly by Accounts and Control.

2017-005b – DOIT will add additional data fields to be monitored by Accounts and Control. These data fields include delegated authority changes. Accounts and Control will take samples of the data from the monthly report to ensure users are properly using delegated authority. The policies will also be reinforced by Accounts and Control.

Anticipated Completion Date: 2017-005a – Completed
2017-005b – April 2018

Contact Person(s): Alan Dias, Assistant Director, Information Management Systems
DOA, Division of Information Technology
Phone: 401.222.6091

Finding 2017-006 - corrective action plan

This response is related to finding 2017-001 (Financial and Administrative Computer Systems) since we will incorporate consideration of controls over Accounts Receivable into a comprehensive strategic plan for all administrative systems.

Anticipated Completion Date: December 2018

Contact Person: Peter Hodosh, Assistant Director for Special Projects
DOA, Office of Accounts and Control
Phone: 401.222.6404

Finding 2017-007 - corrective action plan

2017-007a – The current procedures for preparing budgetary comparison schedules will be reviewed and consideration will be given to utilizing a feed from the budget software to complete the schedules.

Anticipated Completion Date: February 2021

Contact Person: Peter Keenan, State Controller
DOA, Office of Accounts and Control
Phone: 401.222.6408

2017-007b – The State Budget Office is willing to work with the State Controller and Auditor General to provide reports that address the concerns about fund information in the annual appropriations act. Changing the format of the actual appropriations act would also require the approval of the House and Senate Fiscal Advisors and Finance Committee Chairs. A discussion with these individuals could be scheduled once a template for a new format was developed.

Anticipated Completion Date: July 2018

Contact Person: Thomas A. Mullaney, State Budget Officer
DOA, Office of Management and Budget
Phone: 401.222.6300

Finding 2017-008 - corrective action plan

2017-008a – EOHHS will review all manual payments and identify those which occur with enough regularity and predictability to be processed through the scheduled MMIS cycles or the State's accounting system, whichever is more appropriate given the nature of the payment in question, without the use of an FACN. Based on this review, where appropriate, EOHHS will reduce the frequency and the dollar amounts of the system payouts and manual payments. For example, the Upper Payment Limit quarterly payments and the monthly RI Quality Institute payment could be processed through the State's accounting system as batch payments. In addition, it is anticipated that soon the interim payments to nursing homes and assisted living facilities will stop and payments will revert to being processed through the regularly-scheduled MMIS cycles. Also, when using FACN's to authorize payments, EOHHS will now reference the assigned FACN number in the description field when journalizing FACN transactions for easier tracking.

2017-008b – The fiscal agent will develop and submit a monthly report recapping all finance-related Fiscal Agent Control Number (FACNs) approved by EOHHS Finance, delineating between system and off-cycle manual payments. EOHHS Finance will also maintain a monthly log of all FACNs it approves, capturing all pertinent data, and will reconcile such log with the Fiscal Agent's monthly report. Any discrepancy will promptly be researched and resolved.

Anticipated Completion Date: July 2018

Contact Person: Corsino Delgado, Associate Director, Financial Management
Executive Office of Health and Human Services
Phone: 401.462.2517

Finding 2017-009 - corrective action plan

2017-009a – In January 2018, DOIT installed the critical security patches issued by Oracle through 10-15-2017. The January 2018 security patches are currently being tested in our development environment and we plan an April 2018 release into production. Note that Oracle also releases family packs for Oracle enhancements which are different from security patches. We prioritize these family pack installs based on need and new functionality.

2017-009b – The DOIT RIFANS group will notify the security team and Accounts and Control when critical patches are released. Note that with critical security patches, our security group receives notifications from a third party and notifies the RIFANS group.

Anticipated Completion Date: 2017-009a – April 2018
2017-009b – Completed March 2018

Contact Person: Alan Dias, Assistant Director, Information Management Systems
DOA, Division of Information Technology
Phone: 401.222.6091

Finding 2017-010 - corrective action plan

Treasury agrees with this finding and will work with the Office of Accounts and Control and the Budget Office to effectuate a transition of monitoring for funds on deposit with Trustees to Treasury personnel. Funds will be monitored by the Investments group. Assistance with monitoring provisions of covenants will be facilitated by staff from the Office of Debt Management.

Anticipated Completion Date: July 2018

Contact Person: Kerri Baker, Cash Manager
Office of General Treasurer
Phone: 401.462.7642

Finding 2017-011 - corrective action plan

The Office of Management and Budget's Grant Management Office has engaged REI Systems, Inc. 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 system 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 outlined statutory responsibilities.

A key component of the system implementation is the definition and standardization of the grant business process. The state established a Core Team, which includes representatives from state agencies, to assist in the definition of the standard business process. Written policies and procedures will be developed to support the business process once definition and system configuration is complete.

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 July 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: March 2021

Contact Person: Laurie Petrone, Director of Grants Management
DOA, Office of Management and Budget
Phone:401.574.8423

Finding 2017-012 - corrective action plan

2017-012a – To improve functionality within statewide financial systems, the state has added a new flex field to RIFANS to facilitate federal grant administration, including grants management, cash management, and cost allocation. The new flex field, Grant Award Task, will be setup in the Grant Management System at award setup and interfaced with RIFANS. Each Grant Award Task will have an end date. Use of the Grant Award Task will allow the state agencies to track and report expenditures at the most granular level required by the federal funding agency with the official system of record.

2017-012b – Refer to Corrective Action Plan of Finding 2017-011.

Anticipated Completion Date: March 2021

Contact Person(s): Laurie Petrone, Director of Grants Management
DOA, Office of Management and Budget
Phone: 401.574.8423

Finding 2017-013 - corrective action plan

The Division of Taxation confirms that with the new STAARS system, more data is readily accessible and can be used in end-of-year estimation in conjunction with the Office of Accounts & Controls. The Division of Taxation has been meeting with the Office of Accounts and Controls to explain the assumptions and distinctions between the legacy mainframe system and STAARS data. Given the transition issues including, but not limited to, timing and workflow of returns (and related revenue impacts), it has been the position of the Division of Taxation and Accounts and Controls that we will review historical trends in STAARS before relying solely on additional STAARS data. The conversion from the legacy mainframe system and processes over to the new integrated system software-based STAARS system has resulting timing issues that need to be cautiously evaluated and analyzed over time before reliance on additional data for financial reporting purposes.

The current selection of data used by Taxation to supply reports to Office of Accounts & Controls is unchanged from the selection of data prior to STAARS. While there have been discussions on breaking out selection of data by Account Type and/or GL in the future, the Division of Taxation will continue to collaborate with the Office of Accounts and Controls and will provide any necessary data and information required by the Office of Accounts and Controls.

Anticipated Completion Date: June 30, 2019

Contact Person(s): Neena S. Savage, Tax Administrator
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Finding 2017-014 - corrective action plan

A tax credit database was never anticipated to be part of the STAARS project and a stand-alone database was established to track tax credit expenditures for reporting purposes including but not limited to reporting for the Revenue Estimating Conference but for other statutorily required reports on tax credits. Additionally, there will always be a subset of returns that are in process as part of the tax return processing lifecycle. GASB 77 created a new requirement to provide information on actual Tax Abatements by fiscal year which created a situation that put the Division in the position of reconciling the business processes currently in place for the recently fully integrated STAARS system and use of actual tax credit expenditure data in the stand-alone database to provide GASB 77 tax abatement information.

The errors referenced in the finding are not true errors but discrepancies attributable to the differing statuses of the returns and related credits in their lifecycles in two different systems, that were never intended to reconcile.

In an attempt to proactively and accurately provide data for GASB 77, multiple meetings were held with Accounts & Control to determine exactly what should be in the report. Since this was the first year that Taxation was reporting information for GASB 77, there was lack of clarity as to what was truly required in the data.

The final joint conclusion was, with the exception of the historic tax credit, to report new amounts of revenue forgone in a fiscal year for returns (original and amended) processed and reviewed in STAARS. The historic tax credit amount was expected to match the fiscal year end total of the official, stand-alone historic tax credit requisitions; however, the STAARS report included returns that had not been audited and are on worklists.

_2017-014a_ – The Division of Taxation has made a commitment to revisit how Credits are processed and accounted for, and has taken the below steps to reduce the time it takes to review a credit and better align the STAARS process and the Credit reporting.

1. A Revenue Agent has been added to the Forms, Credits & Incentives Section so that credits are reviewed in a more timely manner.
2. Section will begin reviewing all returns claiming any of these credits/incentives to ensure they are being timely processed and accurately reflected in the report.
3. Incorporated into Taxation's new Business Intelligence Reporting Project with be specific information associated with the processing and validation of credits.
4. New "Commerce" credits will be programmed in STAARS so that redemptions (credit usage is already in) can be reported out of STAARS.
5. Additional conversation as to the timing of GASB 77 credits will occur with all parties involved.
6. Taxation will determine a timeframe to re-examine the official record of credit in an attempt to modernize that part of the business process.

_2017-014b_ – With the proposed plan being implemented in the finding, it will be possible to report tax abatement information from the STAARS system in a controlled, complete and reliable manner.

Anticipated Completion Date:	November 30, 2018
Contact Person(s):	Neena S. Savage, Tax Administrator DOR, Division of Taxation Phone: 401.574.8922
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Donna Dube, Principal Revenue Agent
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Finding 2017-015 - corrective action plan

Historically, there has always been a backlog and an error register given the volume of tax returns and payments processed each year. Currently over 2.5 million returns/payments are processed annually. Since full integration of STAARS, the Division of Taxation has made operational efficiencies, streamlined processes, and realized significant improvements in backlogs compared with the legacy mainframe processing system. Taxation agrees in general that as with any new system, there must exist a feedback loop to analyze and monitor practices, leverage lessons learned, and iteratively improve the system to be more efficient. The various sections in Taxation constantly review their business processes and suggest ways to improve, including reducing the quantity of exceptions reviewed and the cause of those exceptions. Taxation is cautious not to change too much in a single occasion, preferring incremental, measurable improvement over wholesale changes. In the recent year, there have been great strides in the speed in which returns are processed and refunds are sent to taxpayers, part of which results from targeted changes to the business rules of those processes.

2017-015a – This is occurring on a weekly basis across all sections in several weekly business operations meetings and daily within each unit.

2017-015b – This is occurring on a weekly basis across all sections in several weekly business operations meetings and daily within each unit.

Anticipated Completion Date: Ongoing

Contact Person(s):

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Finding 2017-016 - corrective action plan

Given the relative volume of this issue and improvements implemented, the Division asserts that this should not be a significant deficiency.

With the implementation of STAARS, Taxation has been able to automate a majority of the processes involved in loading and processing electronic payments. Currently, the processing of ACH CREDIT, LOCKBOX, CT OFFSET and the TOPS files are all automated. For the months of January and February of 2018 that represents 119,647 transactions totaling $293,441,872.68.

Before STAARS was implemented 100% of electronic transactions would have been manually uploaded to the system of record. The original process would have required someone from the EFT section to download from various SFTP sites the files that were loaded into the system of record.

The next group that Taxation is working on automating are the ACH debit files. These files are all from RI.GOV and we have already started the process of creating a SFTP link for the Tax Portal, Direct Debit, Streamline and Credit Card files which will replace the manual download process. We are working with both DOIT and RI.GOV to make this change and hope to have this done in the current fiscal year. For the months of January and February of 2018 that represents 56,869 transactions totaling $ 179,341,480.54.

The only items that Taxation is unable to fully automate are the ACH Credit transactions that are not properly formatted or do not have any addendum with the payment. For the months of January and February of 2018 that represents 34 transactions totaling $ 2,453,294.98.

2017-016a – Taxation will develop a more detailed written policy and procedure for the purpose of properly documenting the handling of the manual EFT files, including the need for two party checks and balances.

2017-016b – The Division of Taxation will develop a methodology and procedure with appropriate checks and balances to track and record incorrect/missing addendum records for EFT and the resolution of that error/issue.

Anticipated Completion Date: September 30, 2018

Contact Person(s):

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Daniel Clemence, Chief, Tax Processing Services
DOR, Division of Taxation
Phone: 401.574.8732

Finding 2017-017 - corrective action plan

The Division of Taxation has been actively working on this finding.

During the STAARS Implementation Project, Users Roles were created to control access to: 1) Account Types, 2) System Functionality and 3) dollar thresholds within the STAARS system. For each of the implementation releases, the various business units involved evaluated their job functions, and subsequently a broad, three tier structures was implemented to control access based on the Unit and the designation of Employee, Supervisor or Manager for a given STAARS user. These broader roles were constructed such that Taxation could ensure the continuity of business in the new system. The final major production release for Taxation occurred in November 2016 and there are on-going organizational business process shifts occurring related to the full integration of STAARS that impact designation of User Roles.

The planned business modernization approach was to use the system in Production, and once the system had matured and was running smoothly, to re-evaluate Business Processes, including refining User Roles and the system access that accompanies each User Role.

In 2017, the Division of Taxation began to examine various business processes with changes incorporated into Production starting in January 2018. To support these and future changes, the Division of Taxation is currently training additional resources on the administration and manager of both the STAARS system security profiles and that of Windows Active Directory, using the existing STAARS SDLC.

The goal of the Division of Taxation business process modernization effort and STAARS User Profile revisions is to apply the experience over the past three years to make the users more streamlined and efficient, as well as to better control access to accounts, functions and thresholds, ensuring proper division of duties, with appropriate checks and balances. We expect this to be an iterative process over the next three years, with the User Roles redefined and updated along the way.

Anticipated Completion Date: December 2020
Contact Person(s): Rahul Sarathy, Chief of Examination
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Daniel Clemence, Chief, Tax Processing Services
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Finding 2017-018 - corrective action plan

The Division of Taxation agrees with this recommendation and is currently in the process of drafting a Request for Proposal for an integrated cashier solution with STAARS. Funding for this project has already been received from the IT investment fund and the expectation is this new system will go live at the beginning of the 2020 fiscal year (July 1, 2019).

Anticipated Completion Date: July 1, 2019

Contact Person(s): Neena S. Savage, Tax Administrator
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Finding 2017-019 - corrective action plan

The Division of Taxation's Security Management plan includes information on Risk Assessment. The Department has recently created policy, procedures, and logs to document risk along with mitigation actions. The Division of Taxation is updating the security management plan to incorporate the additional information to satisfy this finding.

The Division of Taxation has recently obtained Ernst & Young to perform a penetration test down to the application level. This will give us a baseline for future risk assessments on the infrastructure supporting this production environments.

Anticipated Completion Date: April 2018

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Finding 2017-020 - corrective action plan

2017-020a – The Division of Taxation confirms that a clean desk policy needs to be revisited and analyzed by each section. A Division wide effort concerning cash instruments is already underway, however more is required with respect to paper returns and handling of documents. This can be addressed in fiscal year 2018.

Please note that all Federal Tax Information is held in secure storage and is not allowed to be left unattended.

2017-020b – The Division of Taxation confirms that the contact information in the business continuity plan can be more explicitly stated, removing missing information from some sections of the plan. This can be addressed in fiscal year 2018.

2017-020c – The Division of Taxation confirms that a periodic audit of user activity in STAARS and corresponding audit logs is needed. Taxation has recently implemented this process with respect to Federal Tax Information as looks to expand this process to State tax information in fiscal year 2018.

2017-020d

The Division of Taxation will seek guidance from DoIT regarding enterprise wide policy and procedures concerning the governing of mobile storage devices and the tracking of documents printed by user. The Division of Taxation will conform to an appropriate enterprise wide policy and procedural requirement.

2017-020e – The Division of Taxation has obtained and installed locks for all batch rooms and has requested a work order for the external door alarm to be fixed and tested periodically.

Anticipated Completion Date: June 30, 2018

Contact Person(s): Neena S. Savage, Tax Administrator
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Finding 2017-021 - corrective action plan

This finding was communicated confidentially.

Finding 2017-022 - corrective action plan

2017-022a – The contract has been modified to allow for data domains to be physically relocated.

2017-022b – The State is nearing completion of the substantial design and build work required to perform the disaster recovery test. The test includes moving the data domain to the vendor's location.

2017-022c – The State is nearing completion of the substantial design and build work required to perform the disaster recovery test. Due to the complexity of the environment and technological changes, the project took longer than originally planned.

Anticipated Completion Date: 2017-022a – Completed
2017-022b – April 2018
2017-022c – April 2018

Contact Person(s): Chris Antonellis, Chief Information Officer, Infrastructure & Operations
DOA, Division of Information Technology
Phone: 401.408.3098

Finding 2017-023 - corrective action plan

2017-023a – DoIT is in the process of implementing industry standard, ITIL framework criteria for change management. This framework combined with formal policies and procedures for change management, universally applied to all systems and infrastructure will be in place by October 2018.

2017-023b – Adhering to best practices and using the ITIL framework as a guide, the State will implement software for change control, universally throughout the enterprise. This software will act as a single control point for all technology changes regardless of operating system, hardware, software or platform. The State will also be designating an employee that will include the function of Change control manager that will ensure compliance.

Anticipated Completion Date: December 2018

Contact Person(s): Chris Antonellis, Chief Information Officer, Infrastructure & Operations
DOA, Division of Information Technology
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Finding 2017-024 - corrective action plan

_2017-024a_ – The State has hired an external security firm to review and assess existing security policies and to recommend policies to be added. The State will ensure that its selection of policies and procedures adhere to State and Federal regulations as well as best practices. The State also has plans to hire a new Chief of Security role that will be tasked with ensuring these practices are regularly completed.

_2017-024b_ – The State has hired an independent security consulting firm, Ernst and Young. This firm will be completing an assessment and provide the State with a clear set of recommendation and improvements needed to enhance security. This assessment will be completed by March 2018.

_2017-024c_ – The State's security strategy includes following an industry standard, risk based approach. This approach will include applications to ensure that security is well rooted prior to implementation.

_2017-024d_ – The State recently completed a security assessment that included a review of security policies. Based on the findings from this assessment combined with the single audit results the State will complete a review of all security policies making necessary updates and additions by July 1, 2018.

Anticipated Completion Date: July 2018

Contact Person(s): Chris Antonellis, Chief Information Officer, Infrastructure & Operations
DOA, Division of Information Technology
Phone: 401.408.3098

Finding 2017-025 - corrective action plan

Due to resources and funding, the Department does not see the ability or the benefit to merge to one system. The Department feels improvements have been made to better align the two systems over the past several years and as with all other things we will continuously continue to make improvements. While the use of two accounting systems does add a level complexity, it in no way prevents the Department from being in compliance with State or Federal rules and regulations. RIDOT does not have the authority to make the decision of which accounting system is used for financial reporting. RIDOT feels the review of the systems has been completed and this finding should not repeat.

Anticipated Completion Date: Completed

Contact Person(s): Loren Doyle, Chief Financial Officer
Department of Transportation
Phone: 401.222.6590 ext. 4524

Finding 2017-026 - corrective action plan

During FY 2017, RIDOT has improved the process for reconciling fund balance. During this process fund activity was 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 the remainder of FY 2018 and FY 2019, RIDOT will expand the reconciliation process to not only RIFANS line items for all Federal accounts but also all other RIFANS line items. The loss of staff resources and the training time required for new staff has delayed the expansion of the process into FY 2019.

Anticipated Completion Date: December 31, 2018

Contact Person(s): Loren Doyle, Chief Financial Officer
Department of Transportation
Phone: 401.222.6590 ext. 4524

Finding 2017-027 - corrective action plan

Short-Term – RIDOT will communicate 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.

Anticipated Completion Date: June 30, 2018

Contact Person(s): Loren Doyle, Chief Financial Officer
Department of Transportation
Phone: 401.222.6590 ext. 4524

Long-Term – RIDOT will follow up with DMV on the status of their new computer system and work on developing electronic documentation that will be provided to RIDOT monthly. The electronic documentation would provide details to ensure accuracy of DMV funds received by DOT.

Anticipated Completion Date: March 31, 2019

Contact Person(s): Loren Doyle, Chief Financial Officer
Department of Transportation
Phone: 401.222.6590 ext. 4524

Finding 2017-028 - corrective action plan

RIDOT will revise the monthly Garvee reconciliation procedures to ensure improved controls. The monthly reconciliation will include a management review process. The accounting staff member performing the reconciliation will request review and approval of the monthly reconciliation prior to finalizing. The management review will be conducted by either the Administrator of Financial Management in the Accounting Section or the Assistant Administrator of Financial Management in the Accounting Section. The procedures will also be updated to include posting market accounts at fair market value.

Anticipated Completion Date: April 30, 2018

Contact Person(s): Loren Doyle, Chief Financial Officer
Department of Transportation
Phone: 401.222.6590 ext. 4524

Finding 2017-029 - corrective action plan

_2017-029a_ – RIDOT will develop policies and procedures that will include internal controls for the Infrastructure reporting process. Finance will also expand the newly implemented Infrastructure process to expand all DOT funds in the upcoming fiscal year.

Anticipated Completion Date: September 30, 2018

Contact Person(s): Loren Doyle, Chief Financial Officer
Department of Transportation
Phone: 401.222.6590 ext. 4524

_2017-029b_ – RIDOT will develop a procedure to reconcile the Infrastructure report to RIFANS. The section will also review including year-end accruals to the Infrastructure process.

Anticipated Completion Date: September 30, 2018

Contact Person(s): Loren Doyle, Chief Financial Officer
Department of Transportation
Phone: 401.222.6590 ext. 4524

_2017-029c_ – Finance along with Project Management developed a process to enhance the controls over the assignment of project infrastructure codes. The infrastructure code is now identified during the scoping phase of the project by the project managers and scoping team. It has been added as a field on the Project Definition and Scoping Document. The Project Funding Request template was also modified to include the infrastructure code so that it is part of the request for funding. Finance then receives the approved funding authorization with the infrastructure code and inputs the code into the Financial Management System.

Anticipated Completion Date: Implemented in January 2018

Contact Person(s): Loren Doyle, Chief Financial Officer
Department of Transportation
Phone: 401.222.6590 ext. 4524

_2017-029d_ – 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, 2018

Contact Person(s): Loren Doyle, Chief Financial Officer
Department of Transportation
Phone: 401.222.6590 ext. 4524

_2017-029e_ – RIDOT will develop a policy and a procedure for removing infrastructure assets that have been replaced or taken out of service.

Anticipated Completion Date: December 31, 2018

Contact Person(s): Loren Doyle, Chief Financial Officer
Department of Transportation
Phone: 401.222.6590 ext. 4524

Finding 2017-030 - corrective action plan

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 compensating controls are in place. RIDOT feels the review of the systems were complete and this finding should not repeat.

Anticipated Completion Date: Completed

Contact Person(s): Loren Doyle, Chief Financial Officer
Department of Transportation
Phone: 401.222.6590 ext. 4524

2017-030b – *Phase 1*: 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 currently have the capability. For the FMS Oracle system to potentially have this capability, a complete redesign of the system would need to be done. RIDOT does not have the resources or funding at the time for a complete redesign of the Financial Management system. 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 and a manual log is kept within the Grants section of Finance. 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. RIDOT does not feel this finding should be repeated.

Phase 2: RIDOT will coordinate with IT to research the implementation of change management software.

Anticipated Completion Date: Phase 1 – Completed
Phase 2 – June 30, 2019

Contact Person(s): Loren Doyle, Chief Financial Officer
Department of Transportation
Phone: 401.222.6590 ext. 4524

Finding 2017-031 - corrective action plan

The RI Department of Labor & Training (DLT) agrees with the finding and corrective action has been implemented. FY2018 monthly reconciliations are currently completed through January 2018 and a review process has been implemented to ensure timely completion.

Anticipated Completion Date: October 31, 2017

Contact Person(s): Denise Paquet, Administrator, Financial Management
Department of Labor and Training
Phone: 401.462.8178

Finding 2017-032 - corrective action plan

Management will correct the material weakness by ensuring adequate staffing, including training, the process and software involved, appropriate controls related to authorization and review of related transactions, and timely recording of transactions and reconciliations.

Anticipated Completion Date: Ongoing

Contact Person(s): Therese Chalko, Finance Director
Central Falls School District
Phone: 401.727.7700 ext. 2006

Finding 2017-033 - corrective action plan

Management will correct the noted significant deficiencies by hiring a third party to complete inventory of all capital assets. Management will then incorporate this information into the financial software system.

Anticipated Completion Date: Ongoing

Contact Person(s): Therese Chalko, Finance Director
Central Falls School District
Phone: 401.727.7700 ext. 2006

Finding 2017-034 - corrective action plan

SMG Response – x Subsequent to issuance of the audit report, SMG will implement processes for timely reconciliations and documented sign-off/oversight to efficiently and effectively prepare financial statements.

The account reconciliations are completed by accounting staff. The monthly system generated trial balance will be reviewed by the SMG Controller, and will be reviewed by the SMG Finance Director, prior to the 15th day of the month. Evidence of the review by management will be documented by the signature and date on the system generated trial balance in the month-end closing folder.

SMG will prospectively use a system generated journal entry report that will be reviewed by the SMG Controller and the SMG Finance Director. Evidence of the review by management will be documented by the signature and date on the system generated journal entry report in the month-end closing folder.

Event settlements will be reviewed by the SMG General Manager and will be evidenced by his physical sign-off on the settlement sheet or documented in an email that the SMG General Manager approves the event settlement.

RI Convention Center Authority Response – The Authority will utilize its contract CFO consultant to perform limited internal audit functions to monitor management's implementation of internal controls

Anticipated Completion Date: Ongoing

Contact Person(s): James P. McCarvill, Executive Director
RI Convention Center Authority
Phone: 401.351.4295

Finding 2017-035 - corrective action plan

The Authority will fund the Operating Reserve and Renewal Replacement components noted above, provided there is sufficient cash flow. Given that Authority continues to make timely and complete debt service payments, it would make little sense for the trustee to declare a default for reserve fund noncompliance. In fact, this has been the practical practice over several years as the Authority has failed to maintain adequate reserves due to insufficient State appropriations. If a default was declared, the Authority would have 90 days to cure and would seek a legislative appropriation to remedy the default. Of course, annual appropriations in excess of debt service requirements would assist in building reserves and reaching the requirements.

Anticipated Completion Date: Ongoing

Contact Person(s): James P. McCarvill, Executive Director
RI Convention Center Authority
Phone: 401.351.4295

Finding 2017-036 - corrective action plan

Regarding the audit finding described in our 2017 audited financial statements, while the core issue had been "effectively self-rectified during the audit process," management is in the process of formally documenting the Bank's internal controls over financial reporting that augment our existing accounting policy and procedures.

Notwithstanding the implementation of new accounting and loan management software platforms, we would have completed the documentation earlier in the year. In any event, we anticipate that the initiative will be completed late in the current fiscal year – perhaps as early as May 31, 2018.

Anticipated Completion Date: Ongoing

Contact person(s): David Birkins, Chief Operating Officer
RI Infrastructure Bank
Phone: 401.453.4430 ext. 115

Finding 2017-037 - corrective action plan

RIDOH has implemented a standardized time and effort system for ensuring allowable charges to federal programs. The department has developed written policies and procedures to create a system of internal controls to review after-the-fact interim charges made to a federal award based on budget estimates. Necessary adjustments are processed to ensure charges to federal awards are accurate and allowable. Time and effort training has been provided to staff related to the 2 CFR section 200.430 on federal standards for documentation of personnel expenses and will continue on an as needed basis.

Anticipated Completion Date: Implemented April 2017

Contact Person(s): Lori Zelano, Chief Financial Officer
Department of Health
Phone: 401.222.1583

Finding 2017-038 - corrective action plan

_2017-038a_ – System security oversight is performed on an individual basis by each vendor, Deloitte and DXC, managed by their respective contract Management staff. For the MMIS, managed by DXC, there are several processes in place, including security reviews and compliances, both in Rhode Island, as well as in the Orlando Data Center. DXC provides SOC1, DR/BC reports and tests, etc. Production and test files between the MMIS and RI Bridges are handled in the same secure manner. For RIBridges, managed by Deloitte, processes are in place for Systems Security Plans, MARS-E 2.0, etc. A formal governance workgroup on Security and Privacy must continue to work towards establishing and analyzing the standards needed, guided by the CMS MARS-E 2.0 document suite, and apply it to UHIP and the interface with MMIS, to form a comprehensive end-to-end system security plan.

_2017-038b_ – The same Corrective Action Plan as described in the CAP 2017-038a above is recommended, to include additional components, such as a comprehensive risk assessment, monitoring, risk mitigation, etc.

Anticipated Completion Date: October 1, 2018

Contact Person(s): Thomas DeQuattro, Administrator of Medical Services
Executive Office of Health and Human Services
Phone: 401.462.1501

Finding 2017-039 - corrective action plan

_2017-039a_ – Throughout SFY 2018, DHS has been working with its Cost Allocation Plan (CAP) vendor to improve its implementation of the CAP, and also to enhance the CAP vendor's understanding of the policies and procedures adhered to by DHS regarding the multiple programs administered by DHS. To date, the CAP vendor has rerun all of the SFY 2017 quarterly CAP documents, and DHS is in the process of computing journals to reflect the results of the revised CAP documents. DHS has made significant process in its understanding of the CAP documents and documentation of the procedures required to record necessary accounting and financial reporting entries. The cost allocation methodology uses Random Moment Time Studies (RMTS), which is becoming the national standard for the allocation and reimbursement of allowable costs in the public sector. Staff across DHS including systems staff, administrative staff, and others are being allocated via the use of time studies, most often RMTS systems. DHS Leadership continues to monitor the implementation of the RMTS to ensure it is being implemented according to departments policies and procedures.

2017-039b – The Cost Allocation Plan and several amendments have been submitted to the federal Division of Cost Allocation (DCA). DHS anticipates submitting an amendment for the quarter ending March 31, 2018 and will contact DCA at that time to determine when we can expect approval. The overall cost allocation methodology has been approved by DCA, but each new submission needs to be approved by the Federal Office for any changes.

2017-039c – Beginning with the August 2017 and again with the November 2017 IAPD submissions, DHS has updated all the allocation methods and has clearly stated that the CAP methodology provided by the current vendor has been included in the Implementation Advanced Planning Document (IAPD). This allocation methodology is also required to be approved by both CMS and FNS prior to any contract signing. To ensure that each contract is properly recorded, we have implemented an internal procedure that requires the UHIP CFO to verify that the correct allocation methodology was used before the purchase requisition is created. We have also implemented a procedure with vendors to provide separate invoices related to RIBridges expenditures to achieve clarity in reporting. Lastly, as of the first quarter of SFY 2018, DHS has obtained certifications from those employees who are being allocated to federal programs through the IAPD for system development costs.

Anticipated Completion Date: June 30, 2018

Contact Person(s):

Margaret Farrish, Associate Director, Financial Management
Department of Human Services
Phone: 401.462.1586

John Raymond, Chief Financial Officer
Department of Human Services
Phone: 401.462.6627

Finding 2017-040 - corrective action plan

Throughout SFY 2018, DHS has been working with its Cost Allocation Plan (CAP) vendor to improve the Department's implementation of the CAP, and also to enhance the CAP vendor's understanding of the policies and procedures adhered to by DHS regarding SNAP and other federal programs. This work will result in better matching and reporting of SNAP expenditures. DHS is in the process of preparing journals to reflect the results of the revised CAP documents. Lastly, DHS will amend SFY 2017 SNAP reports as soon as possible in conjunction with recording SFY 2017 adjustments to the accounting and financial reporting system.

Anticipated Completion Date: June 30, 2018

Contact Person(s): Margaret Farrish, Associate Director, Financial Management
Department of Human Services
Phone: 401.462.1586

Guillermo Uzcategui, Asst. Administrator, Financial Management, Client Benefits
Department of Human Services
Phone: 401.462.6627

Finding 2017-041 - corrective action plan

The State is actively working with its vendor to implement all federally required reporting.

FNS-046 is scheduled for an April 21, 2018 release. The historical reports September 2016 thru March 2018 will be made available on April 23, 2018, while the April 2018 report will be available on May 4, 2018.

The Status of Claims Against Households report, FNS 209, has been developed and validated with the collections data currently stored in the RI Bridges database. The conversion rules provided for this data are currently under review by the State, Systems Integrator and the legacy vendor to determine if changes are necessary. Feedback on the rules is due by mid-April 2018; any modifications to the rules will be prioritized for release prior to the start of FFY 2019.

Anticipated Completion Date: FNS-046 – May 4, 2018
FNS-209 – TBD

Contact Person(s): Shannon Massaroco, Project Director
Department of Human Services
Phone: 401.462.8178

Finding 2017-042 - corrective action plan

The State and the systems development vendor have completed significant work related to ensuring accurate and timely benefit determinations for SNAP beneficiaries. Final system acceptance requires 95 percent benefit accuracy across all programs. When eligibility issues are identified, JIRA tickets are filed, prioritized and tracked until they are fixed. Data conversion issues have been fixed through manual overrides and data fixes. Most SNAP eligibility determination issues have been resolved and in instances where an underpayment was made to a recipient, a retroactive payment is made to the recipient to correct the error. We are taking corrective action for all of the specific issues identified in the report, including the following:

1) DHS has fully implemented the processing of recertifications according to FNS policy;
2) Interfaces are accurately verifying income for SNAP recipients;
3) Scanning processes have been improved since go-live and DHS and the systems development vendor continue to implement business process and technology improvements; and
4) EBT reports will be implemented in the next three months—they are in the process of design and prioritization.

In addition, DHS and the systems development vendor are currently evaluating existing reports, such as the EBT Authorization Monthly Report (BI-200) and the Daily SNAP Authorizations Report (SDA-01), to determine if there is a need for a separate Food Stamps Monthly Payroll. If existing reports do not contain all the necessary data, this issue will be prioritized for a July 2018 release.

Anticipated Completion Date: March 2019

Contact Person(s):
Celia J. Blue, Chief Administrative Officer
Department of Human Services
Phone: 401.462.2021

Sally McGrath, Asst. Administrator, IT Systems Services Support
Department of Human Services
Phone: 401.462.6382

Finding 2017-043 - corrective action plan

The Department is currently working with its Systems Integrator to develop a reconciliation process between RI Bridges and FIS. The Systems Integrator is currently working closely with FIS to ensure that SNAP benefit issuance and reconciliation requirements are accurately completed. The Department's plan will formalize a reconciliation process that will ensure agreement of daily/monthly for feeds between RI Bridges and FIS with an explanation of any differences due to eligibly or card authorization. The Department plan is as follows:

a) March 23, 2018 – Met with Systems Integrator and Northrup Grumman to discuss reporting requirements.
b) March 23, 2018 to March 30, 2018 – Determine data fields and data extract requirements.
c) April 2, 2018 – Formalize FIS reporting requirements to prepare the reconciliation.
d) April and May 2018 – The Department will work with the Systems Integrator and Northrup Grumman to finalize and validate the reconciliation and reporting.
e) Complete reconciliation process and documentation by July 30, 2018.

Anticipated Completion Date: July 31, 2018

Contact Person(s):
Diane Hey, Principal Human Services Business Officer
Department of Human Services
Phone: 401.462.7065

John Raymond, Chief Financial Officer
Department of Human Services
Phone: 401.462.6627

Finding 2017-044 - corrective action plan

OHCD attempts to schedule the federal drawdown to the actual time State funds are disbursed. Funds may have in some instances been received prior to the actual disbursement during the audited fiscal year. In FY2017, OHCD has adopted policies, enhancing controls over cash management. State invoice tracking sheets have been modified to include the invoice date and "Net 30" anticipated payment date. The spreadsheet guides when approval of federal disbursement occurs. In addition, many of the fiscal functions previously undertaken by multiple personnel/agencies are centralized with new internal fiscal staff. At this time, federal funds are not requested until State funds have been disbursed. Issues now identified predate procedural changes implemented to address prior year audit findings. Recurrence of this issue is not anticipated.

Anticipated Completion Date: Completed

Contact Person(s): Michael Tondra, Chief
Office of Housing and Community Development
Phone: 401.222.6490

Finding 2017-045 - corrective action plan

This past year, the State Office of Housing and Community Development was granted access to the Section 3 Performance Evaluation and Registry System (SPEARS) for the submission of annual summary reports pursuant to Section 3. Section 3 documentation has been compiled and was successfully submitted relative to the CDBG, Disaster Recovery programs. While the system does not currently allow OHCD staff to submit information to the CDBG, steps are being taken to enable access, allowing submittal of all necessary reports.

The OHCD shall formalize responsibilities and procedures relative to the collection and filing of necessary documentation. These procedures shall require use of tracking sheets with supervisory staff verifying completion to the task assigned.

Anticipated Completion Date: Procedures Formalized – April 30, 2018
Submittal of Past Reports – By June 30, 2018

Contact Person(s): Michael Tondra, Chief
Office of Housing and Community Development
Phone: 401.222.6490

Finding 2017-046 - 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. The State has adopted new subrecipient oversight/monitoring policies and procedures since issuance of last year's audit. Fully executing these policies will assure adequate monitoring of subrecipients. The OHCD is evaluating restructuring options and staff work plans, which would enhance our capacity to implement changes, increasing oversight and monitoring activities.

This past year, the Office of Housing and Community Development created a new internal position of "Assistant Administrator, Financial Management." This position has provided support for fiscal matters associated with the federal grant programs. One responsibility assigned to this staff is the collection, review and tracking of municipal audits as recommended by the audit. A policy related to the tracking of municipal audits has been developed and attached to this response.

Anticipated Completion Date: Financial Monitoring – Implementation Immediate
Staff Plan (Restructuring/Hiring) – By June 30, 2018
Full Implementation – FY 2019 Q1

Contact Person(s): Michael Tondra, Chief
Office of Housing and Community Development
Phone: 401.222.6490

Finding 2017-047 - corrective action plan

The Department is requesting the State Controller's Office to calculate interest income on the Equitable Sharing program's cash balance and record such interest earnings in the applicable federal program revenue accounts in the State accounting system (RIFANS). The Department will report interest income in the *Equitable Sharing Agreement and Certification Form*, annually.

Anticipated Completion Dates: June 30, 2018

Contact Person(s): Peter Keenan, State Controller
DOA, Office of Accounts and Control
Phone: 401.222.6408

Gregory Stack, Finance Director
DPS, RI State Police
Phone: 401.764.5785

Finding 2017-048 - corrective action plan

Programming to impose and collect a 15% penalty on fraudulent overpayments as well as the non-relief of charges due to Employer fault will both be implemented as part of DLT's modernization project. The project is currently scheduled for implementation in March 2019. Programming for these two projects on the current, antiquated system would have a negative effect on the migration to the new system; therefore, the consortium team has decided to delay implementation until then.

Anticipated Completion Date: March 2019

Contact Person(s): Kathy Catanzaro, Acting Labor and Training Administrator
Department of Labor and Training
Phone: 401.462.8405

Finding 2017-049 - corrective action plan

The Workforce Development Services Division will work with the vendor to determine the cause of the original, incorrectly dated wage request and confirm controls are in place to avoid a similar mistake in the future. We will also work with the vendor to reverse the wages that were inaccurately changed to zero. The wage match and upload process includes notification messages for staff to confirm the accuracy and status of the request, match and upload; these were working correctly, however, staff assigned to these tasks failed to mitigate the issue timely. The Division will retrain the staff responsible for the wage match and upload process to ensure they understand the process in its entirety including the potential issues arising from errors.

Additionally, retraining will be provided on:

- How to utilize the notifications to monitor the process and recognize potential issues
- How to mitigate similar errors in the future

- Reinforce the need to escalate potential issues regarding the wage match and upload process up the chain of command to ensure the appropriate resources are dedicated to mitigate and correct any errors that may occur
- Reviewing for accuracy the Federal Report (TAPR, now PIRL), particularly the wage portions, prior to submission

Finally, the Division will work with the Trade Adjustment Assistance (TAA) Federal Project Officer (FPO) to determine the requirements and appropriate process for resubmitting corrected TAPR reports for the affected Quarters. Since the TAPR is no longer the report utilized for the TAA Program, we will defer to the directions of the FPO regarding which reports should be resubmitted with corrections and how.

Anticipated Completion Date: September 30, 2018

Contact Person(s): Sue Biagioni, Chief of Labor and Training Operations
Department of Labor and Training
Phone: 401.462.8723

Finding 2017-050 - corrective action plan

DLT will reach out to the US DOL representative to inform him/her of the cumulative adjustment that will be made to the ETA 2112 report prior to submission. The adjustment will be reflected on the March 31, 2018 report.

Anticipated Completion Date: March 31, 2018

Contact Person(s): Denise Paquet, Administrator, Financial Management
Department of Labor and Training
Phone: 401.462.8178

Finding 2017-051 - corrective action plan

2017-051a – The file naming convention for test results has been discussed with MIS but has not been implemented as we currently do not possess the necessary software to perform such function. Materials Management has investigated a manual process of file naming but the laborious process requires a full time dedicated materials employee which we cannot accommodate with the expanded Rhodeworks program. As the materials section gets additional staff, the manual process of file naming will be reevaluated. A Quality Management software such as ATSER (see below) would greatly facilitate the process.

Anticipated Completion Date: Reevaluate by December 31, 2018

Contact Person(s): Jose Lima, Manager, Materials Management
Department of Transportation
Phone: 401.222.2524 ext. 4113

2017-051b – Construction Management with the assistance of FHWA and Materials Management is currently in the process of revising the PURK manual. Once revised, the manual will be posted on the website.

Anticipated Completion Date: September 30, 2018

Contact Person: Jose Lima, Manager, Materials Management
Department of Transportation
Phone: 401.222.2524 ext. 4113

James Orr, Chief Civil Engineer, Construction Management
Department of Transportation
Phone: 401.265.5292

2017-051c – While there is a concerted coordination effort between the three main sections responsible for the Department's Quality Assurance Program, there is always room for improvement. The department will reevaluate the coordination process and adjust accordingly. Areas the department will explore will include but not be limited to the frequency of the coordination meetings, the documentation and dissemination of information from the meetings.

Anticipated Completion Date: September 30, 2018

Contact Person(s): Jose Lima, Manager, Materials Management
Department of Transportation
Phone: 401.22.2524 ext. 4113

2017-051d – Currently Materials Management is entering test data into thirteen different databases. Two of the thirteen databases are currently managed by MIS. The remaining eleven are managed by the Materials staff. None of the databases interface with each other. The data handling process should be streamlined and made more efficient. The Department will look into a materials quality management software which can manage all aspects of materials quality management and provide secure web based access to our engineering staff. However, the implementation of such software would be a 2-3 year timeline. The Department will also explore short term solutions and/or improvements.

Anticipated Completion Date: Review to be Completed by December 31, 2018

Contact Person(s): Jose Lima, Manager, Materials Management
Department of Transportation
Phone: 401.222.2524 ext. 4113

Thomas Lewandowski, Administrator of IT
Department of Transportation
Phone: 401.222.2524 ext. 4086

2017-051e – The Department will consider enhancing the project related training program for all personnel. We will look into incorporating project policies and procedures training courses which could be set up during winter training. Training of the relative topics would be conducted by personnel from various sections from financing to final acceptance. Quality Assurance reviews could be accomplished by assigning routine reviews of all Project Specific Materials test books to personnel in the Finals Unit throughout the construction timeline to assure that minimum MST requirements are being met.

Anticipated Completion Date: June 30, 2018

Contact Person(s): Jose Lima, Manager, Materials Management
Department of Transportation
Phone: 401.222.2524 ext. 4113

Loren Doyle, Chief Financial Officer
Department of Transportation
Phone: 401.222.6590 ext. 4524

Stephen Robbins, Internal Audit Manager
Department of Transportation
Phone: 401.222.2524 ext. 4680

Finding 2017-052 - corrective action plan

The Rules and Regulations for Accommodating Utilities within Highway Rights-of- Way, was developed by the State, reviewed and approved by the FHWA on June 27, 2016. A request through the Legal Section for a public hearing was submitted on August 29, 2016. The section will follow up with the Legal section to get the Public Hearing scheduled. The Utilities section feels all requested documentation was supplied and was in accordance with (23 CFR section 645.113(c)), (23 CFR section 645.113(g)(3)); and (23 CFR section 645.107(a)). Some of the missing information referenced in the finding were Amtrak agreements however, the utilities section is not responsible for Amtrak agreements and once the request was directed to the correct person the documentation was immediately provided to the Auditors.

Anticipated Completion Date: August 31, 2018
Contact Person(s): Mazen Alsabe, Senior Civil Engineer, Utilities Section
Department of Transportation
Phone: 401.222.2023 ext. 4027

Finding 2017-053 - corrective action plan

The Department will review 23 CFR 627 and the current Value Engineering policy. We will identify discrepancies and missing requirements. The RIDOT policy will also be revised to be in line with the project management approach the Department has adopted. Any necessary revisions will be submitted to FHWA for review and approval.

Anticipated Completion Date: July 31, 2018

Contact Person(s): David Fish, Administrator, Project Management
Department of Transportation
401.222.2492 ext. 4100

Finding 2017-054 - corrective action plan

The Department will review the oversight agreement and the RIDOT Change Order Policy. The Department will ensure the RIDOT Change Order Policy is in compliance with the oversight agreement.

Anticipated Completion Date: September 30, 2018

Contact Person(s): Lori Fisette, Manager, Project Management
Department of Transportation
Phone: 401.222.2492 ext. 4401

Loren Doyle, Chief Financial Officer
Department of Transportation
Phone: 401.222.6590 ext. 4524

Finding 2017-055 - corrective action plan

The Finance section has improved controls over the calculation of the Indirect Cost Rate. The spreadsheets used for the calculation are now linked so all calculations on supporting spreadsheets will automatically update the master spreadsheet. This reduces the risk of manually entering numbers incorrectly. The procedures have also been updated to include a second approval by either the Chief Financial Officer or the Assistant Director of Financial and Contract Management to verify the accuracy of calculations.

Anticipated Completion Date: Implemented

Contact Person(s): Loren Doyle, Chief Financial Officer
Department of Transportation
Phone: 401.222.6590 ext. 4524

Finding 2017-056 - corrective action plan

A reconciliation of the FY2017 allocated costs was prepared to reflect both the unallowable costs and allowable costs which was accepted by the Office of the Auditor General. For FY2018, the reconciliation will be accomplished on a billing-cycle basis (monthly) to calculate the allowable costs which will be transferred to the federal expenditure account.

Anticipated Completion Date: April 30, 2018

Contact Person(s): Rick Baccus, Administrator
RI Office of Veterans Affairs
Phone: 401.921.2119

Finding 2017-057- corrective action plan

In Spring of 2016, the Office of Enrollment Services-Registrar area implemented manual updates to NSC and NSLDS. In the case of student 100548075 the correct information was forwarded by email for manual update to NSLDS. Unfortunately, the email was missed and the update was not processed.

In the short term, to help reduce the chance of future missed updates, the Enrollment Services-Registrar area proposes adding a column to our tracking spreadsheet for a signoff of this process. This can be implemented immediately and requires no IT resources or system set-up.

In the long term, the Enrollment Services-Registrar area proposes that a workflow within PeopleSoft be developed with our IT Department to route Leave of Absences, Withdrawals, and Petitions to the appropriate individuals for processing. Additional capability for functional users will be available in the next upgrade to PeopleSoft scheduled for rollout in late 2018 early 2019. Developing such a tool will minimize the possibility of this type of error. The Enrollment Services-Registrar area feels this is a worthwhile long-term solution and should be a prioritized goal with IT to develop.

Regarding student 100515011, the Enrollment Services-Registrar area confirmed the student's last date of attendance as 11/16/2016 and that date was correctly recorded in term history as the last date of attendance on all enrollment screens. That date was also properly sent to NSLDS. It is recognized that there was an inconsistency in the date of withdrawal of 11/15/2016. It was determined that this was due to a dropdown date processing error. We have reviewed the business practices with all involved with an emphasis on the need for consistency in processing dates on all screens used for internal and external reporting of enrollment.

Anticipated Completion Date: Ongoing

Contact Person(s): Bonnie Saccucci, Director, Financial Aid
University of Rhode Island
Phone: 401.874.9500

Finding 2017-058 - corrective action plan

The Records Office will work directly with the Management Information System (MIS) Office to develop a report showing students that have graduated after their expected graduation date. Currently, MIS uploads degree conferrals approximately two weeks after the graduation date into the National Student Clearinghouse database. Records will run the new report regularly and monitor students that graduated late, typically due to late grade submissions. Records will then manually enter those students into the National Student Clearinghouse database.

Anticipated completion date: June 30, 2018

Contact Person(s): Stephen J. Nedder, Jr., Controller
Rhode Island College
Phone: 401.456.8200

Finding 2017-059 - corrective action plan

The Financial Aid and Bursar's Offices, in collaboration with Management Information Systems (MIS), are currently in the process of developing a report that will include all outside scholarships and waivers credited by the Bursar's Office to students' accounts. This report will be available to both offices and can be generated at any time to provide the most current information. The new report will be run regularly by the Financial Aid Office in order to ensure the tracking of all sources of external financial assistance.

Anticipated Completion Date: Immediate

Contact Person(s): Ken Ferus, Director, Financial Aid
Rhode Island College
Phone: 401.456.8033

Finding 2017-060 - corrective action plan

CCRI created an edit report and implemented the sampling process for the Fall 2016 semester. However, this report did not include unofficial withdrawal students which led to the instances identified in the Schedule of Findings and Questioned Costs.

CCRI agrees with the finding and will implement the following corrective action plan:

The College is working with guidance from the National Student Clearinghouse to create additional edit reports to ensure all unofficial withdrawal students are identified at the end of each semester. A random sample will be taken from the new edit report to check for compliance and accurate data.

Anticipated Completion Date: December 31, 2017

Contact Person(s): Andrea Lachapelle, Interim Director, Financial Aid
Community College of Rhode Island
Phone: 401.825.2100

Finding 2017-061 - corrective action plan

Prior to November 2017, CAP agencies submitted a form specifically designed for this program to report funding needs, but there was no backup documentation collected. Effective November 1, 2017, this practice was changed so that the department's invoice, the DHS FM-1, is now being used with cost categories customized to the program and the contracts. Along with this new invoice format, backup documentation for expenses is now being required. Additionally, the Finance Unit of the Department now has access to the software system used for the program so that Finance can now verify program activities and expenses.

Anticipated Completion Date: February 2018

Contact Person(s): Frederick Sneesby, Administrator, Grants & Contracts
Department of Human Services
Phone: 401.462.1669

Erin Dellefemine, Principal Human Services Business Officer
Department of Human Services
Phone: 401.462.6889

Madeline Colon, Principal Human Services Business Officer
Department of Human Services
Phone: 401.462.6411

Finding 2017-062 - corrective action plan

Several issues serve as a backdrop to this finding: obligation of funds, budgeting, the characterization of unliquidated funds, and maximizing the use of federal LIHEAP funds.

Obligation of federal funds has two competing definitions that have affected the approach to program planning. The federal government would apply a broader understanding of "obligation" than the State of Rhode Island. If funds are encumbered in a contract, they are considered obligated by the federal government. However, the State of Rhode Island considers "obligation" to mean that funds have been assigned a Purchase Order and have been released in the State Budget. By federal rule, the state's definition of obligation takes precedent over the federal definition. Following the state's understanding of "obligation," the department will start the planning cycle for the grant earlier and take into account supplemental federal LIHEAP funds that are oftentimes awarded late in the federal fiscal year, making it difficult to obligate them in a budget release. The department will also examine how $1.5 million in LIHEAP funds that are used for awards in the Heat & Eat program can be obligated. At this time, they go directly to EBT payments that cannot be obligated.

Budgeting is an issue because a larger share of the federal award must be released in the state budget than is currently happening (thus, meeting the definition of obligation). The department will work with the State Budget Office to release funds in amounts sufficient to meet the 90% standard for obligating grant award funds.

There are approximately $12 million unliquidated from federal grant years 2014, 2015, and 2016. Past program administrators had operated under the belief that the state had up to six years to spend LIHEAP grants, a belief reflected in a citation of 42 U.S.C. § 8626 that "there are no limits on the time period for expenditure of funds." This assumption and the citation are incorrect; that language does not appear in 42 U.S.C. § 8626. On the contrary, other federal regulation states that funds must be spent within 90 days of the close of the performance period which, for LIHEAP, is two years (e.g., 2 CFR 200.309). So, for the federal LIHEAP grant for FFY2016, those funds must be spent by December 31, 2017 for expenses incurred between October 1, 2015 and September 30, 2017. A slightly different understanding of spending time limits was expressed by federal officials in an exit interview following a fiscal monitoring visit in August 2017. Those officials said that the state has two years to spend the funds – the performance period – but that those funds could be spent at a future date beyond the two years but only for expenses incurred during the performance period. This was contrary to how past program administrators had understood spending time limits for LIHEAP funds but it was stated very clearly by the federal auditor and is mirrored in federal regulations as stated above. Unfortunately, the federal office has never issued a written report of the monitoring visit, and repeated requests for written clarification of this point have gone unanswered. It is the program administrator's understanding that these "old funds," still in the federal Payment Management System, cannot be used for current expenses and that it would be imprudent to do so because the state may be liable for those funds from state general revenue funds in the future. The existence of those funds is an obstacle to the release of funds from current awards, and so it is crucial to obtain precise guidance from the federal office so that budget and expenditure decisions can move forward. The department will continue to seek clarification of the spending time limits for LIHEAP grant awards from the federal LIHEAP office. The department will ask that this clarification be made in writing, preferably in a report of the findings produced by the fiscal monitoring visit of 2017.

The fourth issue is maximizing the use of federal LIHEAP funds. The fact that there is $12 million unspent from previous years raises the question as to whether or not the department is taking advantage of all allowable activities in the federal program. In the preceding years, all grant applications and program requests for fuel and weatherization were met so, in that sense, the $12 million was not needed to meet the program demands. However, the federal grant gives wide latitude to use of the funds, and so greater outreach and innovation would make fullest use of the federal award. The department will take the following measures to increase use of the federal funds so that more will be obligated and less unliquidated:

1) expand the administrative period of the heating assistance program to ease administrative burdens; this will require more funds being expended for program support as well as increasing access to the benefit;
2) expand eligibility for LIHEAP benefits according to Federal programs;
3) expand the types of pre-weatherization measures that will be paid for to facilitate the weatherization of more homes;

4) Re-designing the "Heat & Eat" program to align eligibility determination for that benefit with the regular LIHEAP eligibility process, thus allowing that expense to be counted as "obligated" in contracts with sub-recipients;
5) where possible, raise the household grant awards.

Finally, the department will strengthen controls over the calculation of obligated funds and the preparation of the Carryover and Reallotment Report by reconciling sub-recipient budgets, budgets and expenditures in the program software, and the budget and expenditures in RIFANS.

Anticipated Completion Date: October 1, 2018

Contact Person(s): Frederick Sneesby, Administrator, Grants & Contracts
Department of Human Services
Phone: 401.462.1669

Erin Dellefemine, Principal Human Services Business Officer
Department of Human Services
Phone: 401.462.6889

Madeline Colon, Principal Human Services Business Officer
Department of Human Services
Phone: 401.462.6411

Finding 2017-063 - corrective action plan

LIHEAP Program and Fiscal staff will be cross-trained in program and federal reporting requirements so that fiscal and program reports will align. The program staff has also implemented controls to ensure all the data is supported by valid documentation. We also have implemented a review process by the program management team to review all documentation and annual report before submission.

Program and tracking files relevant to the federal Household Report will be uploaded to the federal OLDC portal along with the Household report so that it will be discoverable in future years.

These same program and tracking files will be saved in a Shared Drive accessible for all program and fiscal staff.

Anticipated Completion Date: June 2018

Contact Person(s): Frederick Sneesby, Administrator, Grants & Contracts
Department of Human Services
Phone: 401.462.1669

Erin Dellefemine, Principal Human Services Business Officer
Department of Human Services
Phone: 401.462.6889

Madeline Colon, Principal Human Services Business Officer
Department of Human Services
Phone: 401.462.6411

Finding 2017-064 - corrective action plan

While system defects related to eligibility determination processes are noted, it is important to note that the auditors did not determine that eligibility was established incorrectly for any of the cases sampled. The State and the Systems Integrator have a plan in place to ensure that full functionality for the TANF program is delivered. Over the past year, scanning and indexing improvements have been deployed to reduce the number of missing documents. New functionality to further reduce the risk of improperly indexed documents is scheduled for deployment before June 30, 2018. The SWICA interface has been deployed into production and will be operationalized for use by workers by the summer of 2018.

Anticipated Completion Date: June 30, 2018

Contact Person(s): Kimberly Rauch, RIW Administrator
Department of Human Services
Phone: 401.462.0138

Finding 2017-065 - corrective action plan

2017-065a – Throughout SFY 2018, DHS has been working with its Cost Allocation Plan (CAP) vendor to improve the Department's implementation of the CAP, and also to enhance the vendor's understanding of the policies and procedures adhered to by DHS regarding SNAP and other federal programs. This work will result in better matching and reporting of TANF expenditures. DHS is in the process of preparing journals to reflect the results of the revised CAP documents.

2017-065b – We currently have several reports from RIBridges that allows the department to accurately and timely report case data. We are always committed to the process of modifying reports to make the information more reliable. Additional TANF related reporting is scheduled for releases over the next three months.

Anticipated Completion Date: June 30, 2018

Contact Person(s): Kimberly Rauch, RIW Administrator
Department of Human Services
Phone: 401.462.0138

Diane Hey, Principal Human Services Business Officer
Department of Human Services
Phone: 401.462.7065

Finding 2017-066 - corrective action plan

The State and Systems Integrator continue to make system improvements to ensure TANF regulations are followed. A new report, DQ-003, will be provided to the field to track, call, and place all clients in plans before the end of the current plan, and new RIWorks training for staff has been implemented. Further, the RIWorks program will be managed through caseloads managed by Employment & Career Advisors (ECAs), instead of as a tasked-based system, which will allow ECAs to more closely manage program compliance. Lastly, Clients plans will be adjusted during this Federal Fiscal Year. These plans will match the recertification time period, so that a client should never be without plan.

Anticipated Completion Date: September 30, 2018

Contact Person(s): Kimberly Rauch, RIW Administrator
Department of Human Services
Phone: 401.462.0138

Finding 2017-067- corrective action plan

The State and Systems Integrator teams are working to operationalize SWICA for RIWorks and anticipate its full implementation during FFY 2018. The immigration status information maintained by the INS interfaces was in production in FFY2017. The IRS Unearned and IRS by SSA interfaces and being prioritized for implementation during FFY 2018. Additionally, RI Works staff have had access to "The Work Number" throughout the year for the purpose of additional wage verification.

Anticipated Completion Date: September 30, 2018

Contact Person(s): Kimberly Rauch, RIW Administrator
Department of Human Services
Phone: 401.462.0138

Finding 2017-068 - corrective action plan

_2017-068a_ – Conversion issues have been resolved and updates to the RIBridges system have been made to correct co-share errors. Reconciliation is currently in process to rectify any additional copayment errors not resolved in supplemental payrolls. RIBridges currently supports retroactive copay determination. Procedures have been put in place to ensure no adverse action is taken without prior notice to the Providers. Pre-payroll validations have been put into place to ensure better quality control on the overall payroll output. System fixes to ensure that the system is determining eligibility accurately based on the required criteria are currently being scheduled. System fix for categorically eligible RIW recipients who were assessed a copay is slated for post-June implementation.

_2017-068b_ – The Department is in the process of a complete update for children enrolled with no eligibility. We have received the file of these cases from the Systems Integrator, and we are proactively reviewing the cases and are in the process of terminating ineligible cases with appropriate notice to families and providers. We are also training staff on rules and policies, conducting weekly incident meetings, weekly problem management meetings, and run system reports that flag errors. We are also conducting a pre-payroll batch run analysis to flag eligibility and enrollment issues, and to build case reviews into the overall child care assistance program.

Anticipated Completion Date: June 30, 2018

Contact Person(s): Karen Beese, Child Care Administrator
Department of Human Services
Phone: 401.462.1390

John Raymond, Chief Financial Officer
Department of Human Services
Phone: 401.462.6627

Finding 2017-069 - corrective action plan

_2017-069a_ – Reports for FFY16 quarter 4 and all subsequent activity as well as FFY17 through 9/30/17 have been submitted to ACF. All reporting through quarter ended 12/31/17 has been submitted as of 3/28/18.

_2017-069b_ – In fiscal year 2018, the Department filled most of the vacant financial positions. During this time, the Department assessed the availability and reliability of data required to meet program reporting requirements. Considerable time was spent reviewing Child Care and Development Fund requirements and limitations, as well as the instructions for completion of the ACF-696 Financial Reporting Form. Adjusted allocation of costs for fiscal year 2017 were completed. The Department reviewed documentation of specific project costs to determine if costs were eligible for federal reimbursement. Documentation was also reviewed to ensure there were no duplicative submission of expenditures. A review of expenditures to ensure appropriate classification between direct services, administration, and quality activities under the definition at 45 CFR 98.52 of CCDF regulations was also conducted. It has been determined that the availability and reliability of the data as well as the adjusted cost allocation results utilized to report administrative costs to the CCDF, are sufficient to ensure and demonstrate compliance with the grant award.

Anticipated Completion Date: Completed

Contact Person(s): John Raymond, Chief Financial Officer
Department of Human Services
Phone: 401.462.6627

Finding 2017-070 - corrective action plan

_2017-070a_ – The RIBridges eligibility system determines eligibility for the Medicaid and CHIP programs, based on the approved business rules. The State has acknowledged that RI Bridges went live too early, and has significantly contributed to the findings here. The State has made strides in bringing RI Bridges into compliance to address the findings herein, and will continue to work with the vendor to bring the system in to substantial compliance.

The findings cite compliance issues related to redetermination and post-eligibility verification. Since Go Live in September 2016 through the end of FFY 2017, the State and our Vendor introduced deferred functionality related to renewals, such as Passive Renewals and Age Out batches, as well as fixing critical defects in Post-Eligibility Verifications (PEV). Initial implementation of MAGI renewals began in August 2017. Medicare Premium Payment and Katie Beckett began in October of 2017. LTSS renewals began again in January 2018. Since its implementation, the PEV batch has identified over 25,000 households with changes requiring verification. Over 31,000 households have been automatically renewed through passive renewals. Over 6,000 households have been either aged out of the program or re-aligned to the correct federal mapping.

The findings also cite general eligibility. Deloitte was directed to conduct a comprehensive review of Medicaid and CHIP determinations, as well as defects in the RI Bridges system. This review included, but was not limited to, defects related to termination quality, eligibility determinations, and CMS pilot eligibility findings. This review of defects was completed in February 2018. Twenty-six (26) individual fixes are projected for release between now and mid-July to address CMS eligibility audit findings. We are also planning for a post-July release for any remaining deficiencies or compliance items that are discovered, or that are incorrectly fixed by the Vendor.

EOHHS will continue to monitor issues with the eligibility engine and will fix deficiencies when they are discovered.

The majority of the work being performed in efforts to resolve discrepancies between RIBridges and the MMIS was around 'Category 1' cases (i.e. those which have active eligibility in the MMIS but not in RIBridges). The current count is approximately 7,500, a reduction from the original count of 16,000 a year ago. For 'Category 2' cases (i.e. those which have active eligibility in RIBridges, but not in the MMIS), is approximately 1,800, a reduction from the original count of 6,000 a year ago. While the MMIS reconciliation issues peaked in August of 2017, they have been on a steady decline month over month since that time. The State continues to work with the Eligibility vendor to address the remaining core defects affecting MMIS reconciliation.

2017-070b – Findings recommend developing a plan to ensure that system controls over eligibility are operational. The State has developed a joint plan with the RI Bridges vendor to implement defect fixes and other necessary system changes to bring RI Bridges into substantial compliance through a series of releases. Between now and June 2018, we will aim to resolve existing defects related to the findings in this audit. This process of identification of critical defects related to the Medicaid program began in December 2017 and continues through the IT governance process in place with Deloitte and communicated with CMS. In addition to defect fixes, the State and Deloitte plan to add remaining new functionality, including ABLE (A Better Life Experience, which is a tax shelter for individuals with Developmental Disabilities) account functionality, automated processing for LIS (Low-Income Subsidy) referrals, and upgrades to FARS (Fraud and Abuse Reporting System) verification services.

To continuously monitor the accuracy of the eligibility engine, the State is also looking to identify independent ways of verifying the eligibility rules engine. These plans are in progress, and cover three tracks: 1) data analysis to identify potential areas of discrepancy through custom scripting; 2) third-party testing of the engine; and 3) continued defect identification and prioritization with the RI Bridges vendor as part of UHIP stabilization efforts. When existing defects are identified in the production system, they are logged in a central repository to be triaged and acted upon by the RI Bridges vendor.

Anticipated Completion Date: Ongoing

Contact Person(s): Thomas DeQuattro, Administrator of Medical Services
Executive Office of Health and Human Services
Phone: 401.462.1501

Finding 2017-071- corrective action plan

This finding is consistent with the State's assessment of the RI Bridges system and current priorities for resolution. The State will continue to work to ensure compliance with the timeframes as outlined by MEQC. Since the time period covered by this report, the State has worked with its vendors to fix many of the issues related to this finding and has plans over the coming months to address remaining defects and compliance issues. Additionally, the State will work with Deloitte to streamline access to information by auditors.

Anticipated Completion Date: Ongoing, with some Fixes Scheduled for April/May/June 2018.

Contact Person(s): Marlanea Peabody, Deputy Medicaid Director, Operations
Executive Office of Health and Human Services
Phone: 401.462.3521

Finding 2017-072 - corrective action plan

This finding is consistent with the State's assessment of the RI Bridges system and current priorities for resolution. The State has experienced issues with newborn processing for several years. The State continues to work with its vendor to resolve outstanding issues. The State has made incremental progress since 2017, including the introduction of additional fixes in September 2017, December 2017, and January 2018. In March of 2018, the State has logged a priority theme to address outstanding eligibility issues. A theme is a topic that covers an area comprehensively from a systems perspective, and systems processing end to end. This theme encompasses tickets associated with this audit finding. The State has been engaged with Deloitte to resolve these issues and work towards improved design to address and improve this functionality. On a go forward basis, the State will continue to work with Deloitte to address all items outlined in this theme for future releases. The State and Deloitte also individually track the number of newborn issues present in production.

Anticipated Completion Date: Ongoing

Contact Person(s): Marlanea Peabody, Deputy Medicaid Director, Operations
Executive Office of Health and Human Services
Phone: 401.462.3521

Finding 2017-073 - corrective action plan

This finding is consistent with the State's assessment of the RI Bridges system and current priorities for resolution. Although the system has improved over time and the State made progress in fall 2017 in addressing many cases pending over 90 days, the State still has approximately 1,200 overdue long-term care cases. The State will continue to prioritize operational and system improvements.

Anticipated Completion Date: Ongoing

Contact Person(s): Marlanea Peabody, Deputy Medicaid Director, Operations
Executive Office of Health and Human Services
Phone: 401.462.3521

Finding 2017-074 - corrective action plan

The Executive Office of Health and Human Services (EOHHS), in response to provider concerns over delayed eligibility determinations, instituted an interim/contingency payment program to ensure that (a) providers received payment for services rendered pending a final eligibility determination, and (b) that EOHHS is compliant with R. I. Gen. Laws §40-8-6.1. On January 31, 2018 EOHHS issued an instruction letter to providers updating the process for providers to request an interim payment for completed Long Term Care applications as well as outlining the process for the reconciliation and recoupment of payments made pursuant to this statute. This letter outlines a phased reconciliation and recoupment approach over the course of several months.

R. I. Gen. Laws §40-8-6.1 (b)(2) states that for approved applications, the state may offset payments due for the period between the date of the application and the determination by any amounts paid hereunder. The reconciliation process must balance payments made during the interim period with actual claims paid for approved beneficiaries. EOHHS has begun sending letters with supporting documentation to providers requesting repayment for the portion of the interim payment corresponding to a paid claim. The federal portion will be returned to the federal grantor.

EOHHS is meeting with the providers to reconcile information, verify MMIS for paid claims, and recoup funds paid.

Anticipated Completion Date: Ongoing

Contact Person(s): Ralph Racca, Administrator
Executive Office of Health and Human Services
Phone: 401.462.1879

Finding 2017-075 - corrective action plan

2017-075a – The State is actively addressing the issues identified in this finding. Most of the work being performed in efforts to resolve discrepancies between RIBridges and the MMIS was around 'Category 1' cases (i.e., those which have active eligibility in the MMIS but not in RIBridges). The current count is approximately 7,500 cases, a reduction from the original count of 16,000 a year ago. For 'Category 2' cases (i.e., those which have active eligibility in RIBridges, but not in the MMIS), the current count is approximately 1,800, a reduction from the original count of 6,000 a year ago. While the MMIS reconciliation issues peaked in August of 2017, they have been on a steady decline month over month since that time. The State continues to work with the Eligibility vendor to address the remaining core defects affecting MMIS reconciliation, including eight (8) fixes projected to be implemented by the vendor in the coming months. To address existing discrepancies, the State and Deloitte implemented weekly and monthly processes to identify and resolve discrepancies. Vendor meetings have been held regularly between State, Deloitte, and DXC to address data differences. EOHHS has engaged an external vendor to assist in the QC process of transactions flowing to the MMIS, and is working with Deloitte to implement significant changes during Q4 of SFY2018, so the State can reduce its level of QC. The processes of the Data Review Board are also under review, to align data changes to formalized processes. It is expected that improvements in eligibility accuracy, particularly those related to terminations, will allow more transactions to move into MMIS directly from RI Bridges without being held for QC, reducing discrepancies. Finally, for specific program areas like LTSS where the State and Deloitte are engaged together in application processing, the State is tracking MMIS issues with processing of incoming applications and logging incidents for Deloitte to address.

2017-075b – EOHHS has asked DXC to analyze the data that is suspected to be causing duplicate capitation payments. Preliminary results have been received, and the State is in the process of developing a plan of action can be created and carried out.

Anticipated Completion Date: Ongoing

Contact Person(s): Thomas DeQuattro, Administrator of Medical Services
Executive Office of Health and Human Services
Phone: 401.462.1501

Finding 2017-076 - corrective action plan

_2017-076a_ – EOHHS has a monitoring plan in place: EOHHS monitors monthly the health plans' financial position via their product-specific Risk Share reports that are submitted to EOHHS 45 days after the end of every month and present the health plan's medical performance for the contract period to date, incorporating the plan's audited Incurred But Not Reported estimates. Staff further scrutinizes this reporting twice annually for the State's caseload estimating process to better assess and forecast the financial performance of the health plans. The financial performance is fully reconciled 12-months after the close of the year by comparing the health plans' reported financials to legitimate claims paid by the health plans and accepted by EOHHS (with an allowance for a maximum 0.5% discrepancy). Reforms to the 837-Encounter process for the submission of the health plans' claims experience have greatly improved this effort but laborious reconciliation is still required, albeit for a diminishing proportion of claims. EOHHS will continue to assess the risks of and improve upon its current monitoring by holding regular bi-weekly meetings between its Finance and Managed Care teams.

_2017-076b_ – EOHHS is working to improve the adjudication of MCO encounter data to provide a more complete determination of the medical expenditures incurred during managed care contract periods. EOHHS has a weekly call with the MCO's that includes relevant EOHHS and DXC staff, designed to help MCO's work through rejected encounters. EOHHS has provided the MCO's written documentation that all encounters should be accepted by MMIS within 75 days of the date the claim was paid. EOHHS expects all MCO's to have 98% of encounter claims accepted per their contracts. If encounters are still outstanding MCO's could be placed on a corrective action plan (CAP), or be subject to a financial penalty.

_2017-076c_ – 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.

Anticipated Completion Date:	June 30, 2018
Contact Person(s):	Katie Alijewicz, Deputy Director of Finance Executive Office of Health and Human Services Phone: 401.462.0136

Finding 2017-077 - corrective action plan

_2017-077a_ – EOHHS is aware of the federal regulation requiring periodic audits; however, it believes that this requirement is inconsistent with current standards of practice, approved payment methodologies, and CFR §447.202, which calls for audits only "if payment is based on costs of services." The payment methodologies and current rates for hospitals and nursing facilities are price based, not cost based.

Consistent with the approved State Plan, inpatient hospital DRG payment rates are reviewed on an annual basis, taking into consideration such items as market basket inflation increases, policy adjustors, budget allocations, and access to care. EOHHS will review the current outlier thresholds, outlier payment parameters, and policy adjustors for inpatient payments to determine the appropriateness and financial impact of any revisions. Medicaid payments to hospitals also comply with CMS upper payment limitation requirements.

Payments to nursing facilities are consistent with the CMS approved State Plan and in compliance with the CMS upper payment limitation. On an annual basis, EOHHS conducts a comparison of actual costs to the standard reimbursement rate components to identify any significant inequities. To date, no such inequities have been found.

2017-077b – EOHHS agrees with this recommendation and will have Program Integrity develop and implement a plan to periodically sample and review nursing facility and inpatient hospital claims to detect any upcoding.

Anticipated Completion Date: June 30, 2019

Contact Person(s): Lawrence Ross, Asst. Director, Financial & Contract Management
Executive Office of Health and Human Services
Phone: 401.462.6025

Finding 2017-078 - corrective action plan

2017-078a – EOHHS will ensure, to the greatest extent possible, that the timing of when expenditures are recorded in the State's accounting system (i.e. RIFANS), drawn for federal reimbursement, and reported on the CMS-64 are aligned. Total and complete synchronization of expenses posted in RIFANS and reported in the CMS-64 as recommended by the auditors is difficult to achieve because of the nature of the reconciliation process that occurs after all expenditures have posted in RIFANS each quarter. Timing will continue to be an issue and is the major reason for reconciliation variances. All administrative cost reconciliations and any resulting adjustments are based on RIFANS postings versus the results of our Cost Allocation Plan (CAP) analysis and output. Any needed adjustment is corrected and reflected in RIFANS the month following the end of each quarter. EOHHS will continue to evaluate additional enhancements for aligning RIFANS to MMIS and also to the CMS-64.

2017-078b – To minimize adjustments and facilitate the reconciliation process, EOHHS:

1. Recently changed employee payroll funding allocations within the State's payroll system to better reflect and mirror our CAP results (most administrative adjustments are payroll related);
2. Will more closely monitor expenditures month to month to see if any adjustment or correction can be done within the quarter; and
3. Will continue to work closely with our sister agencies (BHDDH, DCF, DHS, and DOH) on timely reconciliation and reporting to EOHHS of their administrative data.

Anticipated Completion Date: June 30, 2018

Contact Person(s): Corsino Delgado, Associate Director, Financial Management
Executive Office of Health and Human Services
Phone: 401.462.2517

Finding 2017-079 - corrective action plan

EOHHS will reassess federal requirements for SUR programs and ensure it is in compliance. Currently, the State has certain contractual requirements with DXC for the operation of the State's SUR program. Specifically, the vendor creates a 50-case review (except during focused audits with approval from EOHHS), provides monthly EOBs by provider type, and initiates and thoroughly investigates tips and targeted queries. All cases are tracked in the SUR

Case Tracker so all case files are readily available. The vendor must review a minimum of 15 months of claims for each standard recipient or provider case under investigation, with the ability to retrieve claims data back to 1994. SUR makes recommendations to adjust or recoup aberrant claims, provider education, and recommends referral of cases to the Medicaid Fraud Control Unit (MFCU) where a credible allegation of fraud exists. EOHHS will submit a State Plan Amendment to CMS to properly reflect the State's current practices.

Anticipated Completion Date:	June 30, 2019
Contact Person(s):	Bruce McIntyre, Director, Office of Program Intregrity Executive Office of Health and Human Services Phone: 401.462.0613
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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	16-001, 16-002, 16-003, 16-004, 16-005, 16-006, 16-007, 16-008, 16-009, 16-010, 16-011, 16-012, 16-013, 16-014, 16-015, 16-016, 16-017, 16-018, 16-019, 16-020, 16-021, 16-022, 16-023, 16-024, 16-025, 16-026, 16-027, 16-028, 16-029, 16-030, 16-031
Supplemental Nutrition Assistance Program (SNAP) Cluster:		
State Administrative Matching Grants for SNAP	10.561	16-032, 16-033
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	15-028
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	16-034, 16-035, 16-036
CDBG – Disaster Recovery Grants – Pub. L. No. 113-2 Cluster:		
Hurricane Sandy Community Development Block Grant Disaster Recovery Grants (CDBG-DR)	14.269	16-034, 16-036
Unemployment Insurance	17.225	15-034, 16-037, 16-038
WIA/WIOA Cluster:		
WIA/WIOA Adult Program	17.258	16-039, 16-040, 16-041
WIA/WIOA Youth Activities	17.259	16-039, 16-040, 16-041
WIA/WIOA Dislocated Worker Formula Grants	17.278	16-039, 16-040, 16-041
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	15-037, 16-042, 16-043, 16-044, 16-045, 16-046
ARRA – High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants	20.319	16-047
Student Financial Assistance Cluster:		
Federal Supplemental Education Opportunity Grants	84.007	16-049, 16-054
Federal Work-Study Program	84.033	16-050, 16-051, 16-054
Federal Perkins Loan Program – Federal Capital Contributions	84.038	16-054
Federal Pell Grant Program	84.063	16-048, 16-049, 16-052, 16-053, 16-054
Federal Direct Student Loans	84.268	16-048, 16-049, 16-052, 16-054
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	16-052, 16-054
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	16-054
Nursing Student Loans	93.364	16-054
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	16-055
Temporary Assistance for Needy Families	93.558	14-061, 15-055, 16-058, 16-059, 16-060
Low-Income Home Energy Assistance Program	93.568	16-056, 16-057

Summary Schedule of Prior Audit Findings
Table of Prior Findings by Federal Program

Program Title	CFDA Number	Findings included in Previous Single Audit Reports
CCDF Cluster:		
Child Care and Development Block Grant	93.575	15-058
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	15-058
Social Services Block Grant	93.667	14-061
Children's Health Insurance Program	93.767	15-061, 16-061, 16-062, 16-063, 16-064, 16-065, 16-066, 16-072, 16-073
Medicaid Cluster:		
Medical Assistance Program	93.778	15-061, 15-072, 16-061, 16-062, 16-063, 16-064, 16-065, 16-066, 16-067, 16-068, 16-069, 16-070, 16-071, 16-072, 16-073

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: *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. The Department now participates in an on-line ordering process for product that was developed by the USDA. The Department served as a testing site in validating the system. The Department has sought approval to bring in a second vendor to make programming changes to the Oracle inventory system after other reporting discrepancies were discovering in the reporting function of the inventory system. Two vendors responded to the second solicitation and will be reviewed and evaluated with members from the Division of Information Technology (DoIT) to develop a recommended vendor to perform the scope of work required to correct the reporting deficiencies.*

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 *Case has been closed. The defendant pleaded guilty and was sentenced to serve and provide restitution upon release from prison through the federal court system. DLT received partial reimbursement of losses through the State's insurance policy.*

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.

2015-037b Enhance written policies and procedures over subrecipient monitoring. Document the Department's monitoring plan and document monitoring being performed.

Status: *No Longer Valid.*

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: *Implemented.*

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: *No Longer Valid. Front-End Detection Unit no longer exists.*

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.

2015-061d 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. Quantification and credit of questioned costs relating to this issue remain outstanding.*

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. EOHHS is working with CMS to resolve any outstanding program overpayments remaining.*

Finding 2016-001 – Financial Statement Finding

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 archived.

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.

Status: *Not Implemented. See finding 2017-001 for current year update and recommendations.*

Finding 2016-002 – Financial Statement Finding

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 intended to safeguard public resources and support accurate financial reporting.

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.

Status: *Not Implemented. See finding 2017-003 for current year update and recommendations.*

Finding 2016-003 – Financial Statement Finding *(Reported Initially in Finding 2015-001)*

Certain duties performed by the Office of the General Treasurer are not adequately segregated resulting in control deficiencies.

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.

Status: *Partially Implemented. See finding 2017-004 for current year update and recommendations.*

Finding 2016-004 – Financial Statement Finding

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.

2016-004 Enhance the operational activities of the OMB to comply with 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.

Status: *Partially Implemented. See finding 2017-011 for current year update and recommendations.*

Finding 2016-005 – Financial Statement Finding *(Reported Initially in Finding 2015-008)*

The State can enhance certain system access controls within the RIFANS statewide accounting system.

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.

Status: *Partially Implemented. See finding 2017-005 for current year update and recommendations.*

Finding 2016-006 – Financial Statement Finding *(Reported Initially in Finding 2015-003)*

Statewide accounting controls over receivables should be enhanced.

2016-006 Explore options to enhance statewide general ledger controls over receivables.

Status: *Partially Implemented. See finding 2017-006 for current year update and recommendations.*

Finding 2016-007 – Financial Statement Finding *(Reported Initially in Finding 2015-004)*

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.

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.

Status: *Partially Implemented. See finding 2017-012 for current year update and recommendations.*

Finding 2016-008 – Financial Statement Finding

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.

2016-008 Restore internal service funds as the means to account and distribute centralized costs to functions and activities.

Status: *Implemented.*

Finding 2016-009 – Financial Statement Finding *(Reported Initially in Finding 2015-002)*

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.

2016-009 Recoup overpayments from the MCOs using the newly effective and enhanced contract provisions.

Status: *Implemented.*

Finding 2016-010 – Financial Statement Finding

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.

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.

Status: *Partially Implemented. See finding 2017-002 for current year update and recommendations.*

Finding 2016-011 – Financial Statement Finding

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.

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.

Status: *Partially Implemented. See finding 2017-024 for current year update and recommendations.*

Finding 2016-012 – Financial Statement Finding *(Reported Initially in Finding 2015-006)*

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.

2016-012 Perform an off-site disaster recovery test at the State's designated disaster recovery site at least annually.

Status: *Not Implemented. See finding 2017-022 for current year update and recommendations.*

Finding 2016-013 – Financial Statement Finding *(Reported Initially in Finding 2015-007)*

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.

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.

Status: *Not Implemented. See finding 2017-023 for current year update and recommendations.*

Finding 2016-014 – Financial Statement Finding *(Reported Initially in Finding 2015-011)*

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.

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.

Status: *Implemented: a & b. Not Implemented: c. See finding 2017-016 for current year update and recommendations.*

Finding 2016-015 – Financial Statement Finding

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.

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.

Status: *Implemented: a & b. Not Implemented: c & d. See finding 2017-015 for current year update and recommendations.*

Finding 2016-016 – Financial Statement Finding *(Reported Initially in Finding 2015-012)*

Critical Division of Taxation back-up data files are not stored off-site – a recommended disaster recovery best practice.

2016-016 Ensure that digital backups are stored off-site in a geographically different location for disaster recovery and business continuity.

Status: *Not Implemented. See finding 2017-022 for current year update and recommendations.*

Finding 2016-017 – Financial Statement Finding

The Division of Taxation had inconsistent measures of recognizing taxes receivable across different tax types.

2016-017 Establish uniform criteria and consistent recognition of revenue and receivables across all tax types.

Status: *Implemented.*

Finding 2016-018 – Financial Statement Finding

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.

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.

Status: *Not Implemented. See finding 2017-013 for current year update and recommendations.*

Finding 2016-019 – Financial Statement Finding

STAARS system user access rights need to be assessed and tailored to ensure access is consistent and appropriate with each employee's responsibilities.

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.

Status: *Not Implemented. See finding 2017-017 for current year update and recommendations.*

Finding 2016-020 – Financial Statement Finding *(Reported Initially in Finding 2015-014)*

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 communicated confidentially in 2017.*

Finding 2016-021 – Financial Statement Finding

Use of two computer systems to account for the activities of the Intermodal Surface Transportation (IST) Fund is unduly complex.

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 reconciliation of FMS to RIFANS is operating as intended by modifying the reconciliation report to properly map the natural accounts between the systems.

Status: *Partially Implemented: b. Not Implemented: a. See findings 2017-025 for current year update and recommendations.*

Finding 2016-022 – Financial Statement Finding *(Reported Initially in Finding 2015-015)*

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.

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 collected 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.

Status: *Partially Implemented. See finding 2017-026 and 2017-027 for current year update and recommendations.*

Finding 2016-023 – Financial Statement Finding *(Reported Initially in Finding 2015-016)*

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.

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.

Status: *Partially Implemented. See finding 2017-029 for current year update and recommendations.*

Finding 2016-024 – Financial Statement Finding *(Reported Initially in Finding 2015-017)*

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.

2016-024a Review the progress payments 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.

Status: *Implemented: b. Not Implemented: a, c, & d. See finding 2017-030 for current year update and recommendations.*

Finding 2016-025 – Financial Statement Finding *(Reported Initially in Findings 2015-021 and 2015-022)*

Central Falls School District – Material adjustments to year-end balances, restatements of opening balances and current year -activity were necessary for the financial statements in accordance with generally accepted accounting principles.

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.

Status: *Partially Implemented. See finding 2017-032 for current year update and recommendations.*

Finding 2016-026 – Financial Statement Finding *(Reported Initially in Finding 2015-025)*

Central Falls School District – 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.

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.

Status: *Partially Implemented. See finding 2017-033 for current year update and recommendations.*

Finding 2016-027 – Financial Statement Finding *(Reported Initially in Finding 2015-020)*

The Met – 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 to the conditions listed above.

2016-027 Policies and procedures should be developed and implemented by the Met's management to ensure that appropriate internal controls are enforced.

Status: *Implemented.*

Finding 2016-028 – Financial Statement Finding

RI Convention Center Authority – Operating Bank Account and the Box Office Bank Account reconciliation at the Dunkin' Donuts Center were not completed on a timely basis.

2016-028 We recommend that all bank reconciliations be performed on a timely basis.

Status: *Implemented.*

Finding 2016-029 – Financial Statement Finding

RI Convention Center Authority – We noted that bank accounts, journal entries and an event settlement were not being reviewed.

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.

Status: *Not Implemented. See finding 2017-034 for current year update and recommendations.*

Finding 2016-030 – Financial Statement Finding *(Reported Initially in Finding 2015-026)*

RI Convention Center Authority – During the years ended June 30, 2016 and 2015, the Authority was unable to fund the Operating Reserve requirements 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 required by the restrictive covenant for the DDC pursuant to the indenture.

2016-030 We recommend that the Authority fund the Operating Reserve and Renewal and Replacement Funds.

Status: *Not Implemented. See finding 2017-035 for current year update and recommendations.*

Finding 2016-031 – Financial Statement Finding

The State should enhance controls to identify amounts passed-through to subrecipients and ensure all federal awards are properly identified and included in the State's Schedule of Expenditures of Federal Awards.

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.

Status: *Implemented.*

Finding 2016-032 – CFDA 10.561 *(Reported Initially in Finding 2015-029)*

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.

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 required to ensure amounts included on federal reports are adequately supported.

Status: *Implemented.*

Finding 2016-033 – CFDA 10.561 *(Reported Initially in Finding 2015-030)*

DHS can improve its controls over federal reporting to ensure that SNAP program expenditures are properly reported.

2016-033 Enhance controls to ensure expenditures are properly matched and reported.

Status: *Partially Implemented. See finding 2017-040 for current year update and recommendations.*

Finding 2016-034 – CFDA 14.228; 14.269

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.

2016-034 Enhance controls over cash management to ensure compliance with 31 CFR Part 205, Subpart B.

Status: *Partially Implemented. See finding 2017-044 for current year update and recommendations.*

Finding 2016-035 – CFDA 14.228

The Office of Housing and Community Development (OHCD) can enhance its monitoring of subrecipients as required by federal program requirements.

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 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 expenditures.

Status: *Partially Implemented. See finding 2017-046 for current year update and recommendations.*

Finding 2016-036 – CFDA 14.228; 14.269

The Office of Housing and Community Development (OHCD) can improve its controls to ensure that federal reporting requirements are met.

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 date from CDBG subrecipients necessary for completion of the HUD-60002 Section 3 report.

Status: *Implemented.*

Finding 2016-037 – CFDA 17.225 *(Reported Initially in Finding 2015-032)*

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.

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 28-42-3(2)(viii)).

Status: *Not Implemented. See finding 2017-048 for current year update and recommendations.*

Finding 2016-038 – CFDA 17.225

The Department of Labor and Training (DLT) had instances where BAM review case files did not reflect required documentation.

2016-038 Strengthen controls to ensure that BAM case file documentation contains required evidence of three verifiable job search contacts, and supervisory review.

Status: *Implemented.*

Finding 2016-039 – CFDA 17.258; 17.259; 17.278

The Department of Labor and Training can improve subrecipient monitoring activities for its one WIA/WIOA Cluster subrecipient.

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.

Status: *Implemented.*

Finding 2016-040 – CFDA 17.258; 17.259; 17.278

The Department of Labor and Training can improve controls to ensure compliance with cash management requirements by enhancing the review of subrecipient cash drawdown requests.

2016-040 Strengthen review of subrecipient requests for federal cash to investigate significant variances between cash draws and reported expenditures and document appropriate follow-up action.

Status: *Implemented.*

Finding 2016-041 – CFDA 17.258; 17.259; 17.278

The Department of Labor and Training can improve various aspects of its controls over financial reporting to ensure compliance with federal requirements.

2016-041a Reconcile expenditures for the quarter ended and fiscal year ended June 30, 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.

Status: *Implemented.*

Finding 2016-042 – 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 regulations and RIDOT policy.

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 department 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 Quality Assurance Program.

Status: *Partially Implemented: a & b. Not Implemented: c & e. No Longer Valid: d. See finding 2017-051 for current year update and recommendations.*

Finding 2016-043 – CFDA 20.205 *(Reported Initially in Finding 2013-042)*

Documentation of utility accommodation requirements for projects should be enhanced.

2016-043 Improve Utility Accommodation file documentation to demonstrate compliance with federal requirements.

Status: *Partially Implemented. See finding 2017-052 for current year update and recommendations.*

Finding 2016-044 – 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 can enhance documentation of the consideration of all recommendations made as a result of a value engineering analysis.

2016-044 Enhance policies, procedures, and controls to ensure compliance with Value Engineering analysis requirements contained in 23 CFR 627.

Status: *Partially Implemented. See finding 2017-053 for current year update and recommendations.*

Finding 2016-045 – CFDA 20.205

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.

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.

Status: *Implemented.*

Finding 2016-046 – CFDA 20.205

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.

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.

Status: *Implemented: b. No Longer Valid: a. See finding 2017-055 for current year update and recommendations.*

Finding 2016-047 – CFDA 20.319

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.

2016-047 Establish and implement controls to ensure compliance with the Wage Rate requirement.

Status: *Implemented.*

Finding 2016-048 – CFDA 84.063; 84.268 *(Reported Initially in Finding 2015-046)*

Community College of Rhode Island – 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.

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.

Status: *Partially Implemented. See finding 2017-060 for current year update and recommendations.*

Finding 2016-049 – CFDA 84.007; 84.063; 84.268

Community College of Rhode Island – When a recipient of Title IV funds withdraws from an institution during a payment period of 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 payment period or 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.

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 of the R2T4 calculations.

Status: *Implemented.*

Finding 2016-050 – CFDA 84.033

Community College of Rhode Island – 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 he worked.

2016-050 We recommend that the Community College review and update its policies and procedures for ensuring that all timesheets are submitted timely. Additionally, 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.

Status: *Implemented.*

Finding 2016-051 – CFDA 84.033

Rhode Island College – 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 was not paid at least once per month.

2016-051 Management of the College should establish policies and procedures to ensure federal work-study 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 being paid at least once monthly.

Status: *Implemented.*

Finding 2016-052 – CFDA 84.063; 84.268; 84.379 *(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, 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 the NSLDS by 91 and 95 days.

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.

Status: *Implemented.*

Finding 2016-053 – CFDA 84.063

University of Rhode Island – 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 forty students, the University reported the disbursement of Pell Grant funds for one student late. The disbursement was reported 6 days past the required reporting date.

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.

Status: *Implemented.*

Finding 2016-054 – CFDA 84.007; 84.033; 84.038; 84.063; 84.268; 84.379; 93.342; 93.364

University of Rhode Island – The University did not send notification of fall 2015 disbursements until June 2016

2016-054 The University should create a process to verify that email notifications have gone out before or after disbursement, and within a specified time period.

Status: *Implemented.*

Finding 2016-055 – CFDA 93.525 *(Reported Initially in Finding 2013-057)*

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.

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.

Status: *No Longer Valid. Federal funding for Health Exchange establishment diminished significantly in 2017.*

Finding 2016-056 – CFDA 93.568 *(Reported Initially in Finding 2015-053)*

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.

2016-056a Ensure at least 90% of federal awards are expended or obligated before federal fiscal year end, consistent with federal guidelines for meeting period of 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.

Status: *Partially Implemented. See finding 2017-062 for current year update and recommendations.*

Finding 2016-057 – CFDA 93.568 *(Reported Initially in Finding 2015-052)*

DHS must enhance its control procedures to ensure compliance with LIHEAP earmarking requirements.

2016-057 Implement control procedures and improve documentation to ensure compliance with LIHEAP earmarking requirements.

Status: *Implemented.*

Finding 2016-058 – 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.

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 and appropriate methodology.

Status: *Implemented.*

Finding 2016-059 – CFDA 93.558 *(Reported Initially in Finding 2005-063)*

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.

No recommendation as process is no longer relevant to current operations.

Status: *No Longer Valid.*

Finding 2016-060 – CFDA 93.558 *(Reported Initially in Finding 2003-041)*

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.

No recommendation as process no longer relevant to current operations.

Status: *No Longer Valid.*

Finding 2016-061 – CFDA 93.767; 93.778 *(Reported Initially in Findings 2014-067 and 2015-060)*

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.

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.

Status: *Not Implemented. See finding 2017-070 for current year update and recommendations.*

Finding 2016-062 – CFDA 93.767; 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 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.

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 tests 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.

Status: *Partially Implemented. See finding 2017-071 for current year update and recommendations.*

Finding 2016-063 – CFDA 93.767; 93.778

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.

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.

Status: *Partially Implemented. See finding 2017-075 for current year update and recommendations.*

Finding 2016-064 – CFDA 93.767; 93.778 *(Reported Initially in Finding 2015-062)*

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.

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.

Status: *Partially Implemented. See finding 2017-072 for current year update and recommendations.*

Finding 2016-065 – CFDA 93.767; 93.778 *(Reported Initially in Finding 2015-067)*

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.

2016-065 Re-evaluate the current project management and governance structure to ensure prioritization and resolution of critical systems issues when identified.

Status: *No Longer Valid. UHIP became operational in September 2016, changing EOHHS role from project implementation governance function to post-implementation management.*

Finding 2016-066 – 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 (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.

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.

Status: *Partially Implemented. See finding 2017-076 for current year update and recommendations.*

Finding 2016-067 – 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 sixty-two (62) Level III investigations dating back to 2009 still pending at June 30, 2016.

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.

Status *Partially Implemented. See finding 2017-079 for current year update and recommendations.*

Finding 2016-068 – 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.

2016-068 Continue implantation of the EVV system to all providers to ensure that home and community based service providers are only reimbursed for preauthorized services.

Status: *Implemented.*

Finding 2016-069 – CFDA 93.778 *(Reported Initially in Finding 2015-075)*

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 component stipulated in the State Plan) and provider audit requirements outlined within these approved methodologies.

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.

Status: *Partially Implemented. See finding 2017-077 for current year update and recommendations.*

Finding 2016-070 – CFDA 93.778 *(Reported Initially in Finding 2008-102)*

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.

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.

Status: *Implemented.*

Finding 2016-071 – 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.

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.

Status: *Partially Implemented. EOHHS is working with CMS to resolve prior period questioned costs relating to CNOM groups. Medicaid claiming of CNOM expenditures have substantially reduced in recent years.*

Finding 2016-072 – CFDA 93.767; 93.778 *(Reported Initially in Finding 2015-069)*

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.

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.

Status: *Partially Implemented. See finding 2017-038 for current year update and recommendations.*

Finding 2016-073 – 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.

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.

Status: *Partially Implemented. See finding 2017-078 for current year update and recommendations.*