

**State of Rhode Island  
and Providence Plantations**

**SINGLE AUDIT REPORT**

**Fiscal Year Ended June 30, 2004**

**Ernest A. Almonte, CPA, CFE  
Auditor General**



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STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS  
GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

- ◆ INTEGRITY
- ◆ RELIABILITY
- ◆ INDEPENDENCE
- ◆ ACCOUNTABILITY

August 11, 2005

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

I am pleased to submit the State's *Single Audit Report* for the fiscal year ended June 30, 2004. This audit was required by both state law (sections 22-13-4 and 35-7-10 of the General Laws) and the federal Single Audit Act.

The *Single Audit Report* includes our reports on (1) the 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 internal control over compliance. A detailed Schedule of Expenditures of Federal Awards is also included as outlined in the Table of Contents on the next page. Findings and related recommendations that are required to be reported in the *Single Audit Report* are included in the Schedule of Findings and Questioned Costs. A corrective action plan, which addresses each current year finding, has been prepared by the State and is included herein. Additionally, the status of prior year findings has also been prepared by the State and is included herein.

Respectfully submitted,

Ernest A. Almonte, CPA, CFE  
Auditor General

**Condensed Table of Contents**

	<u>Page</u>
<b>A. Basic Financial Statements</b>	
Independent Auditor's Report on the Basic Financial Statements and Supplementary Schedule of Expenditures of Federal Awards .....	A-1
Management's Discussion and Analysis .....	A- 5
Basic Financial Statements .....	A-17
Notes to Basic Financial Statements .....	A-28
Required Supplementary Information .....	A-80
<b>B. Schedule of Expenditures of Federal Awards</b>	
Schedule of Expenditures of Federal Awards .....	B-1
Notes to Schedule of Expenditures of Federal Awards .....	B-12
<b>C. Auditor's Reports</b>	
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 <i>Government Auditing Standards</i> .....	C-1
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	C-4

**Condensed Table of Contents (continued)**

	<u>Page</u>
<b>D. Schedule of Findings and Questioned Costs</b>	
Section I – Summary of Auditor’s Results .....	D-1
Section II – Financial Statement Findings .....	D-4
Section III – Federal Award Findings and Questioned Costs	
Table of Findings by Federal Program .....	D-40
<b>E. Corrective Action Plan – Findings Included in 2004 Single Audit Report .....</b>	<b>E-1</b>
<b>F. Summary Schedule of Prior Audit Findings .....</b>	<b>F-1</b>

## Financial Statements



**Basic Financial Statements**

**Table of Contents**

	<u>PAGE</u>
<b>INDEPENDENT AUDITOR’S REPORT</b> .....	A-1
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b> .....	A-5
<b>BASIC FINANCIAL STATEMENTS</b>	
<b>Government-wide Financial Statements</b>	
Statement of Net Assets.....	A-17
Statement of Activities .....	A-18
<b>Fund Financial Statements</b>	
Balance Sheet – Governmental Funds.....	A-19
Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Assets for Governmental Activities .....	A-20
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	A-21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	A-22
Statement of Net Assets – Proprietary Funds.....	A-23
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds .....	A-24
Statement of Cash Flows– Proprietary Funds .....	A-25
Statement of Net Assets – Fiduciary Funds .....	A-26
Statement of Changes in Fund Net Assets – Fiduciary Funds .....	A-27
<b>Notes to the Basic Financial Statements</b> .....	A-28
<b>REQUIRED SUPPLEMENTARY INFORMATION</b> .....	A-80
Budgetary Comparison Schedules – General Fund.....	A-81
Budgetary Comparison Schedules – Intermodal Surface Transportation Fund ..	A-106
Budgetary Comparison Schedules – Temporary Disability Insurance Fund .....	A-107
Schedules of Funding Progress for Employee’s Retirement System .....	A-108
Notes to Required Supplementary Information.....	A-109



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STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE OF THE AUDITOR GENERAL

- ◆ Integrity
- ◆ Reliability
- ◆ Independence
- ◆ Accountability

### INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying 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, 2004 which collectively comprise the State's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of:

- certain component units which represent 3% of the assets 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 49% of the assets and 4% of the revenues of the business-type activities; and
- certain component units which represent 100% of the assets and 100% of the revenues of the aggregate discretely presented component units.

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for 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, is based solely on the reports of the other auditors.

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

Except as discussed in the following two paragraphs, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

We were unable to obtain sufficient evidence regarding the completeness of the furniture and equipment, depreciable intangible, and building improvement categories of capital assets included in governmental activities at June 30, 2004. Due to insufficient physical inventories of capital assets and weaknesses in accounting controls over the accumulation of capital asset acquisitions and disposals, we were unable to satisfy ourselves as to the carrying value of these categories of capital assets and the related depreciation expense by other auditing procedures. The furniture and equipment, depreciable intangible, and building improvement capital asset categories represent \$128 million or 10% of total recorded governmental activities capital assets of \$1,257 million at June 30, 2004.

We were unable to obtain sufficient evidence regarding the completeness of accounts payable and related expenditures, federal revenue, and federal receivables reported for the Intermodal Surface Transportation Fund, a major fund, due to weaknesses in accounting controls over the accumulation and reporting of information included in these account classifications.

Management has not presented encumbrances outstanding at June 30, 2004 as a reserved component of fund balance within the General, Intermodal Surface Transportation, and Grant Anticipation Revenue Vehicle Fund (GARVEE) major governmental funds and other non-major governmental funds included in the aggregate remaining fund information or disclosed such amounts in the notes to the basic financial statements as required by accounting principles generally accepted in the United States of America. The amount by which this departure would affect the reserved and unreserved components of fund balance of these governmental funds is not reasonably determinable.

In our opinion, except for the effects of such adjustments, if any, on the Intermodal Surface Transportation Fund as might have been considered to be necessary had we been provided sufficient evidence regarding accounts payable and related expenditures, federal revenue and federal receivables, and except for the omission of encumbrances outstanding at June 30, 2004 as a component of reserved fund balance of the General, Intermodal Surface Transportation, and GARVEE major governmental funds and non-major governmental funds included in the aggregate remaining fund information, based on our audit and the reports of other auditors, the financial statements referred to above, present fairly, in all material respects, the financial position of each major fund and the aggregate remaining fund information of the State as of June 30, 2004 and the respective changes in financial position and cash flows, where



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

applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, except for the effects of such adjustments, if any, on the governmental activities included in the government-wide statement of net assets and the related statement of activities as might have been determined to be necessary had we been provided sufficient evidence regarding the carrying value of the furniture and equipment, depreciable intangible, and building improvement components of capital assets, 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, and the aggregate discretely presented component units of the State as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in notes 1 and 17 to the basic financial statements, the State adopted the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14* effective July 1, 2003. Beginning net assets of the discretely presented component units on the government-wide statement of net assets were increased by \$82.6 million to include foundations of the State colleges and university.

As provided by GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, the State has included only capital outlays for infrastructure since July 1, 2001 as capital assets within governmental activities on the government-wide statement of net assets. Infrastructure outlays from prior years will be included in future financial statements.

In accordance with *Government Auditing Standards*, we will issue our report on our consideration of the State’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. The report on internal control and compliance will be included in the State’s *Single Audit Report*.

The Management’s Discussion and Analysis, on pages 11 through 22, the Budgetary Comparison Schedules on pages 88 through 114, and the Schedules of Funding Progress on page 115 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, on the Intermodal Surface Transportation Fund as might have been considered to be necessary had we been provided sufficient evidence regarding accounts payable and related expenditures, based on our audit and the reports of the other auditors, is fairly stated in all material respects, in relation to the basic financial statements taken as whole.



Ernest A. Almonte, CPA, CFE  
Auditor General

July 29, 2005

## Management's Discussion and Analysis

The following is a discussion and analysis of the financial activities of the State of Rhode Island and Providence Plantations (the State) for the fiscal year ended June 30, 2004. Readers are encouraged to consider the information presented here in conjunction with the letter of transmittal, which can be found at the front of this report, and with the State's financial statements, which follow this section.

### Financial Highlights – Primary Government

#### Government-wide Financial Statements

- **Net Assets** The total assets of the State exceeded total liabilities at fiscal year ended June 30, 2004 by \$147.8 million. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government. Of this amount, (\$996.0) million was reported as unrestricted net assets, \$552.9 million was restricted net assets, and \$590.7 million was invested in capital assets net of related debt. Net assets of the governmental activities increased, after the restatement as detailed in Note 17, by \$112.8 million for the fiscal year ended June 30, 2004. This increase is reflected in the Changes in Net Assets in the line "Net assets-beginning, as restated."
- **Changes in Net Assets** In the Statement of Activities the State's total net assets changed by \$77.5 million in fiscal year 2004. Net assets of governmental activities changed by \$112.8 million, while net assets of the business-type activities changed by (\$35.3) million. The primary reason for the difference in the change in governmental activities was that taxes increased by \$142.1 million. The primary reason for the difference in the business-type activities was the increase in operating transfers out.

#### Fund Financial Statements

- State's governmental funds reported a combined ending fund balance of \$709.6 million, an increase of \$251.5 million in comparison with the previous fiscal year. The primary reason for this is the \$256.9 million fund balance in the GARVEE Fund.
- The General Fund ended the current fiscal year with an unreserved, undesignated balance of \$24.5 million, a decrease of \$18.1 million in comparison with the previous fiscal year.
- The Budget Reserve Account ended the fiscal year with a balance of \$84.3 million, an increase of \$0.7 million in comparison with the previous fiscal year.
- The Intermodal Surface Transportation Fund ended the fiscal year with an unreserved fund balance of \$36.4 million, which was an increase of \$12.3 million from the previous year.
- The R.I. Temporary Disability Insurance Fund ended the current fiscal year with a 14.2% increase of \$16.2 million over last year. The fund balance at year-end was \$130.3 million.
- The GARVEE Fund ended its first year of operations with a fund balance of \$256.9 million of which \$7.2 million is reserved for debt.
- The Rhode Island State Lottery transferred \$281.1 million to the General Fund in support of general revenue expenditures during the fiscal year, an increase of \$32.1 million in comparison with the previous fiscal year.

# Management's Discussion and Analysis

## 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, and
3. Notes to the financial statements

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

## Changes in Presentation

For the fiscal year ended June 30, 2004, the Bond Capital Fund did not meet the criteria of a major fund as described in Note 1(D). Accordingly, it is included in the Other Governmental Funds column on the fund financial statements in the basic financial statements.

On the Statement of Net Assets, the amount reported as Investment in Capital Assets, Net of Related Debt was increased and the amount reported as Unrestricted Net Assets was decreased by \$284.0 million, which was the cash balance in certain capital projects funds.

## 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 assists 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 Assets** presents all of the government's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in the government's net assets 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 assets changed during the fiscal year. All changes in net assets 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 government activities:

## Management's Discussion and Analysis

- **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 assets and change in net assets 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 Lottery Commission, R.I. 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. The State has 20 discretely presented component units. 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 the 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.

Governmental funds include the general fund and 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*

## Management's Discussion and Analysis

*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(D). The Intermodal Surface Transportation Fund, R.I. Temporary Disability Insurance Fund and the GARVEE Fund are also major funds. 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 this 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. Like the government-wide statements, proprietary funds use the accrual basis of accounting. The State has three enterprise funds, the Lottery Fund, Convention Center Authority Fund and the Employment Security Trust 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 15 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 this report.
- **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 trust, 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 this report.

# Management's Discussion and Analysis

Major Features of the Basic Financial Statements				
	Government-wide Financial Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire State government (except fiduciary funds) and the State's component units	Activities of the State that are not proprietary or fiduciary	Activities of the State that are operated similar to private businesses	Instances in which the State is the trustee or agent for someone else's resources
Required financial statements	Statement of net assets Statement of activities	Balance sheet Statement of revenues, expenditures, and changes in fund balances	Statement of net assets Statement of revenues, expenses and changes in net assets Statement of cash flows	Statement of net assets Statement of changes in fund net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year end Expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

## Notes to the Financial Statements

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

## Required Supplementary Information

The basic financial statements and accompanying notes are followed by a section of required supplementary information, including information concerning the State's progress in funding its obligation to provide pension 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 mandated budget.

## Other Supplementary Information

Other supplementary information includes the combining financial statements for nonmajor governmental funds, grouped by fund type and presented in single columns in the basic financial statements, internal service funds, fiduciary funds, discretely presented component units and the statistical section.

## Government-Wide Financial Analysis

### Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (governmental and business-type activities) totaled \$147.8 million at the end of fiscal year 2004, compared to \$70.2 million (after the restatement as detailed in Note 17) at the end of the prior fiscal year. The primary reasons for the

## Management's Discussion and Analysis

\$109.2 million decrease in the Governmental Activities unrestricted net assets are the change in presentation noted above and an increase in debt not related to capital assets.

A portion of the State's net assets reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets) recorded for fiscal years 2002 through 2004, 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.

State of Rhode Island's Net Assets as of June 30, 2004 (Expressed in Thousands)						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 1,257,114	\$ 967,379	\$ 276,030	\$ 312,155	\$ 1,533,144	\$ 1,279,534
Capital assets	1,256,951	1,086,556	199,644	208,273	1,456,595	1,294,829
<b>Total assets</b>	<b>2,514,065</b>	<b>2,053,935</b>	<b>475,674</b>	<b>520,428</b>	<b>2,989,739</b>	<b>2,574,363</b>
Long-term liabilities outstanding	1,868,542	1,599,965	286,424	294,364	2,154,966	1,894,329
Other liabilities	650,086	571,311	36,915	38,471	687,001	609,782
<b>Total liabilities</b>	<b>2,518,628</b>	<b>2,171,276</b>	<b>323,339</b>	<b>332,835</b>	<b>2,841,967</b>	<b>2,504,111</b>
Net assets:						
Invested in capital assets, net of related debt	675,696	481,460	(84,910)	(83,896)	590,786	397,564
Restricted	301,346	273,559	251,596	283,944	552,942	557,503
Unrestricted	(981,605)	(872,360)	(14,351)	(12,455)	(995,956)	(884,815)
<b>Total net assets</b>	<b>\$ (4,563)</b>	<b>\$ (117,341)</b>	<b>\$ 152,335</b>	<b>\$ 187,593</b>	<b>\$ 147,772</b>	<b>\$ 70,252</b>

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

### Changes in Net Assets

The State's net assets increased by \$77.5 million during the current fiscal year. Total revenues of \$6,558.2 million were more than expenses of \$6,480.7 million. Approximately 37.9% of the State's total revenue came from taxes, while 28.8% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 30.9% of the total revenues. The State's expenses covered a range of services. The largest expenses were for human services (37.4%) and intergovernmental (16.2%). In fiscal year 2004, governmental activity expenses exceeded program revenues, which resulted in the use of \$2,623.4 million in general revenues (mostly taxes). On the other hand, net program revenues from business-type activities in fiscal year 2004 exceeded expenses by \$213.2 million.



## Management's Discussion and Analysis

<b>State of Rhode Island - Changes in Net Assets</b>						
For the Fiscal Year Ended June 30, 2004						
(Expressed in Thousands)						
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	2004	2003	2004	2003	2004	2003
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 342,366	\$ 313,733	\$ 1,684,585	\$ 1,473,723	\$ 2,026,951	\$ 1,787,456
Operating grants and contributions	1,703,526	1,452,834	29,492	45,712	1,733,018	1,498,546
Capital grants and contributions	156,372	191,993			156,372	191,993
General revenues:						
Taxes	2,477,453	2,335,329			2,477,453	2,335,329
Interest	9,812	7,668	12,884	17,336	22,696	25,004
Other	136,122	160,547	5,568	5,354	141,690	165,901
Total revenues	<u>4,825,651</u>	<u>4,462,104</u>	<u>1,732,529</u>	<u>1,542,125</u>	<u>6,558,180</u>	<u>6,004,229</u>
<b>Program expenses:</b>						
General government	474,640	459,989			474,640	459,989
Human services	2,420,998	2,244,980			2,420,998	2,244,980
Education	75,654	103,476			75,654	103,476
Public safety	321,015	309,569			321,015	309,569
Natural resources	61,839	67,597			61,839	67,597
Transportation	173,935	170,082			173,935	170,082
Intergovernmental	1,047,537	947,792			1,047,537	947,792
Grants	299,381	291,208			299,381	291,208
Interest	104,760	98,831			104,760	98,831
Lottery			1,200,059	1,054,764	1,200,059	1,054,764
Convention Center			62,622	59,372	62,622	59,372
Employment insurance			238,220	262,585	238,220	262,585
Total expenses:	<u>4,979,759</u>	<u>4,693,524</u>	<u>1,500,901</u>	<u>1,376,721</u>	<u>6,480,660</u>	<u>6,070,245</u>
<b>Increase (decrease) in net assets before transfers and special items</b>						
	(154,108)	(231,420)	231,628	165,404	77,520	(66,016)
Transfers	266,886	235,064	(266,886)	(235,064)		
Special items		1,511				1,511
<b>Change in net assets</b>	<u>112,778</u>	<u>5,155</u>	<u>(35,258)</u>	<u>(69,660)</u>	<u>77,520</u>	<u>(64,505)</u>
Net assets - Beginning	(117,341)	(110,446)	187,593	257,253	70,252	146,807
Cumulative effect of prior period adjustments		(12,050)				(12,050)
Net assets - Beginning, as restated	<u>(117,341)</u>	<u>(122,496)</u>	<u>187,593</u>	<u>257,253</u>	<u>70,252</u>	<u>134,757</u>
Net assets - Ending	<u>\$ (4,563)</u>	<u>\$ (117,341)</u>	<u>\$ 152,335</u>	<u>\$ 187,593</u>	<u>\$ 147,772</u>	<u>\$ 70,252</u>

### 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. In particular, unreserved fund balance may serve as a useful measure of the State's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the State's governmental funds reported a combined ending fund balance of \$709.6 million, an increase of \$251.5 million. Reserved fund balances are not available for new spending because they have already been committed as follows: (1) \$84.3 million for a "rainy day" account, (2) \$47.5 million for continuing appropriations, (3) \$85.3 million principally for liquidating debt, (4) \$130.3 million for employment insurance programs

## Management's Discussion and Analysis

and (5) \$1.5 million for other restricted purposes. Approximately 47.4% (\$336.3 million) of the ending fund balance is designated by the State's management, consistent with the limitations of each fund.

The major governmental funds of the primary government are:

**General Fund.** The General Fund is the chief operating fund of the State. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$24.5 million, while total fund balance was \$156.3 million. As a measurement of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represent 0.5% of total General Fund expenditures, while total fund balance represent 3.4% of the same amount. The General Fund's unreserved fund balance decreased from \$42.6 million to \$24.5 million, a decrease of \$18.1 million during the current fiscal year. This is primarily attributed to the appropriation of the FY2003 closing surplus for program expenditures in FY04.

**Intermodal Surface Transportation Fund.** The Intermodal Surface Transportation Fund (ISTEA) accounts for the collection of gasoline tax, federal grants, and bond proceeds that are used in maintenance, upgrading, and construction of the State's highway system. At the end of the current fiscal year, unreserved fund balance of the ISTEA fund was \$36.4 million, while the total fund balance was \$37.8 million. Total fund balance of the ISTEA fund increased by \$12.3 million during the current fiscal year.

**GARVEE Fund.** This fund accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds, related expenditures and the two cents per gallon gasoline tax that is dedicated for the debt service of the RIMFT bonds. The GARVEE Fund ended its first year of operation with a fund balance of \$256.9 of which \$7.2 million is reserved for debt.

**R.I. Temporary Disability Insurance Fund.** This fund is responsible to account for the employee tax on wages which are levied to pay benefits to covered workers who are absent due to non job-related illnesses. The ending fund balance for the current fiscal year was \$130.3 million. It represents an increase of \$16.2 million or 14.2% over last year.

### General Fund Budgetary Highlights

According to the State's Constitution, general revenue appropriations in the general fund cannot exceed 98% of available general revenue sources, which consist of the current fiscal year's budgeted general revenue plus the general fund undesignated fund balance from the prior fiscal year. The budgets for the components of 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 revenues must be imposed. Certain agencies have federal programs that are entitlements, which must continue to receive the federal funds. Agencies may get additional appropriations providing a need is established. Adjustments to general revenue receipt estimates resulted in an increase of \$35.5 million (1.27%) between the original budget and the final budget. General revenue appropriations decreased from the original budget by \$2.0 million (0.08%). Some significant changes between the estimated general revenue receipts and general revenue appropriations are listed below.

## Management's Discussion and Analysis

- Personal income tax increased by \$31.6 million (3%)
- Business corporation tax increased by \$14.9 million (22%)
- Public gross earnings tax increased by \$7.2 million (9%)
- Financial institutions tax decreased by \$4.5 million (300%)
- Departmental general revenue increased by \$6.8 million (2%)
- General revenue appropriations decreased in the Department of Administration by \$20.8 million
- General revenue appropriations increased in the Department of Corrections by \$5.2 million

### 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, 2004, amounts to \$1,456.6 million, net of accumulated depreciation of \$481.2 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. The total increase in the State's investment in capital assets for the current fiscal year was about 12.5 % in terms of net book value.

Actual expenditures to purchase or construct capital assets were \$203.7 million for the year. Of this amount, \$137.4 million was used to construct or reconstruct roads. Depreciation charges for the year totaled \$52.3 million.

<b>State of Rhode Island's Capital Assets as of June 30, 2004</b>						
(Expressed in Thousands)						
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	2004	2003	2004	2003	2004	2003
<b>Capital assets not being depreciated</b>						
Land	\$ 322,369	\$ 382,579	\$ 38,032	\$ 38,032	\$ 360,401	\$ 420,611
Intangibles	85,564				85,564	
Construction in progress	82,810	102,881	1,189		83,999	102,881
<b>Total capital assets not being depreciated</b>	<b>490,743</b>	<b>485,460</b>	<b>39,221</b>	<b>38,032</b>	<b>529,964</b>	<b>523,492</b>
<b>Capital assets being depreciated</b>						
Land improvements	3,601	3,601			3,601	3,601
Buildings	429,982	374,127	229,813	229,748	659,795	603,875
Building improvements	198,632	198,449			198,632	198,449
Equipment	158,399	148,924	24,722	23,571	183,121	172,495
Intangibles	898				898	
Infrastructure	361,850	224,490			361,850	224,490
	1,153,362	949,591	254,535	253,319	1,407,897	1,202,910
Less: Accumulated depreciation	387,154	348,495	94,113	83,078	481,267	431,573
<b>Total capital assets being depreciated</b>	<b>766,208</b>	<b>601,096</b>	<b>160,422</b>	<b>170,241</b>	<b>926,630</b>	<b>771,337</b>
<b>Total capital assets (net)</b>	<b>\$ 1,256,951</b>	<b>\$ 1,086,556</b>	<b>\$ 199,643</b>	<b>\$ 208,273</b>	<b>\$ 1,456,594</b>	<b>\$ 1,294,829</b>

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

## Management's Discussion and Analysis

### Debt Administration

Under the State's Constitution, the General Assembly has no power to incur State debts in excess of \$50,000 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 \$1,794.0 million of which \$763.0 million is general obligation debt, \$264.0 million is special obligation debt and \$767.0 million is debt of the blended component units. The State's total bonded debt increased by \$284.7 million during the current fiscal year. This increase is the net of a \$39.7 million increase in general obligation debt, an increase of \$264.0 million in special obligation debt and a decrease of \$19.0 million in the blended component units. Additionally, the State has extended its credit through contractual agreements of a long-term nature, which are subject to annual appropriations.

During the current fiscal year, the State issued \$79.7 million of general obligation bonds, \$65.8 million of general obligation refunding bonds and \$269.8 million of special obligation bonds. These bonds have been assigned ratings by Fitch, Inc. (Fitch), Moody's Investors Service (Moody's) and Standard and Poor's Rating Services (Standard and Poor's). Of the \$269.8 million of special obligation bonds, \$53.0 million are supported by dedicated future gasoline tax revenue and \$216.8 million are supported by future federal revenue. The proceeds and related expenditures of this special obligation debt are accounted for in the GARVEE Fund.

The State does not have any debt limitation. Bonds authorized by the voters, that remain unissued as of the end of the current fiscal year, amounted to \$238.7 million. Additional information on the State's long-term debt can be found in the notes to the financial statements of this report.

### Economic Factors

The State's economy has continued to perform well. According to the U.S. Bureau of Labor Statistics, Rhode Island experienced an increase in non-farm employment of 5,100 jobs, or 1.1 percent, in FY 2004. In FY 2003, Rhode Island gained 3,500 jobs, an increase of 0.7 percent over FY 2002. On a calendar year basis, Rhode Island added 9,000 jobs in 2003 and 2004. The May 2005 Revenue Estimating Conference's Consensus Economic Forecast projects Rhode Island non-farm employment to total 495,200 in 2005, an increase of 6,800 jobs, or 1.4 percent, over 2004, and 503,100 in 2006, an increase of 7,900 jobs, or 1.6 percent, over projected 2005.

According to Economy.com's April 2005 *Forecast Report: U.S., New England, and Rhode Island*, Rhode Island's recent job gains are a result of "an acceleration in its (the State's) expansion. This improvement is quite broad based and can be seen in all major sectors of the economy." Although the expansion is widespread, the strongest sectors have been financial services, leisure and hospitality, and education and health services. The education and health services sector accounts for 19.0 percent of Rhode Island total non-farm employment well above the U.S. average of 12.5 percent. Rhode Island construction employment remains strong bolstered by "a booming housing market" and "government spending on road improvement projects". Finally, the State's manufacturing sector has begun to stabilize after an employment decline of 1.5 percent in 2004. Rising demand, particularly in export markets which rose by 6.0 percent year-over-year in the third quarter of 2004, has "forced manufacturers to increase the

## Management's Discussion and Analysis

workweek for production workers” which is typically “a precursor to stronger hiring, or at least, the end of layoffs.”

Rhode Island personal income growth has also accelerated over the past year, however, the gap between Rhode Island and U.S. personal income growth has narrowed during this period. In CY 2003, Rhode Island personal income growth was 3.9 percent vs. 3.2 percent for U.S. personal income growth, a difference of 70 basis points. In CY 2004, Rhode Island personal income growth was 5.7 percent as was U.S. personal income growth. The elimination of the gap between Rhode Island and U.S. personal income growth rates is a result of the rebound of the national economy from its recessionary level in 2002. It should be noted that Rhode Island experienced a mild economic downturn in 2002 relative to that of the United States as a whole.

Economy.com (4/2005) remains “optimistic about a favorable near-term outlook” for Rhode Island’s economy with payroll growth expected “to pick up pace in 2005 and employment to rise a solid 1.1%.” One of the catalysts for near- to medium-term growth remains rising national defense spending. Economy.com (4/2005) notes that “Electric Boat continues to win federal contracts to retrofit submarines for use in special operations and surveillance” and, in addition, “Raytheon is also enjoying more business from a larger defense budget given its emphasis on surveillance and control systems.” Finally, the national defense build-up is moving the State’s manufacturing sector into a much better position to support growth in the Rhode Island economy. With the assistance of the Rhode Island Manufacturing Extension Services, “area businesses with little history of defense work” anticipate capturing a significant part of the U.S. Department of Defense’s increased spending.

The biotechnology industry cluster that has begun to emerge in Rhode Island should positively impact the State’s long term economic performance. According to Economy.com (4/2005), “[T]he state has the necessary ingredients for a successful biotech agglomeration: dynamic research institutions, federal grant money, and a group of leading companies and their associated skilled labor force.” In 2002, the Brown University Medical School won \$90 million in research grants from the National Institutes of Health. The State’s voters approved a \$50 million bond referendum for the construction of the Center for Biotechnology and Life Sciences at the University of Rhode Island. The presence and proposed expansion of the Naval Undersea Warfare Center in Newport further augments the requisite “cutting edge knowledge base” necessary for a successful biotech cluster. Finally, Amgen has invested \$1.5 billion in the State since 2001 building the largest biopharmaceutical manufacturing facility in the U.S. for the production of its blockbuster rheumatoid arthritis drug Enbrel®. The final phase of the plant is expected to open in 2005 adding from 300 to 400 jobs.

One of the biggest drags on the State’s economic performance is the high tax burden imposed on Rhode Island businesses and households. Economy.com (4/2005) reports that, “according to the fourth annual Economic Outlook Survey conducted by Sovereign Bank and the Greater Providence Chamber of Commerce, 83% of business owners in Providence feel that their greatest challenge is taxes.” In 2005, the Tax Foundation projected that, based on a net national product definition of personal income and a geographical distribution of tax incidence, Rhode Island had the 4<sup>th</sup> highest effective state and local tax burden in 2005, a substantial increase from its rank of 31 in 1970. High property taxes at the local level and high personal income tax rates at the state level drive Rhode Island’s heavy tax burden. The former discourages businesses that are making relocation decisions from choosing Rhode Island. The latter discourage

## Management's Discussion and Analysis

entrepreneurs and venture capitalists from enhancing new business development in the State giving Rhode Island a less dynamic economy than Connecticut and Massachusetts.

### Requests for Information

This financial report is designed to provide a general overview of Rhode Island's finances for all those with an interest in the State's finances. Questions concerning any of the information provided in this report or requests for additional information should be sent to [finreport@mail.state.ri.us](mailto:finreport@mail.state.ri.us). As of fiscal year 1999, the State's Comprehensive Annual Financial Report may be found on the State Controller's home page, <http://controller.doa.state.ri.us>. Requests for additional information related to component units should be addressed as listed in Note 1 of the financial statements.

**State of Rhode Island and Providence Plantations**

**Statement of Net Assets**

**June 30, 2004**

(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business - Type Activities	Totals	
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 411,193	\$ 18,223	\$ 429,416	\$ 701,578
Funds on deposit with fiscal agent	265,238	184,767	450,005	
Investments	74,887	47	74,934	888,943
Receivables (net)	278,938	52,040	330,978	1,079,495
Due from primary government				3,096
Due from component units	4,860		4,860	
Internal balances	4,088	(4,088)		
Due from other governments and agencies	140,654	1,245	141,899	7,692
Loans to component units	3,400		3,400	
Inventories	2,289	1,049	3,338	7,502
Other assets	37,005	1,156	38,161	7,931
Total current assets	1,222,552	254,439	1,476,991	2,696,237
Noncurrent assets:				
Investments		17,174	17,174	163,679
Receivables (net)	475		475	1,188,338
Due from component units	23,819		23,819	
Capital assets - nondepreciable	490,743	39,221	529,964	342,265
Capital assets - depreciable (net)	766,208	160,423	926,631	983,102
Lease receivable				4,730
Other assets	10,268	4,417	14,685	162,452
Total noncurrent assets	1,291,513	221,235	1,512,748	2,844,566
Total assets	2,514,065	475,674	2,989,739	5,540,803
<b>Liabilities</b>				
Current Liabilities:				
Cash overdraft	12,269		12,269	649
Accounts payable	313,770	12,408	326,178	72,447
Due to primary government				795
Due to component units	1,507		1,507	602
Due to other governments and agencies		1,960	1,960	820
Accrued expenses	70,034	4,870	74,904	53,386
Deferred revenue	10,916	1,909	12,825	25,360
Other current liabilities	84,649		84,649	8,068
Current portion of long-term debt	156,941	9,533	166,474	290,456
Obligation for unpaid prize awards		6,235	6,235	
Total current liabilities	650,086	36,915	687,001	452,584
Noncurrent Liabilities:				
Due to other governments and agencies	6,000		6,000	4,177
Accrued liabilities				33,613
Deferred revenue		11,250	11,250	4,609
Notes payable				4,445
Loans payable				179,610
Obligations under capital lease	93,054		93,054	20,087
Compensated absences	13,288		13,288	22,550
Bonds payable	1,720,447	275,174	1,995,621	2,872,963
Other liabilities	35,753		35,753	289,507
Total noncurrent liabilities	1,868,542	286,424	2,154,966	3,431,561
Total liabilities	2,518,628	323,339	2,841,967	3,884,145
<b>Net Assets</b>				
Invested in capital assets, net of related debt	675,696	(84,910)	590,786	693,493
Restricted for:				
Budget Reserve	84,298		84,298	
State infrastructure bank	1,354		1,354	
Debt	85,336	23,763	109,099	686,121
Self-insurance	100		100	
Employment Insurance Programs	130,258	227,833	358,091	
Unrestricted	(981,605)	(14,351)	(995,956)	277,044
Total net assets	\$ (4,563)	\$ 152,335	\$ 147,772	\$ 1,656,658

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 Year Ended June 30, 2004**  
**(Expressed in Thousands)**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Totals	
<b>Primary government:</b>								
Governmental activities:								
General government	\$ 474,640	\$ 137,913	\$ 118,147	\$ 35	\$ (218,545)	\$	\$ (218,545)	\$
Human services	2,420,998	124,716	1,339,603	119	(956,560)		(956,560)	
Education	75,654	3,320	154,589	2	82,257		82,257	
Public safety	321,015	43,487	34,839	717	(241,972)		(241,972)	
Natural resources	61,839	31,191	16,486	10,857	(3,305)		(3,305)	
Transportation	173,935	1,739	39,862	144,642	12,308		12,308	
Intergovernmental	1,047,537				(1,047,537)		(1,047,537)	
Grants	299,381				(299,381)		(299,381)	
Interest and other charges	104,760				(104,760)		(104,760)	
Total governmental activities	<u>4,979,759</u>	<u>342,366</u>	<u>1,703,526</u>	<u>156,372</u>	<u>(2,777,495)</u>		<u>(2,777,495)</u>	
Business-type activities:								
State lottery	1,200,059	1,480,625				280,566	280,566	
Convention Center	62,622	40,265				(22,357)	(22,357)	
Employment security	238,220	163,695	29,492			(45,033)	(45,033)	
Total business-type activities	<u>1,500,901</u>	<u>1,684,585</u>	<u>29,492</u>			<u>213,176</u>	<u>213,176</u>	
Total primary government	<u>\$ 6,480,660</u>	<u>\$ 2,026,951</u>	<u>\$ 1,733,018</u>	<u>\$ 156,372</u>	<u>(2,777,495)</u>	<u>213,176</u>	<u>(2,564,319)</u>	
<b>Component units</b>	<u>\$ 999,351</u>	<u>\$ 991,804</u>	<u>\$ 31,040</u>	<u>\$ 37,356</u>				60,849
<b>General Revenues:</b>								
Taxes					2,477,453		2,477,453	
Interest and investment earnings					9,812	12,884	22,696	37,236
Miscellaneous					136,122	5,568	141,690	(2,048)
Special or Extraordinary Items								(1,630)
Transfers					266,886	(266,886)		
Total general revenues, special or extraordinary items, and transfers					<u>2,890,273</u>	<u>(248,434)</u>	<u>2,641,839</u>	<u>33,558</u>
Change in net assets					112,778	(35,258)	77,520	94,407
Net assets - beginning, as restated					(117,341)	187,593	70,252	1,562,251
Net assets - ending					<u>\$ (4,563)</u>	<u>\$ 152,335</u>	<u>\$ 147,772</u>	<u>\$ 1,656,658</u>

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, 2004**

**(Expressed in Thousands)**

	<b>General</b>	<b>Intermodal Surface Transportation</b>	<b>R.I. Temporary Disability</b>	<b>GARVEE</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>						
Cash and cash equivalents	\$ 226,697	\$ 19,575	\$ 86,598	\$	\$ 72,393	\$ 405,263
Funds on deposit with fiscal agent				259,255	5,983	265,238
Investments					74,887	74,887
Receivables (net)	216,846	12,368	44,901	925		275,040
Due from other funds	7,654	9,960			167	17,781
Due from component units	717	24			25	766
Due from other governments and agencies	93,788	42,624			4,242	140,654
Loans to other funds	118					118
Loans to component units	3,400					3,400
Other assets	34,366	400			1,493	36,259
<b>Total assets</b>	<b>583,586</b>	<b>84,951</b>	<b>131,499</b>	<b>260,180</b>	<b>159,190</b>	<b>1,219,406</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Cash overdraft					11,039	11,039
Accounts payable	271,947	28,178	53	3,142	4,988	308,308
Due to other funds			1,188	113	12,881	14,182
Due to component units	35	1,472				1,507
Loans from other funds					18	18
Accrued expenses	51,507					51,507
Deferred revenue	21,529	17,006			66	38,601
Other liabilities	82,274	498			1,877	84,649
<b>Total liabilities</b>	<b>427,292</b>	<b>47,154</b>	<b>1,241</b>	<b>3,255</b>	<b>30,869</b>	<b>509,811</b>
<b>Fund Balances</b>						
<b>Reserved for:</b>						
Budget reserve	84,298					84,298
Appropriations carried forward	47,545					47,545
Debt				7,230	78,106	85,336
Self-insurance					100	100
State infrastructure bank		1,354				1,354
Employment Insurance Programs			130,258			130,258
<b>Unreserved, reported in:</b>						
General fund	24,451					24,451
Special revenue funds		36,443			15	36,458
Capital projects funds				249,695	49,225	298,920
Permanent fund					875	875
<b>Total fund balances</b>	<b>156,294</b>	<b>37,797</b>	<b>130,258</b>	<b>256,925</b>	<b>128,321</b>	<b>709,595</b>
<b>Total liabilities and fund balances</b>	<b>\$ 583,586</b>	<b>\$ 84,951</b>	<b>\$ 131,499</b>	<b>\$ 260,180</b>	<b>\$ 159,190</b>	<b>\$ 1,219,406</b>

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 Statement of Net Assets for Governmental Activities  
 June 30, 2004  
 (Expressed in Thousands)

Fund Balance of Governmental Funds	\$	709,595
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital Assets used in the governmental activities are not financial resources and therefore are not reported in the funds.		1,253,590
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Bond, notes, certificates of participation, accrued interest and other liabilities are not due and payable in the current period and therefore are not recorded in the governmental funds.		(2,011,634)
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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.		35,251
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The net assets of the internal service funds is reported with governmental activities.		8,635
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Net Assets - Governmental Activities	\$	(4,563)
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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 Year Ended June 30, 2004**  
**(Expressed in Thousands)**

	General	Intermodal Surface Transportation	R.I. Temporary Disability	GARVEE	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
Taxes	\$ 2,156,633	\$ 142,487	\$ 178,758	\$	\$	\$ 2,477,878
Licenses, fines, sales, and services	239,263	69			2,948	242,280
Departmental restricted revenue	105,737	1,670				107,407
Federal grants	1,664,496	167,207			15,497	1,847,200
Income from investments		81	864	3,775	5,590	10,310
Other revenues	45,136	1,970	224		45,721	93,051
Total operating revenues	4,211,265	313,484	179,846	3,775	69,756	4,778,126
<b>Expenditures:</b>						
Current:						
General government	297,662		162,462		1,617	461,741
Human services	2,409,512				262	2,409,774
Education	71,990				848	72,838
Public safety	311,642				59	311,701
Natural resources	57,916				1,762	59,678
Transportation		161,883			91	161,974
Capital outlays	27,696	115,383	154	31,945	25,702	200,880
Intergovernmental	1,046,510	861			166	1,047,537
Grants					6,145	6,145
Debt service:						
Principal	66,557			5,625	3,710	75,892
Interest and other charges	52,483			9,421	45,816	107,720
Total operating expenditures	4,341,968	278,127	162,616	46,991	86,178	4,915,880
Excess (deficiency) of revenues over (under) expenditures	(130,703)	35,357	17,230	(43,216)	(16,422)	(137,754)
<b>Nonoperating revenues (expenditures):</b>						
Bonds and notes issued				269,835	145,600	415,435
Premium and accrued interest				20,807	9,290	30,097
Operating transfers in	382,593	64,288		9,499	56,976	513,356
Operating transfers in from component units	15,395				173	15,568
Other	25,391					25,391
Payment to refunded bonds escrow agent					(72,160)	(72,160)
Operating transfers out	(79,054)	(54,996)	(1,066)		(110,130)	(245,246)
Operating transfers out to component units	(229,168)	(32,306)			(31,762)	(293,236)
Total nonoperating revenues (expenditures) and other financing sources (uses)	115,157	(23,014)	(1,066)	300,141	(2,013)	389,205
Change in fund balances	(15,546)	12,343	16,164	256,925	(18,435)	251,451
Fund balances - beginning	171,840	25,454	114,094		146,756	458,144
Fund balances - ending	\$ 156,294	\$ 37,797	\$ 130,258	\$ 256,925	\$ 128,321	\$ 709,595

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 Governmental Funds to the Statement of Activities  
 For the Year Ended June 30, 2004  
 (Expressed in Thousands)

Change in Fund Balance - Governmental Funds	\$ 251,451
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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.	170,957
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Bond, notes, and certificates of participation proceeds provide current financial resources to governmental funds by issuing debt which increases long-term debt in the Statement of Net Assets. Repayments of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	(300,887)
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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.	(5,717)
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net assets of the internal service funds is reported with governmental activities.	(3,026)
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Change in Net Assets - Governmental Activities	<u><u>\$ 112,778</u></u>
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The notes to the financial statements are an integral part of this statement.

**State of Rhode Island and Providence Plantations**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2004**  
**(Expressed in Thousands)**

	<b>Business-type Activities-- Enterprise Funds</b>			<b>Governmental Activities</b>	
	<b>R.I. State Lottery</b>	<b>R.I. Convention Center</b>	<b>Employment Security</b>	<b>Totals</b>	<b>Internal Service Funds</b>
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 7,957	\$ 9,146	\$ 1,120	\$ 18,223	\$ 5,930
Funds on deposit with fiscal agent			184,767	184,767	
Investments	47			47	
Receivables (net)	6,197	1,821	44,022	52,040	3,898
Due from other funds					1,943
Due from other governments and agencies			1,245	1,245	
Inventories	1,049			1,049	2,289
Other assets	223	933		1,156	746
Total current assets	<u>15,473</u>	<u>11,900</u>	<u>231,154</u>	<u>258,527</u>	<u>14,806</u>
Noncurrent assets:					
Investments		17,174		17,174	
Capital assets - nondepreciable		39,221		39,221	
Capital assets - depreciable (net)	1,707	158,716		160,423	3,361
Other assets		4,417		4,417	475
Total noncurrent assets	<u>1,707</u>	<u>219,528</u>		<u>221,235</u>	<u>3,836</u>
Total assets	<u>17,180</u>	<u>231,428</u>	<u>231,154</u>	<u>479,762</u>	<u>18,642</u>
<b>Liabilities</b>					
Current Liabilities					
Cash overdraft					1,230
Accounts payable	8,702	3,706		12,408	5,789
Due to other funds	1,697	1,030	1,361	4,088	1,454
Due to other governments and agencies			1,960	1,960	
Loans from other funds					100
Accrued expenses	381	4,489		4,870	
Deferred revenue	790	1,119		1,909	
Other current liabilities					1,434
Notes payable		153		153	
Bonds payable		9,380		9,380	
Obligations under capital lease					720
Obligation for unpaid prize awards	6,235			6,235	
Total current liabilities	<u>17,805</u>	<u>19,877</u>	<u>3,321</u>	<u>41,003</u>	<u>10,727</u>
Noncurrent Liabilities:					
Deferred contract revenue	11,250			11,250	
Obligations under capital lease					112
Bonds payable		275,174		275,174	
Total noncurrent liabilities	<u>11,250</u>	<u>275,174</u>		<u>286,424</u>	<u>112</u>
Total liabilities	<u>29,055</u>	<u>295,051</u>	<u>3,321</u>	<u>327,427</u>	<u>10,839</u>
<b>Net Assets</b>					
Invested in capital assets, net of related deb	1,707	(86,617)		(84,910)	2,529
Restricted for:					
Debt		23,763		23,763	
Employment Insurance Program			227,833	227,833	
Unrestricted	(13,582)	(769)		(14,351)	5,274
Total net assets	<u>\$ (11,875)</u>	<u>\$ (63,623)</u>	<u>\$ 227,833</u>	<u>\$ 152,335</u>	<u>\$ 7,803</u>

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 Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2004**  
**(Expressed in Thousands)**

	Business-type Activities-- Enterprise Funds			Totals	Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security		Internal Service Funds
Operating revenues:					
Charges for services	\$ 1,480,625	\$ 39,632	\$ 162,575	\$ 1,682,832	\$ 96,296
Grants			29,492	29,492	
Miscellaneous		633	1,120	1,753	
Total operating revenues	1,480,625	40,265	193,187	1,714,077	96,296
Operating expenses:					
Personal services	3,626	15,496		19,122	13,589
Supplies, materials, and services	175,420	19,009		194,429	84,621
Prize awards	1,020,683			1,020,683	
Depreciation	330	11,500		11,830	705
Benefits paid			230,887	230,887	
Total operating expenses	1,200,059	46,005	230,887	1,476,951	98,915
Operating income (loss)	280,566	(5,740)	(37,700)	237,126	(2,619)
Nonoperating revenues (expenses):					
Interest revenue		1,015	11,869	12,884	21
Other nonoperating revenue	1,314		4,254	5,568	
Interest expense		(16,617)		(16,617)	(61)
Other nonoperating expenses			(7,333)	(7,333)	25
Total nonoperating revenue (expenses)	1,314	(15,602)	8,790	(5,498)	(15)
Net income (loss) before transfers	281,880	(21,342)	(28,910)	231,628	(2,634)
Transfers in		22,078	1,224	23,302	
Transfers out	(281,255)	(5,030)	(3,903)	(290,188)	(1,224)
Change in net assets	625	(4,294)	(31,589)	(35,258)	(3,858)
Total net assets - beginning	(12,500)	(59,329)	259,422	187,593	11,661
Total net assets - ending	\$ (11,875)	\$ (63,623)	\$ 227,833	\$ 152,335	\$ 7,803

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 Year Ended June 30, 2004**  
**(Expressed in Thousands)**

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
<b>Cash flows from operating activities:</b>					
Cash received from customers	\$ 1,487,294	\$ 41,158	\$ 156,838	\$ 1,685,290	\$ 100,924
Cash received from grants			29,492	29,492	
Cash payments to suppliers for goods and services	(3,950)	(19,279)		(23,229)	(84,598)
Cash payments to employees for services	(3,469)	(15,432)		(18,901)	(14,086)
Cash payments to prize winners	(1,026,771)			(1,026,771)	
Cash payments for commissions	(174,873)			(174,873)	
Cash payments for benefits			(230,950)	(230,950)	
Other operating revenue (expense)			199	199	4
Net cash provided by (used for) operating activities	278,231	6,447	(44,421)	240,257	2,244
<b>Cash flows from noncapital financing activities:</b>					
Loans from other funds					11,079
Repayment of loans to other funds					(11,079)
Operating transfers in		15,150	267	15,417	
Operating transfers out	(281,054)		(3,429)	(284,483)	(1,224)
Net transfers from (to) fiscal agent			47,180	47,180	
Negative cash balance implicitly financed					1,230
Net cash provided by (used for) noncapital financing activities	(281,054)	15,150	44,018	(221,886)	6
<b>Cash flows from capital and related financing activities:</b>					
Principal paid on capital obligations		(7,685)		(7,685)	(265)
Interest paid on capital obligations		(14,407)		(14,407)	(69)
Acquisition of capital assets	(183)	(2,617)		(2,800)	(270)
Proceeds from the disposition of capital assets		4		4	
Net cash provided by (used for) capital and related financing activities	(183)	(24,705)		(24,888)	(604)
<b>Cash flows from investing activities:</b>					
Proceeds from sale and maturity of investments	295			295	
Interest on investments	251	1,015		1,266	21
Net cash provided by (used for) investing activities	546	1,015		1,561	21
Net increase (decrease) in cash and cash equivalents	(2,460)	(2,093)	(403)	(4,956)	1,667
Cash and cash equivalents, July 1	10,417	11,239	1,523	23,179	4,264
Cash and cash equivalents, June 30	\$ 7,957	\$ 9,146	\$ 1,120	\$ 18,223	\$ 5,931
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>					
Operating income (loss)	280,566	(5,740)	(37,700)	237,126	(2,619)
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:</b>					
Depreciation	330	11,500		11,830	705
Other revenue (expense) and operating transfer in (out)			1,224	1,224	1,196
Net changes in assets and liabilities:					
Receivables, net	71	748	(7,732)	(6,913)	29,429
Operating revenue deposited directly with the fiscal agent					
Inventory	159			159	(232)
Prepaid items	13	(56)		(43)	(238)
Other assets	(25)			(25)	
Other income / expenses	191	(4)		187	
Due to / due from transactions			(213)	(213)	
Accounts and other payables	(3,386)	(107)		(3,493)	(25,492)
Accrued expenses	47	(9)		38	(505)
Deferred revenue	(211)	115		(96)	
Prize awards payable	476			476	
Total adjustments	(2,335)	12,187	(6,721)	3,131	4,863
Net cash provided by (used for) operating activities	\$ 278,231	\$ 6,447	\$ (44,421)	\$ 240,257	\$ 2,244

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

**State of Rhode Island and Providence Plantations**  
**Statement of Net Assets**  
**Fiduciary Funds**  
**June 30, 2004**  
**(Expressed in Thousands)**

	<b>Pension Trust</b>	<b>Private Purpose</b>	
		<b>Touro Jewish Synagogue</b>	<b>Agency</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 9,495	\$	\$ 17,076
Receivables			
Contributions	27,757		
Due from state for teachers	18,428		
Miscellaneous	3,483		
Total receivables	49,668		
Investments, at fair value			
Equity in Short-Term Investment Fund	6,526		
Equity in Pooled Trust	6,164,676		
Plan specific investments	22,629		
Other investments		1,908	61,411
Total investments before lending activities	6,193,831	1,908	61,411
Invested securities lending collateral	806,497		
Property and equipment, at cost, net of accumulated depreciation			
Line of Business System in Development	14,378		
Computer Equipment	164		
Total Property and Equipment	14,542		
Total assets	7,074,033	1,908	78,487
<b>Liabilities</b>			
Securities lending liability	806,497		
Accounts payable	7,643		
Deposits held for others		5	78,487
Total liabilities	814,140	5	78,487
Net assets held in trust for pension and other benefits	\$ 6,259,893	\$ 1,903	\$

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



**State of Rhode Island and Providence Plantations**  
**Statement of Changes in Fund Net Assets**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2004**  
**(Expressed in Thousands)**

	<b>Pension Trust</b>	<b>Private Purpose Touro Jewish Synagogue</b>
<b>Additions</b>		
Contributions		
Member contributions	\$ 154,776	\$
Employer contributions	141,490	
State contributions for teachers	45,039	
Interest on service credits purchased	987	
Total contributions	342,292	
Investment income		
Net appreciation (depreciation) in fair value of investments	856,972	16
Interest	77,531	94
Dividends	40,538	
Other investment income	47,684	
	1,022,725	110
Less investment expense	14,139	
Net income from investing activities	1,008,586	110
Securities Lending		
Securities lending income	6,516	
Less securities lending expense	4,864	
Net securities lending income	1,652	
Total net investment income	1,010,238	110
Total additions	1,352,530	110
<b>Deductions</b>		
Benefits		
Retirement benefits	391,590	
Cost of living adjustment	96,667	
SRA Plus (option)	26,531	
Supplemental benefits	1,035	
Death benefits	3,761	
Total benefits	519,584	
Refund of contributions	7,852	
Administrative expense	5,476	
Distribution		95
Total deductions	532,912	95
Net increase (decrease)	819,618	15
Net assets held in trust for pension benefits		
Net assets - beginning	5,440,275	1,888
Net assets - ending	\$ 6,259,893	\$ 1,903

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

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

**INDEX**

	<b>Page</b>
Note 1. Summary of Significant Accounting Policies .....	A-29
Note 2. Budgeting and Budgetary Control.....	A-41
Note 3. Cash, Cash Equivalents and Investments.....	A-42
Note 4. Receivables .....	A-47
Note 5. Intra-Entity Receivables and Payables.....	A-48
Note 6. Capital Assets.....	A-49
Note 7. Long-Term Obligations .....	A-51
Note 8. Net Assets .....	A-59
Note 9. Taxes .....	A-61
Note 10. Operating Transfers .....	A-62
Note 11. Operating Lease Commitments .....	A-62
Note 12. Commitments .....	A-63
Note 13. Contingencies.....	A-66
Note 14. Employer Pension Plans .....	A-68
Note 15. Postemployment Benefits .....	A-70
Note 16. Deferred Compensation.....	A-71
Note 17. Restatement of Net Assets.....	A-71
Note 18. Condensed Financial Statement Information.....	A-72
Note 19. Risk Management .....	A-74
Note 20. Special or Extraordinary Items.....	A-74
Note 21. Related Party Transactions .....	A-75
Note 22. Subsequent Events .....	A-76

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

**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 Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, defines component units as legally separate entities for which a primary government (the State) is financially accountable or, if not financially accountable, their exclusion would cause the State's financial statements to be misleading. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an entity's governing body and (1) the ability of the State to impose its will on that entity or (2) the potential for the entity to provide specific financial benefits to, or impose specific financial burdens on the State. The State has considered all agencies, boards, commissions, public benefit authorities and corporations, the State university and colleges and the Central Falls School District as potential component units. Audited financial statements of the individual component units can be obtained from their respective administrative offices.

**Blended Component Units**

These component units are entities, which are legally separate from the State, but are so intertwined with the State that they are in substance, the same as the State. They are reported as part of the State and blended into the appropriate funds.

**State Lottery Fund (Lottery)** - This fund is used to account for the revenues generated by the State Lottery Commission in conducting various lottery games. According to statute, earnings after allocation for prize awards and payment of expenses shall be transferred to the State's general fund. For more detailed information, a copy of the financial statements can be obtained by writing to the Office of The Financial Administrator, State Lottery Commission, 1425 Pontiac Avenue, Cranston, RI 02920.

**Rhode Island Convention Center Authority (RICCA)** - This Authority was created in 1987 to facilitate the construction and development of a convention center, parking garages and related facilities within the City of Providence. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Convention Center Authority, One West Exchange Street, Dome Building, 3<sup>rd</sup> Floor, Providence, RI 02903.

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

**Rhode Island Refunding Bond Authority (RIRBA)** - This authority was created by law for the purpose of loaning money to the State to provide funds to pay, redeem, or retire certain general obligation bonds. In fiscal 1998, the State abolished the R.I. Public Buildings Authority (RIPBA) and assigned the responsibility for managing RIPBA's outstanding debt to the RIRBA. RIPBA was previously reported as a blended component unit. The RIRBA is authorized to issue bonds. Even though it is legally separate, the RIRBA is reported as if it were part of the primary government because it provides services entirely to the primary government. For more detailed information, a copy of the financial statements can be obtained by writing to the Deputy General Treasurer, Office of General Treasurer, 40 Fountain Street, Providence, RI 02903.

**Rhode Island Economic Policy Council (RIEPC)** - This council is a non-profit organization created by executive order in March 1995 and incorporated in January 1996. The purpose of the council is to work closely with State officials to identify issues facing the State's economy, to develop and recommend creative strategies and policies to address them, to advise the State legislature in policy matters relating to economic development, and to administer a program designed to foster private technology commercialization and plant and process modernization through research centers, higher education partnerships and cluster collaboratives. For more detailed information, a copy of the financial statements can be obtained by writing to the Executive Director, R.I. Economic Policy Council, 3 Davol Square, Box 185, Providence, RI 02903.

**Tobacco Settlement Financing Corporation (TSFC)** - This corporation was organized in June 2002 as a public corporation by the State. TSFC is legally separate but provides services exclusively to the State and therefore is reported as part of the primary government as a blended component unit. The purpose of the corporation is to purchase tobacco settlement revenues from the State. TSFC is authorized to issue bonds necessary to provide sufficient funds for carrying out its purpose. 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.

**Discretely Presented Component Units**

Discretely presented component units are reported in a separate column in the basic financial statements to emphasize that they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These discretely presented component units serve or benefit those outside of the primary government. Discretely presented component units are:

**University and Colleges** - The Board of Governors for Higher Education has oversight responsibility for the University of Rhode Island, Rhode Island College and Community College of Rhode Island. The Board is appointed by the Governor with approval of the Senate. The university and colleges are funded through State appropriations, tuition, federal grants, private donations and grants. For more detailed information, a copy of the financial statements can be obtained by writing to Office of The Controller, University of Rhode Island, 75 Lower College Road, Kingston, RI 02881; Office of The Controller, Rhode Island

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

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.

**Central Falls School District** - The Rhode Island General Assembly passed an act which provided for the State to assume an administrative takeover of the Central Falls School District. The Governor appointed a special State administrator who replaced the school committee. The State administrator reports to the Commissioner of Elementary and Secondary Education. The District's purpose is to provide elementary and secondary education to residents of the City of Central Falls. For more detailed information, a copy of the financial statements can be obtained by writing to the Central Falls School District, 21 Hadley Avenue, Central Falls, RI 02863.

**Rhode Island Housing and Mortgage Finance Corporation (RIHMFC)** - This Corporation, established in 1973, was created in order to expand the supply of housing available to persons of low and moderate income and to stimulate the construction and rehabilitation of housing and health care facilities in the State. It has the power to issue notes and bonds to achieve its corporate purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, R.I. Housing and Mortgage Finance Corporation, 44 Washington Street, Providence, RI 02903-1721.

**Rhode Island Student Loan Authority (RISLA)** - This Authority, established in 1981, was created in order to provide a statewide student loan program through the acquisition of student loans. It has the power to issue bonds and notes, payable solely from its revenues. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Student Loan Authority, 560 Jefferson Boulevard, Warwick, RI 02886.

**Rhode Island Turnpike and Bridge Authority (RITBA)** - This Authority was created by the General Assembly as a body corporate and politic, with powers to construct, acquire, maintain and operate bridge projects as defined by law. For more detailed information, a copy of the financial statements can be obtained by writing to the Executive Director, R.I. Turnpike and Bridge Authority, P.O. Box 437, Jamestown, RI 02835-0437.

**Rhode Island Economic Development Corporation (RIEDC)** - 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, which will promote economic development. It has the power to issue tax-exempt industrial development bonds to accomplish its corporate purpose. The RIEDC has a subsidiary corporation, the R. I. Airport Corporation, that manages the State's six airports. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Economic Development Corporation, One West Exchange Street, Providence, RI 02903.

**Narragansett Bay Commission (NBC)** - This Commission was created for the purposes of acquiring, planning, constructing, extending, improving, operating and maintaining publicly owned wastewater treatment facilities. NBC receives contributed capital from the State to upgrade its facilities. For more detailed information, a copy of the financial statements can

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

be obtained by writing to the Narragansett Bay Commission, One Service Road, Providence, RI 02905.

**Rhode Island Health and Educational Building Corporation (RIHEBC)** - This Corporation has the following purposes: (1) to assist in providing financing for education facilities for colleges and universities operating in the State; (2) to assist hospitals in the State in the financing of health care facilities; (3) to assist stand-alone, non-profit assisted-living and adult daycare facilities; (4) to assist in financing a broad range of non-profit health care providers; and (5) to assist in financing non-profit secondary schools and child care centers. RIHEBC issues bonds, notes and leases which are special obligations of RIHEBC payable from revenues derived from the projects financed or other moneys of the participating education institution or health care institution. The bonds, notes and leases do not constitute a debt or pledge of the faith and credit of RIHEBC or the State and accordingly have not been reported in the accompanying financial statements. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Health and Educational Building Corporation, 170 Westminster Street, Suite 1200, Providence, RI 02903.

**Rhode Island Resource Recovery Corporation (RIRRC)** - This Corporation was established in 1974 in order to provide and/or coordinate solid waste management services to municipalities and persons within the State. RIRRC has the power to issue negotiable bonds and notes to achieve its corporate purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Resource Recovery Corporation, 65 Shun Pike, Johnston, RI 02919.

**Rhode Island Higher Education Assistance Authority (RIHEAA)** - This Authority was created by law in 1977 for the dual purpose of guaranteeing loans to students in eligible institutions and administering other programs of post secondary student assistance. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, R.I. Higher Education Assistance Authority, 560 Jefferson Boulevard, Warwick, RI 02886.

**Rhode Island Public Transit Authority (RIPTA)** - This Authority was established in 1964 to acquire any mass motor bus transportation system if that system has previously filed a petition to discontinue its service and further, if RIPTA determines it is in the public interest to continue such service. Revenues of RIPTA include operating assistance grants from the federal and State governments. For more detailed information, a copy of their financial statements can be obtained by writing to the Finance Department, R.I. Public Transit Authority, 265 Melrose Street, Providence, RI 02907.

**Rhode Island Industrial Facilities Corporation (RIIFC)** - The purpose of this corporation is to issue revenue bonds, construction loan notes and equipment acquisition notes for the financing of projects which further industrial development in the State. All bonds and notes issued by RIIFC are payable solely from the revenues derived from leasing or sale by RIIFC of its projects. The bonds and notes do not constitute a debt or pledge of the faith and credit of RIIFC or the State and accordingly have not been reported in the accompanying financial statements. For more detailed information, a copy of the financial statements can be obtained

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

by writing to the Director of Finance and Administration, R.I. Industrial Facilities Corporation, One West Exchange Street, Providence, RI 02903.

**Rhode Island Clean Water Finance Agency (RICWFA)** - This Agency was established in 1991 for the purpose of providing financial assistance in the form of loans to municipalities, sewer commissions and waste water management districts in the State for the construction or upgrading of water pollution abatement projects. RICWFA receives capital grants from the State and federal governments and is authorized to issue revenue bonds and notes. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Clean Water Finance Agency, 235 Promenade Street, Suite 119, Providence, RI 02908.

**Rhode Island Industrial-Recreational Building Authority (RIIRBA)** - This Authority is authorized to insure first mortgages and first security agreements granted by financial institutions and the Rhode Island Industrial Facilities Corporation for companies conducting business in the State. Any losses realized in excess of the fund balance would be funded by the State. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Industrial-Recreational Building Authority, One West Exchange Street, Providence, RI 02903.

**Rhode Island Water Resources Board Corporate (RIWRBC)** - This Board was created by law to foster and guide the development of water resources including the establishment of water supply facilities and lease these facilities to cities, towns, districts, and other municipal, quasi-municipal or private corporations engaged in the water supply business in the State. RIWRBC is authorized to issue revenue bonds which are payable solely from revenues generated by the lease of its facilities or the sale of water. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Water Resources Board Corporate, 100 North Main Street, Providence, RI 02903.

**Rhode Island Public Telecommunications Authority (RIPTCA)** - This Authority owns and operates a non-commercial educational television station in the State. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Public Telecommunications Authority, 50 Park Lane, Providence, RI 02907-3124.

**Rhode Island Children's Crusade for Higher Education (RICCHE)** - This is a Rhode Island nonprofit corporation formed for the purpose of fostering the education of economically disadvantaged youth through scholarship awards, summer jobs programs, and mentoring programs for parents and students. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Children's Crusade for Higher Education, The 134 Center, Suite 111, 134 Thurbers Avenue, Providence, RI 02905.

**Rhode Island Underground Storage Tank Review Board (RIUSTRB)** - The Board provides a mechanism for Rhode Island underground storage tank owners, including city, town and State facilities, to comply with the financial responsibility requirements established by the US Environmental Protection Agency. For more detailed information, a copy of the financial statements can be obtained by writing to the Rhode Island Underground Storage Tank Review Board, 235 Promenade Street, Suite 455, Providence, RI 02908.

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

**C. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets 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 Assets presents the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

**Invested in capital assets, net of related debt.** This category reflects the portion of net assets associated with capital assets, net of accumulated depreciation and reduced by outstanding bonds and other debt that are attributable to the acquisition, construction or improvement of those assets.

**Restricted net assets.** This category results when constraints are externally imposed on net assets use by creditors, grantors or contributors, or imposed by law through constitutional provisions or enabling legislation.

**Unrestricted net assets.** This category represents net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but those 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 clearly identifiable with a specific function. 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.

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 all enterprise funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column.

**D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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



**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

recorded when a liability is incurred, regardless of the timing of related cash flows. 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, i.e., earned and collected within the next 12 months. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due.

In accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*, the focus in the fund financial statements is on major and nonmajor funds rather than on fund type. Statement No. 34 defines the general fund as a major fund. Other governmental funds and enterprise funds are evaluated on these criteria:

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

Since the activity of the ISTEVA fund and the GARVEE fund are so closely related and the same personnel are responsible for the accounting and financial reporting for both funds, management has determined that if either fund meets the criteria of a major fund the other fund will also be reported as a major fund.

The State reports the following major 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, and bond proceeds that are used in maintenance, upgrading, and construction of the State's highway system.

**R.I. Temporary Disability Insurance Fund.** This fund accounts for the employee tax on wages that are levied to pay benefits to covered employees who are out of work for an extended period of time due to a non-job-related illness.

**GARVEE Fund.** This fund accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds, related expenditures and the two cents a gallon gasoline tax that is dedicated for the debt service of the RIMFT bonds.

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

The State reports the following major proprietary funds:

**State Lottery Fund.** The State Lottery Fund operates games of chance for the purpose of generating resources for the State's General Fund.

**Rhode Island Convention Center Authority (RICCA)** - This Authority was created in 1987 to facilitate the construction and development of a convention center, parking garages and related facilities within the City of Providence on behalf of the State.

**Employment Security Fund.** This fund accounts for the State's unemployment compensation benefits. 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.

Additionally, 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 Fund.** This fund accounts for resources obtained and used for the payment of interest and principal on bonds that are funded primarily through taxes.

**Permanent Fund.** The Permanent School Fund accounts for certain appropriations 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 fleet management, workers' compensation, unemployment compensation, industrial prison operations, computer and related data processing services, surplus property, telecommunications and other utilities, purchasing, and records maintenance.

**Fiduciary Fund Types:**

**Pension Trust Funds.** These funds account for the activities of the Employees' Retirement System, Municipal Employees' Retirement System, State Police Retirement Benefit Trust, and Judicial Retirement Benefit Trust, which accumulate resources for pension benefit payments to qualified employees.

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

**Private Purpose Trust Fund.** 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 or pledged to the State as required by statute.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund Accounting*, in the absence of specific guidance from GASB pronouncements, pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989 have been followed.

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 this definition are reported as nonoperating revenues and expenses.

**E. Cash and Cash Equivalents**

Cash represents amounts in demand deposit accounts with financial institutions. Cash equivalents are highly liquid investments with maturity of three months or less at the time of purchase.

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 Assets. Cash overdrafts, if any, are reported as due to other funds along with the applicable due from other funds.

**F. Funds on Deposit with Fiscal Agent**

Funds on deposit with fiscal agent in the governmental activities and business-type activities are the unexpended portion of debt instruments sold primarily for capital acquisitions and funds held by the United States Treasury Department for the payment of unemployment benefits, respectively.

**G. Investments**

Investments are generally stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. Short-term investments are stated at amortized cost, which approximates fair value.

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

The pension trust funds may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on the asset and liability positions of foreign investments. The gains or losses on these contracts are included in income in the period in which the exchange rates change. Gains and losses on contracts which hedge specific foreign currency denominated commitments are deferred and recognized in the period in which the transaction is completed. By policy, no more than 50% of actively managed foreign equity securities (at fair value) may be hedged into the base currency (U.S. dollars).

**H. Receivables**

Receivables are stated net of estimated allowances for uncollectible amounts, which are determined, based upon past collection experience.

**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, interfund services, provided and used between different functional categories, have not been eliminated in order to avoid distorting the direct costs and program revenues of the applicable functions. The Due From/(To) Others 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.

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

**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. Inventories of 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 all land, buildings (over \$100,000), equipment and infrastructure assets (e.g., roads, bridges, and similar assets) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The State defines equipment acquisitions as capital assets when the initial, individual cost (value, if donated, forfeited or seized) is more than \$5,000 (amount not rounded) and the estimated useful life is more than one year. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

The estimates of historical costs of land, buildings, and improvements were derived by factoring price levels from the current period to the time of acquisition. In cases where the acquisition date was not determinable, the date of acquisition was estimated. Infrastructure constructed prior to July 1, 2001 has not been reported. This information will be included in future reports. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction of capital facilities is not capitalized.

Capital assets utilized in the governmental funds are recorded as capital outlay expenditures in the governmental fund financial statements. Depreciation is recorded in the government-wide financial statements, as well as the proprietary funds and component units financial statements. Capital assets of the primary government and its component units are depreciated using the straight-line method over the assets' estimated useful life.

Capital assets of the primary government are depreciated over the following estimated useful lives:

Assets	Years
Buildings	20-50
Land improvements	20
Infrastructure	30
Leasehold improvements	Term of Lease
Leasehold land improvements	Term of Lease
Building renovations	10-20
Trailers	10
Furniture and equipment	3-10
Computer systems	5
Motor vehicles	3-10

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

**M. Bonds Payable**

In governmental fund types, bond discounts/premiums and issuance costs are recognized in the current period; bond proceeds are recorded net of these amounts. Bond discounts, premiums and issuance costs in the governmental activities are deferred and amortized over the term of the bonds using the straight-line method. For proprietary fund types and component units bond discounts, premiums and issuance costs are generally deferred and amortized over the term of the bonds using the straight-line method for issuance costs and the interest method for discounts and premiums. Bond discounts and premiums are presented as an adjustment to the face amount of bonds payable.

The R.I. Convention Center Authority has entered into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

**N. Obligations under Capital Leases**

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

**O. Accrued Liabilities**

Accrued liabilities generally represent accrued salary and fringe benefits in the governmental fund types and accrued interest payable, accrued salaries and accrued vacation and sick leave in the proprietary fund types.

**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. For governmental fund types, such obligations are recognized when paid and for proprietary fund types, they are recorded as fund liabilities.

**Q. Fund Balances**

Reserved fund balances represent amounts which are (1) not appropriable for expenditure or (2) legally segregated for a specific future use.

Designated fund balances represent amounts segregated to indicate management's tentative plans or intent for future use of financial resources.

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

**R. Changes in Presentation**

For the fiscal year ended June 30, 2004, the Bond Capital Fund did not meet the criteria of a major fund as described in Note 1(D). Accordingly it is included in the Other Governmental Funds column on the fund financial statements in the basic financial statements.

On the Statement of Net Assets, the amount reported as Investment in Net Assets, Net of Related Debt was increased and the amount reported as Unrestricted Net Assets was decreased by \$284.0 million, which was the cash balance in certain capital projects funds.

**Note 2. Budgeting and Budgetary Control**

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund and certain special revenue funds. Preparation and submission of the budget is governed by both the State Constitution and the Rhode Island General Laws. The budget, as enacted by the General Assembly and signed by the Governor, contains a complete plan of estimated revenues (general, federal and restricted), transfers in (general and restricted) and proposed expenditures.

The legal level of budgetary control, i.e. the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch. Federal grant appropriations may also be limited by the availability of matching funds and may also require special approval from a federal agency before reallocating resources among programs.

Internal administrative and accounting budgetary controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations and the supervisory powers and functions exercised by management. Management cannot reduce the budget without special approval.

Unexpended general revenue appropriations lapse at the end of the fiscal year, unless the department/agency directors identify unspent appropriations related to specific projects/purchases and request a reappropriation. If the requests are approved by the Governor, such amounts are reappropriated for the ensuing fiscal year and made immediately available for the same purposes as the former appropriations. Unexpended appropriations of the General Assembly and its legislative commissions and agencies may be reappropriated by the Joint Committee on Legislative Services. If the sum total of all departments and agencies general revenue expenditures exceeds the total general revenue appropriations, it is the policy of management to lapse all unexpended appropriations, except those of the legislative and judicial branches.

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

**Note 3. Cash, Cash Equivalents and Investments**

**Cash**

Primary Government

At June 30, 2004, the carrying amount of the State's cash deposits was \$102,963,000 and the bank balance was \$127,542,000. Of the bank balance, \$676,000 was covered by federal depository insurance and \$50,602,000 was collateralized with securities held by the pledging financial institution, as it's agent but not in the State's name. . The remaining amount, \$76,264,000 was uninsured and uncollateralized. The carrying amount and bank balance includes \$1,105,000 of certificates of deposit.

Fiduciary Trust Funds

At June 30, 2004, the carrying amount of the fiduciary trust funds' cash deposits was \$8,480,000 and the bank balance was \$9,454,000. The bank balance was covered by federal depository insurance. The carrying amount and the bank balance include \$1,000,000 of certificates of deposit.

Component Units

At June 30, 2004, the carrying amount of the component units' cash deposits was \$347,061,000 and the bank balance was \$353,482,000. Of the bank balance, \$3,148,000 was covered by federal depository insurance and \$57,121,000 was collateralized with investments held by a bank in a component unit's name. The remaining amount, \$293,213,000 was uninsured and uncollateralized.

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the primary government was required to be collateralized at June 30, 2004.

**Investments**

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

Short-term cash equivalent type investments are made by the General Treasurer in accordance with guidelines established by the Commission. Investments of the pension trust



**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

funds are made by investment managers in accordance with the Commission's stated investment objectives and policies.

Investments of certain component units are not made at the direction of the Commission, but are governed by specific statutes or policies established by their governing body.

The State's investments (expressed in thousands) are categorized in the following table to give an indication of the level of risk assumed by the entity at June 30, 2004.

Category 1: Insured or registered, or securities held by the State or its agent in the State's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the State's name.

Primary Government	Category			Fair Value
	1	2	3	
U.S. Government and agency securities	\$ 34,040	\$ 0	\$ 0	\$ 34,040
Commercial Paper	92,760	0	0	92,760
Repurchase Agreements	57,519	0	17,943	75,462
	<u>\$ 184,319</u>	<u>\$ 0</u>	<u>\$ 17,943</u>	<u>202,262</u>
Money Market Mutual Funds				<u>216,299</u>
				<u>418,561</u>
Less amounts classified as cash equivalents				<u>326,453</u>
Investments				<u>\$ 92,108</u>

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

Fiduciary Funds	Category			Fair Value
	1	2	3	
U.S. Government and agency securities				
Not on security loan	\$ 498,995	\$	\$	\$ 498,995
On loan for securities collateral	3,745			3,745
Money Market				
Commercial Paper				
Repurchase Agreements	1,015			1,015
Corporate Bonds	541,984			541,984
Corporate Notes				
Municipal Bonds				
Equity Securities				
Not on security loan	915,166			915,166
On loan for securities collateral	1,288			1,288
Foreign Securities				
Not on security loan	752,886			752,886
On loan for securities collateral	4,268			4,268
Investment Agreements				
Unit Investment Trust				
Other				
	<u>\$ 2,719,347</u>	<u>\$</u>	<u>\$</u>	<u>2,719,347</u>
Money Market Mutual Funds				145,448
Investment Agreements				
Emerging Markets Equity Mutual Funds				
Real Estate and Venture Capital Limited Partnerships				352,759
Investments held by broker-dealers under securities loans with cash collateral				789,404
Securities lending short-term collateral investment pool				806,498
Underlying Securities for Reverse Repurchase Agreements				
Investments of Statutory Deposits Held in Trust				78,487
Other, principally commingled funds				2,189,796
				<u>7,081,739</u>
Less amounts classified as cash equivalents				<u>18,092</u>
Investments				<u>\$ 7,063,647</u>
Component Units				
U.S. Government and agency securities	\$ 226,257	\$ 158,173	\$ 132,745	\$ 517,175
Money Market	90,699	0	24,299	114,998
Repurchase Agreements	35,520	876	28,644	65,040
Corporate Bonds	6,320	0	725	7,045
Equity Securities	60,074	995	6,078	67,147
Investment Agreements	2,202	0	0	2,202
	<u>\$ 421,072</u>	<u>\$ 160,044</u>	<u>\$ 192,491</u>	<u>773,607</u>
Money Market Mutual Funds				7,737
Investment Agreements				618,682
Other				7,113
				<u>1,407,139</u>
Less amounts classified as cash equivalents				<u>354,517</u>
Investments				<u>\$ 1,052,622</u>

**Derivatives and Other Similar Investments**

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

Primary Government

Some of the State of Rhode Island Employees' Retirement System's (System) investment managers are allowed to invest in certain derivative type transactions, including forward foreign currency transactions, futures contracts and mortgage-backed securities. According to investment policy guidelines, derivative type instruments may be used for hedging purposes and not for leveraging plan assets.

**Forward Foreign Currency Contracts** – The System may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. These contracts involve risk in excess of the amount reflected in the System's Statements of Plan Net Assets. The face or contract amount in U.S. dollars reflects the total exposure the System has in that particular currency contract. By policy, no more than 25% of actively managed Foreign Equity securities (at fair value) may be hedged into the base currency (US Dollars). 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 may use futures to manage its exposure to the stock, money market, and bond markets and the fluctuations in interest rates and currency values. 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 from changes in the value of the underlying instruments, if there is an illiquid secondary market for the contracts, or if the counterparties do not perform under the contract terms.

**Mortgage-Backed Securities** – The System invests in various mortgage-backed securities, such as collateralized mortgage obligations (CMO), interest-only and principal-only (PO) strips. They are reported in aggregate as U.S. Government and Agency Securities in the disclosure of custodial credit risk. 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 (IO) and principal-only strips (PO) 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.

**Commingled Funds** - Through commingled funds, the System also indirectly holds derivative type instruments, primarily equity index futures. Other types of derivative type

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

instruments held by commingled funds include purchased or written options, forward security contracts, forward foreign currency exchange contracts, interest rate swaps and total return swaps.

The commingled funds may sell a security they do not own in anticipation of a decline in the fair value of that security. Short sales may increase the risk of loss to the commingled fund when the price of a security underlying the short sale increases and the commingled fund is subject to a higher cost to purchase the security in order to cover the position.

**Securities Lending**

Policies of the State Investment Commission permit use of investments to enter into securities lending transactions. The System has contracted with State Street Bank & Trust Company (SSB) as third party securities lending agent to lend the System's debt and equity securities for cash, securities and sovereign debt of foreign countries as collateral at not less than 100% of the market value of the domestic securities on loan and at not less than 100% of the market value of the international securities on loan. There are no restrictions on the amount of loans that can be made. Securities on loan at year-end for cash collateral are presented as not categorized in the preceding table. Securities on loan for noncash collateral are classified according to the category for the collateral. The contract with the lending agent requires them to indemnify the System if the borrowers fail to return the securities. Either the System or the borrower can terminate all securities loans on demand. The cash collateral received on security loans was invested in the lending agent's short-term investment pool for an average duration of 52 days and a weighted average maturity of 118 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The System is not permitted to pledge or sell collateral securities received unless the borrower defaults. There were no losses during the fiscal year resulting from default of the borrower or lending agent.

At June 30, 2004, System's management believes the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers do not exceed the amounts the borrowers owe the System. The securities on loan at year-end were \$798,705,105 (fair value), and the collateral received for those securities on loan was \$816,221,400 (fair value).

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

**Note 4. Receivables**

Receivables at June 30, 2004 (expressed in thousands) consist of the following:

	Taxes	Accounts	Accrued Interest	Notes and Loans	Allowance for Uncollectibles	Total Receivables
Governmental Activities:						
General	\$ 228,441	\$ 86,377	\$	\$ 485	\$ (98,457)	\$ 216,846
Intermodal Surface Transportation	12,368					12,368
R.I. Temporary Disability	46,167	831			(2,097)	44,901
GARVEE			925			925
Internal Service		3,898		475		4,373
<b>Total - governmental activities</b>	<b>\$ 286,976</b>	<b>\$ 91,106</b>	<b>\$ 925</b>	<b>\$ 960</b>	<b>\$ (100,554)</b>	<b>\$ 279,413</b>
Amounts not expected to be collected in the subsequent year and recorded as deferred revenue						
General	\$ 4,825	\$ 5,854				
Intermodal Surface Transportation		17,006				
Business-type activities:						
State Lottery	\$	\$ 6,553	\$	\$	\$ (356)	\$ 6,197
Convention Center		1,791	130		(100)	1,821
Employment Security	41,794	12,238			(10,010)	44,022
<b>Total - business-type activities</b>	<b>\$ 41,794</b>	<b>\$ 20,582</b>	<b>\$ 130</b>	<b>\$</b>	<b>\$ (10,466)</b>	<b>\$ 52,040</b>
<b>Component Units</b>	<b>\$</b>	<b>\$ 131,813</b>	<b>\$ 27,304</b>	<b>\$ 2,160,644</b>	<b>\$ (51,928)</b>	<b>\$ 2,267,833</b>

**Component Units**

Loans receivable of the R.I. Housing and Mortgage Finance Corporation are secured by a first lien on real and personal property and, in some instances, are federally insured. Loans receivable of the R.I. Student Loan Authority are insured by the R.I. Higher Education Assistance Authority, which in turn has a reinsurance agreement with the federal government. The R.I. Clean Water Finance Agency provides loans to municipalities, sewer commissions, or wastewater management districts in the State for constructing or upgrading water pollution abatement projects.

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

**Note 5. Intra-Entity Receivables and Payables**

Intra-entity receivables and payables, as of June 30, 2004, are the result of operations and expected to be reimbursed within the fiscal year. They are summarized below (expressed in thousands):

	Interfund Receivable	Interfund Payable
<b>Governmental Funds</b>		
<b>Major Funds</b>		
General Fund	\$ 7,654	\$
Intermodal Surface Transportation Fund	9,960	
RI Temporary Disability Insurance		1,188
GARVEE		113
<b>Other</b>		
Tobacco Settle Trust Fund	167	
Bond Capital		1,060
Cops		11,646
Debt Service Fund		175
Total Other	167	12,881
Total Governmental	17,781	14,182
<b>Proprietary Funds</b>		
<b>Enterprise</b>		
RI Lottery		1,697
RI Convention Center Authority		1,030
Employment Security Trust Fund		1,361
Total Enterprise		4,088
<b>Internal Service</b>		
Assessed Fringe Benefits		269
Central Utilities		18
Information Processing		363
Central Mail		68
Centrex		572
Howard Communications		93
Central Pharmacy	899	
Central Laundry	45	
Automotive Maintenance		51
Central Distribution Center		10
Correctional Industries	966	
Surplus Property	33	
Records Center		10
Total Internal Service	1,943	1,454
<b>Totals</b>	\$ 19,724	\$ 19,724

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

**Note 6. Capital Assets**

The capital asset activity of the reporting entity consists of the following (expressed in thousands):

**Primary Government**

**Governmental Activities**

Primary Government  
Governmental

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 311,413	\$ 10,956	\$	\$ 322,369
Intangibles	71,166	14,398		85,564
Construction in progress	102,880	36,063	(56,133)	82,810
Total capital assets not being depreciated	<u>485,459</u>	<u>61,417</u>	<u>(56,133)</u>	<u>490,743</u>
Capital assets being depreciated:				
Land improvements	3,601			3,601
Buildings	374,127	55,855		429,982
Building Improvements	198,449	183		198,632
Furniture and equipment	148,484	11,792	(1,877)	158,399
Intangibles	441	457		898
Infrastructure	224,490	137,360		361,850
Total capital assets being depreciated	<u>949,592</u>	<u>205,647</u>	<u>(1,877)</u>	<u>1,153,362</u>
Less accumulated depreciation for:				
Land improvements	1,978	180		2,158
Buildings	130,262	7,781		138,043
Building Improvements	99,649	9,287		108,936
Furniture and equipment	108,850	13,361	(1,856)	120,355
Intangibles	71	134		205
Infrastructure	7,685	9,772		17,457
Total accumulated depreciation	<u>348,495</u>	<u>40,515</u>	<u>(1,856)</u>	<u>387,154</u>
Total capital assets being depreciated, net	<u>601,097</u>	<u>165,132</u>	<u>(21)</u>	<u>766,208</u>
Governmental activities capital assets, net	<u>\$ 1,086,556</u>	<u>\$ 226,549</u>	<u>\$ (56,154)</u>	<u>\$ 1,256,951</u>

Certain beginning balances were reclassified. The amounts reported above for infrastructure are only the additions for the fiscal year ended June 30, 2002 and subsequent fiscal years. As provided for in GASB Statement No. 34, the State opted to take advantage of the transition period and retroactively report its major general infrastructure assets in the fiscal year ended June 30, 2006.

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

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

General government	\$	4,925
Human services		10,626
Education		2,611
Public safety		8,751
Natural resources		1,951
Transportation		11,651
Total depreciation expense - governmental activities	\$	<u>40,515</u>

**Business-Type Activities**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 38,032	\$	\$	\$ 38,032
Construction in progress	585	1,189	(585)	1,189
Total capital assets not being depreciated	<u>38,617</u>	<u>1,189</u>	<u>(585)</u>	<u>39,221</u>
Capital assets being depreciated:				
Buildings	229,748	65		229,813
Machinery and equipment	23,571	1,564	(413)	24,722
Total capital assets being depreciated	<u>253,319</u>	<u>1,629</u>	<u>(413)</u>	<u>254,535</u>
Less accumulated depreciation	83,078	11,445	(410)	94,113
Total capital assets being depreciated, net	<u>170,241</u>	<u>(9,816)</u>	<u>(3)</u>	<u>160,422</u>
Business-type activities capital assets, net	<u>\$ 208,858</u>	<u>\$ (8,627)</u>	<u>\$ (588)</u>	<u>\$ 199,643</u>

**Discretely Presented Component Units**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 84,964	\$ 5,744	\$ (3,959)	\$ 86,749
Construction in progress	190,253	101,342	(36,080)	255,515
Total capital assets not being depreciated	<u>275,217</u>	<u>107,086</u>	<u>(40,039)</u>	<u>342,264</u>
Capital assets being depreciated:				
Land improvements	939,644	32,405	(1,556)	970,493
Buildings	99,773	5,291	(8)	105,056
Machinery and equipment	219,270	27,264	(9,405)	237,129
Infrastructure	278,694	16,673	(3)	295,364
Total capital assets being depreciated	<u>1,537,381</u>	<u>81,633</u>	<u>(10,972)</u>	<u>1,608,042</u>
Less accumulated depreciation for:				
Buildings	315,845	31,834	(1,640)	346,039
Land improvements	53,137	7,917	(8)	61,046
Machinery and equipment	118,778	21,753	(8,692)	131,839
Infrastructure	82,602	5,755		88,357
Total accumulated depreciation	<u>570,362</u>	<u>67,259</u>	<u>(10,340)</u>	<u>627,281</u>
Total capital assets being depreciated, net	<u>967,019</u>	<u>14,374</u>	<u>(632)</u>	<u>980,761</u>
Total capital assets, net	<u>\$ 1,242,236</u>	<u>\$ 121,460</u>	<u>\$ (40,671)</u>	<u>\$ 1,323,025</u>



**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

**Note 7. Long-Term Obligations**

Long-term obligations include bonds, notes and loans payable, obligations under capital leases, compensated absences, and other long-term liabilities.

**A. Bonds Payable**

At June 30, 2004, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government				Component Units	
	Governmental Activities		Proprietary Type		Principal	Interest
	Principal	Interest	Principal	Interest		
2005	\$ 94,786	\$ 94,593	\$ 9,380	\$ 14,159	\$ 156,848	\$ 108,755
2006	95,914	96,526	9,825	13,719	244,456	102,091
2007	73,358	90,673	10,290	13,259	153,020	95,405
2008	69,561	86,007	10,775	12,776	76,991	91,090
2009	75,049	79,660	11,295	12,270	84,157	87,229
2010-2014	398,909	339,116	65,205	52,724	381,224	386,921
2015-2019	235,735	248,150	80,205	35,537	427,596	295,674
2020-2024	209,985	200,908	86,575	14,623	404,909	195,131
2025-2029		167,686	18,770	1,493	310,092	117,018
2030-2034	168,260	147,074			340,802	55,603
2035-2039		116,156			435,975	16,066
2040-2044	371,700	69,694			1,305	246
2045-2049					310	15
	<u>\$ 1,793,257</u>	<u>\$ 1,736,243</u>	<u>\$ 302,320</u>	<u>\$ 170,560</u>	<u>\$ 3,017,685</u>	<u>\$ 1,551,244</u>

**Primary Government**

Current interest bonds of the State are serial bonds with interest payable semi-annually and multi-modal variable rate demand bonds. Capital appreciation bonds are designated as College and University Savings Bonds. The accreted interest is recognized as a current year expense in the governmental activities on the statement of activities. These bonds mature from 2006 to 2009 with all interest payable at maturity.

The State issued \$269.8 million of special obligation bonds. Of the \$269.8 million of special obligation bonds, \$53.0 million are supported by dedicated future gasoline tax revenue and \$216.8 million are supported by future federal revenue. The proceeds and related expenditures of this special obligation debt are accounted for in the GARVEE Fund.

Included in the current interest bonds is \$24,865,000 of general obligation multi-modal variable rate demand bonds maturing in fiscal year 2011. These bonds were initially issued in the weekly rate mode but can be changed by the issuer (the State) to a daily, commercial paper or term rate mode. The interest rate is determined either weekly or daily based on the mode; interest is paid monthly. The owners of the bonds in a weekly mode can require the State (acting through its remarketing and tender agents) to repurchase the bonds. The remarketing agent is authorized to use its best efforts to resell any purchased bonds by adjusting the interest rate offered. The State has entered into a standby bond purchase agreement (liquidity facility) with the tender agent and a commercial bank (the bank). The remarketing agent is required to offer for sale all bonds properly tendered for purchase. In the event the remarketing agent is unable to remarket tendered bonds, the standby bond

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

purchase agreement provides that the bank agrees to purchase any bonds from time to time in an amount not to exceed the principal amount plus accrued interest up to 37 days at an interest rate not to exceed 12% per annum, subject to the terms and provisions of the liquidity facility. This agreement has been extended through July 2005. The State is required to pay the bank at an interest rate based on its prime lending rate or the federal funds rate plus 1/2 of 1 percent, whichever is higher. The standby bond purchase agreement remains in effect until the payment in full of the principal and interest on all bonds purchased by the bank.

Revenue bonds of the R.I. Refunding Bond Authority (RIRBA) are secured by lease rentals payable by the State pursuant to lease agreements relating to projects financed by the authority and leased to the State. Proceeds from the RIRBA bonds have been used (1) to loan funds to the State to effect the advance refunding of general obligation bonds issued by the State in 1984; (2) to finance construction and renovation of certain buildings, and (3) to finance acquisition of equipment used by various State agencies.

In June 2002, the Tobacco Settlement Financing Corporation (TSFC), a blended component unit, issued \$685,390,000 of Tobacco Asset-Backed Bonds (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. As stated in the bond indenture, the Bonds are payable as to principal and interest solely out of the assets of the TSFC pledged for such purpose; neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal or of the interest on the Bonds; the Bonds do not constitute an indebtedness of the State or any political subdivision of the State; the Bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC; the Bonds do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof and the State has no obligation or intention to satisfy any deficiency or default of any payment of the Bonds. The TSFC has no taxing power. During the year ended June 30, 2004, TSFC utilized \$3,710,000 of excess collections to early redeem an equal amount of outstanding bonds.

In fiscal year 2002, several governmental entities had created component units similar to the TSFC. These entities were not consistent as to the inclusion of the component unit in their Comprehensive Annual Reports (CAFRs) with GASB Statement No. 14, *The Financial Reporting Entity* as the only guidance to a rather unique situation. Therefore, there was a lack of comparability amongst the CAFRs. GASB issued Technical Bulletin, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, which, amongst other things, made it clear that the TSFC should be blended rather than discretely presented.

Revenue bonds of the R.I. Convention Center Authority (RICCA) were issued to (a) refund bonds and notes, (b) pay construction costs, (c) pay operating expenses, (d) pay interest on revenue bonds prior to completion of construction, (e) fund a debt service reserve and (f) pay costs of issuance. The revenue bonds are secured by all rents receivable, if any, under a lease and agreement between the RICCA and the State covering all property purchased by the RICCA. It also covers a mortgage on facilities and land financed by the proceeds of the revenue bonds and amounts held in various accounts into which bond proceeds were deposited. Minimum annual lease payments by the State are equal to the gross debt service

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

of RICCA. In the event of an operating deficit (excluding depreciation), annual lease payments may be increased by the amount of the deficit. The obligation of the State to pay such rentals is subject to and dependent upon annual appropriations of such payments being made by the Rhode Island General Assembly for such purpose. Those appropriations are made in connection with the State's annual budgetary process and are therefore dependent upon the State's general financial resources and factors affecting such resources.

At June 30, 2004 general obligation bonds authorized by the voters and unissued amounted to \$158,727,000. 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.

See Note 13 for information concerning contingent liabilities relating to "Moral Obligation" bonds.

### **Component Units**

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

Bonds of the R.I. Housing and Mortgage Finance Corporation (RIHMFC) are special obligations of RIHMFC, payable from the revenue, prepayments and all the funds and accounts pledged under the various bond resolutions to the holders of the bonds. The proceeds of the bonds were generally used to acquire mortgage loans which are secured principally by a first lien upon real property and improvements.

The R.I. Student Loan Authority issued tax exempt Student Loan Revenue Bonds that are secured by eligible student loans, the monies in restricted funds established by the trust indenture and all related income. The proceeds of the issuance and operating cash were used to refund bonds and to originate and purchase eligible student loans.

The R.I. Economic Development Corporation (RIEDC) has bonds outstanding referred to as Airport Revenue Bonds. They were issued to finance the construction and related costs of certain capital improvements at T.F. Green State Airport. The proceeds of the bonds were loaned to the R.I. Airport Corporation, a subsidiary and component unit of RIEDC. The

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

remainder of bonds outstanding comprise the financing to purchase land and make land improvements at Island Woods Industrial Park in Smithfield, R.I. and to acquire land, make improvements and renovations of a building and parking lot (The Fleet National Bank Project).

The proceeds of the revenue bonds of the R.I. Clean Water Finance Agency provide funds to make low interest loans to municipalities in the State and quasi-state agencies to finance or refinance the costs of construction or rehabilitation of water pollution abatement projects.

Bonds of the Narragansett Bay Commission (NBC) represent the NBC's portion of the State's general obligation bonds. Debt service on NBC's portion is recovered through charges levied for services provided to users of its facilities. These bonds are guaranteed by the State.

Bonds of the R.I. Water Resources Board Corporate were issued to provide financing to various cities, towns, private corporations and companies engaged in the sale of potable water and the water supply business.

The \$80,000,000 of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority is limited by mortgage balances that it has insured, \$27,078,000 at June 30, 2004 (See Note 21). The insured mortgages are guaranteed by the State.

**B. Notes Payable**

The State issued \$200,000,000 of tax anticipation notes in December 2003, which were Repaid June 30, 2004.

Notes payable (expressed in thousands) at June 30, 2004 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.	\$ 2,110
R.I. Housing and Mortgage Finance Corporation bank notes, 1.39% to 5.46% interest, payable through 2006.	112,000
R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 6.75% interest, payable through 2005	41
	<u>114,151</u>
Less: current payable	(110,101)
	<u><u>\$ 4,050</u></u>

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

**C. Loans Payable**

**Component Units**

Loans payable represent liabilities of the Narragansett Bay Commission (NBC) to the R.I. Clean Water Finance Agency (RICWFA) (\$186,228,468). The loans payable to the RICWFA are for projects financed by that agency. The University of Rhode Island (URI) has an outstanding loan from the Rhode Island State Energy Office for \$201,073 to finance the installation of energy conservation measurers in various buildings. It also includes Community College of Rhode Island's (CCRI) loan in the amount of \$237,054 from the Energy Revolving Loan Fund (an internal service fund). In addition, CCRI entered into an agreement with the Quonset Point Facility and is liable for a loan in the amount of \$270,684 to pay for leasehold improvements.

**D. Obligations Under Capital Leases**

**Primary Government**

The State has entered into capital lease agreements 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, 2004 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 noncancelable lease terms in excess of one year as of June 30, 2004.

Fiscal Year Ending June 30	COPS	Other	Total
2005	12,874	1,922	14,796
2006	10,858	1,922	12,780
2007	11,772		11,772
2008	11,820		11,820
2009	11,875		11,875
2010 - 2014	44,132		44,132
2015 - 2019	27,150		27,150
2020 - 2024	4,508		4,508
Total future minimum lease payments	<u>134,989</u>	<u>3,844</u>	<u>138,833</u>
Amount representing interest	(35,454)	(494)	(35,948)
Present value of future minimum lease payments	<u>\$ 99,535</u>	<u>\$ 3,350</u>	<u>\$ 102,885</u>

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

**Component Units**

The University of Rhode Island (URI), Rhode Island College (RIC), Community College of Rhode Island (CCRI), and R.I. Public Telecommunications Authority (RIPTCA) obligations under capital leases consist, primarily, of construction of facilities and equipment acquisitions financed by the R.I. Refunding Bond Authority, a blended component unit.

Capital lease obligations of the R.I. Airport Corporation (RIAC), a subsidiary and component unit of the R.I. Economic Development Corporation (RIEDC), are for annual payments to the State equal to the principal and interest for airport related general obligation bonds issued by the State.

The following is a summary of the material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2004.

Fiscal Year Ending June 30	URI	RIC	CCRI	RIEDC	RIPTCA	NBC
2005	\$ 1,892	\$ 64	\$ 85	\$ 1,062	\$ 683	\$ 212
2006	1,720	64	89	859	505	143
2007	1,608	64	90	701	863	93
2008	1,597	63	90	409	976	45
2009	1,427	42	156	278	756	4
2010-2014	6,798		781	1,172		
2015-2019	6,313		781	0		
2020-2024	1,256		781			
Total future minimum lease payments	<u>22,611</u>	<u>297</u>	<u>2,853</u>	<u>4,481</u>	<u>3,783</u>	<u>497</u>
Amount representing interest	<u>(6,449)</u>	<u>(60)</u>	<u>(1,021)</u>	<u>(566)</u>	<u>(458)</u>	<u>(43)</u>
Present value of future minimum lease payments	<u>\$ 16,162</u>	<u>\$ 237</u>	<u>\$ 1,832</u>	<u>\$ 3,915</u>	<u>\$ 3,325</u>	<u>\$ 454</u>

**E. Compensated Absences**

State employees are granted vacation and sick leave in varying amounts based upon years of service. At the termination of service, the employee is paid for accumulated unused vacation leave. Also, the employee is entitled to payment of a percentage of accumulated sick leave at retirement. The State calculates the liability for accrued sick leave for only those employees that are eligible for retirement. Payment is calculated at their then-current rate of pay.

The compensated absences liability attributable to the governmental activities will be liquidated in the applicable fund as the sick and vacation time is discharged. Upon termination the applicable amount owed will be paid out of the Assessed Fringe Benefit Fund, an internal service fund.

**F. Other Long-Term Liabilities**

Income on invested general obligation bond proceeds, determined to be arbitrage earnings in accordance with federal regulations, has been included in long-term debt. These amounts are generally payable to the federal government five years after the bond issuance date.

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

The long-term debt portion of violent crimes' claims is included in long-term debt. Also included is an advance from the Federal Highway Authority Right of Way Revolving Fund that will be used to acquire land and rights-of-way for the Quonset access road project. The amount included for negotiated settlements represents the amount due to correctional officers and is payable over three years. Retainage payable is also included in other long-term debt since the related construction projects are not expected to be completed in the subsequent fiscal period. In addition, capital leases for copiers at various State agencies are reported here. Finally, an amount due to the federal government is being reported as long-term debt because the payment schedule coincides with the repayment of a long-term loan issued to a private employer.

**G. Changes in Long-Term Debt**

During the fiscal year ended June 30, 2004, the following changes (expressed in thousands) occurred in long-term debt:

**Primary Government**

	Balance July 1	Additions	Reductions	Balance June 30	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities						
General obligation bonds payable:						
Current interest bonds	\$ 722,289	\$ 145,335	\$ (105,597)	\$ 762,027	\$ 48,766	\$ 713,261
Capital appreciation bonds	610			610		610
Accreted interest on capital appreciation bonds	5,745	1,688		7,433		7,433
Deferred costs	17,126	9,396	(1,797)	24,725		24,725
	<u>745,770</u>	<u>156,419</u>	<u>(107,394)</u>	<u>794,795</u>	<u>48,766</u>	<u>746,029</u>
RIEDC Grant Anticipation Bonds		216,805		216,805	30,755	186,050
Deferred costs		18,772	(850)	17,922		17,922
RIEDC Rhode Island Motor Fuel Tax Revenue Bonds		53,030	(5,625)	47,405	5,150	42,255
Deferred costs		(422)	13	(409)		(409)
Revenue bonds - RIRBA	100,705		(15,975)	84,730	10,115	74,615
Deferred costs	7,003		(2,293)	4,710		4,710
Tobacco Settlement Asset-Backed Bonds	685,390		(3,710)	681,680		681,680
Deferred costs	(33,829)		1,424	(32,405)		(32,405)
Bonds payable	<u>1,505,039</u>	<u>444,604</u>	<u>(134,410)</u>	<u>1,815,233</u>	<u>94,786</u>	<u>1,720,447</u>
Certificates of Participation (COP)	108,505		(8,970)	99,535	8,185	91,350
Other capital leases	4,941		(1,591)	3,350	1,646	1,704
Obligations under capital leases	<u>113,446</u>		<u>(10,561)</u>	<u>102,885</u>	<u>9,831</u>	<u>93,054</u>
Compensated absences	58,502	51,972	(49,758)	60,716	47,428	13,288
Other long-term liabilities	36,910	14,045	(10,306)	40,649	4,896	35,753
	<u>\$ 1,713,897</u>	<u>\$ 510,621</u>	<u>\$ (205,035)</u>	<u>\$ 2,019,483</u>	<u>\$ 156,941</u>	<u>\$ 1,862,542</u>
Business type activities						
Revenue bonds	\$ 310,005	\$	\$ (7,685)	\$ 302,320	\$ 9,380	\$ 292,940
Add: bond premium	4,566		(308)	4,258		4,258
Less: issuance discounts	5,682		(480)	5,202		5,202
Deferred amounts on refunding	18,760		(1,938)	16,822		16,822
Bonds payable	<u>290,129</u>		<u>(5,575)</u>	<u>284,554</u>	<u>9,380</u>	<u>275,174</u>
Other long-term liabilities	153			153	153	
	<u>\$ 290,282</u>	<u>\$</u>	<u>\$ (5,575)</u>	<u>\$ 284,707</u>	<u>\$ 9,533</u>	<u>\$ 275,174</u>

The beginning balance of the deferred costs related to general obligations bonds was restated due to errors and omissions.

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

**H. Defeased Debt**

In prior years, the State and its component units defeased certain general obligation bonds, revenue bonds and certificates of participation (COP) by placing the proceeds of the new bonds or COP, or other sources, in irrevocable trusts to provide for all future debt service payments on the old bonds or COP. Accordingly, the trust account assets and the liabilities for the defeased bonds or COP are not included in the basic financial statements. On June 30, 2004, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	
(includes \$285 of NBC)	\$ 357,101
Certificates of Participation	2,430
Component Units:	
R.I. Clean Water Finance Agency	5,725
R.I. Depositors Economic Protection Corporation	337,885
R.I. Economic Development Corporation	26,410
R.I. Turnpike And Bridge Authority	35,950

In February 2004, the State issued \$65,830,000 Consolidated Capital Development Loan of 2004, Refunding Series B, with interest rates ranging from 1.50% to 5.00%, maturing from 2005 through 2016. The proceeds were used to advance refund \$65,935,000 of 1992,1994 through 1999 Series A Bonds. The net proceeds from the sale of the refunding bonds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded bonds. The advance refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the Statement of Net Assets. The refunding decreased total debt service payments over the next 11 years by \$3,605,571 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2,943,440.

On July 31, 2003, the Rhode Island Turnpike and Bridge Authority (RITBA) issued \$35,765,000 of Series 2003 A Taxable Refunding Revenue Bonds as an advance refunding of the Series 1997 Revenue Bonds. RITBA defeased the Series 1997 refunding bonds by placing \$36,790,521 on deposit with the escrow agent. The amount placed in escrow included a premium paid on the advance payment of the bonds totaling approximately \$679,000. On September 4, 2003 the escrow agent made a principal redemption of the Series 1997 Bonds totaling \$33,970,000. The final principal payment of the Series 1997 Bond was made December 1, 2003 in the amount of \$1,680,000. Accordingly, as of June 30, 2004 RITBA had no obligations related to the defeased Series 1997 Bonds. The Series 2003 A Taxable Refunding Revenue Bonds resulted in an economic savings to RITBA over the 14 ½ years of the bond obligation. The cumulative annual savings resulting from this refunding bond is approximately \$2,340,000 with a present value calculation of approximately \$1,674,000. The Series 2003 A Bonds are fixed rate bonds dated July 31, 2003. Interest is payable semi-annually on December 1 and June 1 at interest rates ranging from 1.15% to 5.23%. Principal repayments of the bond are due annually commencing on December 1, 2003 with a final payment due on December 1, 2017. The Series 2003 A Bonds will not be subject to optional redemption prior to maturity but are subject to special mandatory redemption as provided in the Series 2003 A bond agreement. As part of the 2003



**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

Refunding, RITBA entered into an Interest Rate Lock Transaction. On July 23, 2003 the Transaction was cancelled and RITBA received proceeds of \$1,809,500. The gain is presented in the Statement of Revenues, Expenses, and Changes in Net Assets as non-operating revenues of \$1,490,509. The difference between the proceeds received and the gain reported of approximately \$319,000 represents the cost incurred to enter into the Transaction.

**I. Conduit Debt**

The R.I. Industrial Facilities Corporation, the R.I. Health and Educational Building Corporation and the R.I. Economic Development Corporation issue revenue bonds, equipment acquisition notes, and construction loan notes to finance various capital expenditures for Rhode Island business entities. The bonds and notes issued by the corporations are not general obligations of the corporations and are payable solely from the revenues derived from the related projects. They neither constitute nor give rise to a pecuniary liability for the corporations nor do they represent a charge against their general credit. Under the terms of the various indentures and related loan and lease agreements, the business entities make loan and lease payments directly to the trustees of the 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, 2004 was \$113,000,000, \$1,606,092,010 and \$595,298,000 respectively. Certain issues of conduit debt are moral obligations of the State and the cumulative amounts outstanding are disclosed in Note 13.

**Note 8. Net Assets**

**Government-Wide Unrestricted Net Assets**

	Governmental Funds	
Deficit	\$ (1,111,136)	
General Revenue	24,451	Unrestricted balance
Appropriations carried forward:		
General Revenues	10,146	General revenues carried forward for original purpose
Restricted Revenues	28,977	Restricted revenues carried forward for original purpose
Other	8,422	Principally capital accounts carried forward for original purpose
Special Revenue	36,458	ISTEA, Tobacco Settlement Trust, R.I. TDI Fund
		RI Economic Policy Council
Capital Projects Fund	14,928	Committed for capital projects
Permanent Fund	875	Permanent School
Internal Service Funds	5,274	Unrestricted balance of all Internal Service Funds
Unrestricted Net Assets	<u>\$ (981,605)</u>	

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

**Changes in General Fund Reserved Fund Balances**

The State maintains certain reserves within the General Fund in accordance with the General Laws. These reserves accumulate in the General Fund until withdrawn by statute or used for the intended purposes pursuant to the enabling legislation.

	Reserved Fund Balance July 1,	Additions	Reductions	Reserved Fund Balance June 30
State Budget Reserve Account	\$ 83,648	\$ 56,198	\$ (55,548)	\$ 84,298
Appropriations carried forward				
General revenue	7,347	10,146	(7,347)	10,146
Departmental restricted revenue	27,821	28,977	(27,821)	28,977
Operating transfers in	10,718	8,422	(10,718)	8,422
Total	<u>\$ 129,534</u>	<u>\$ 103,743</u>	<u>\$ (101,434)</u>	<u>\$ 131,843</u>

The State maintains a budget reserve in the general fund. Annually, 2% of general revenues and opening surplus are set aside in this reserve account. Amounts in excess of 3% of the total general revenues and opening surplus are transferred to the bond capital fund to be used for capital projects, debt reduction or debt service. The reserve account, or any portion thereof, may be appropriated in the event of an emergency involving the health, safety or welfare of the citizens of the State or in the event of an unanticipated deficit in any given fiscal year. Such appropriations must be approved by a majority of each chamber of the General Assembly.

Appropriations carried forward can only be used for the same purpose as intended in the original budget as enacted by the General Assembly.

The Certificates of Participation Capital Projects Fund had a deficit fund balance of \$8.9 million at June 30, 2004. The deficit will be eliminated through the future issuance of certificates of participation.

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

**Note 9. Taxes**

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

	Governmental Funds	Statement of Activities
General Fund		
Personal Income Tax	\$ 870,203	\$ 870,145
General Business Taxes:		
Business Corporation Tax	75,874	75,866
Non-resident Contractor Tax	97	97
Franchise Tax	24	24
Gross Earnings Tax-Public Utilities	92,210	92,422
Income Tax-Financial Institutions	(7,296)	(7,296)
Tax on Insurance Companies	43,419	43,374
Tax on Deposits-Banking Institutions	1,580	1,580
Health Care Provider Assessment	11,624	11,623
Nursing Facilities Provider Assessments	28,694	28,632
Sub-total - General Business Taxes	246,226	246,322
Sales and Use Taxes:		
Sales and Use Tax	810,743	810,226
Providence Place Sales Tax	12,113	12,113
Motor Vehicle Tax	44,793	44,793
Rental Vehicle Surcharge	2,562	2,563
Fuel Use Tax on Motor Carriers	860	874
Cigarette Tax	115,480	115,480
Smokeless Tobacco Tax	1,783	1,788
Alcoholic Beverage Import Fees	10,316	10,316
Tax on Mfg. of Beers, Liquors, etc.	26	26
Sub-total - Sales and Use Taxes	998,676	998,178
Other Taxes:		
Inheritance Tax	23,904	23,939
Simulcast Wagering	2,850	2,850
Jai Alai - Pari-mutuel Betting	4	4
Jai Alai - Tax on Breakage		
Dog Racing - Pari-mutuel Betting	1,707	1,707
Dog Racing - Tax on Breakage	26	26
Realty Transfer Tax	13,025	13,025
Mobile Home Conveyance Tax	12	12
Sub-total - Other Taxes	41,528	41,563
Total - General Fund	2,156,633	2,156,208
R.I. Temporary Disability Fund	178,758	178,758
Intermodal Surface Transportation Fund		
Gasoline	142,487	142,487
Total Taxes	\$ 2,477,878	\$ 2,477,453

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

**Note 10. Operating Transfers**

Operating transfers for the fiscal year ended June 30, 2004 are presented below (expressed in thousands):

**Fund Financial Statements**

	Transfers	Description
Governmental activities		
Major Funds		
General Fund		
Major Funds		
Intermodal Surface Transportation	\$ 45,497	Debt service
Temporary Disability	1,066	Operating assistance
Nonmajor Funds		
Tobacco Settlement Financing Corp	454	Operating assistance
Tobacco Settlement Trust Fund	1,454	Operating assistance
Bond Capital	43,759	Debt service
Debt Service	175	Debt service
Business-Type Activities		
Lottery	281,255	Net income
Convention Center	5,030	Excess debt service
Employment Security	3,903	Net income
ISTEA Fund		
Bond Capital	64,288	Infrastructure
GARVEE		
Intermodal Surface Transportation	9,499	Debt Service
Nonmajor Fund		
Bond Capital		
General Fund	55,548	Debt service or capital projects
Economic Policy Council		
General Fund	1,428	Operating assistance
Total Governmental Activities	513,356	
Business-Type Activities		
Employment Security		
Assessed Fringe Benefits	1,224	Operating assistance
Convention Center		
General Fund	22,078	Debt service
Total operating transfers	\$ 536,658	

**Note 11. Operating Lease Commitments**

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately \$14,006,000 for the fiscal year ended June 30, 2004.

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.

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

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, 2004:

Fiscal Year Ending June 30	
2005	12,120
2006	9,925
2007	6,365
2008	4,809
2009	4,469
2010 - 2014	13,149
2015 - 2019	9,356
Total	\$ 60,193

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

**Note 12. Commitments**

**Primary Government**

The R.I. Economic Development Corporation (RIEDC), on behalf of the State, entered into several agreements with Providence Place Group Limited Partnership (PPG). The agreements state the terms by which the State shall perform with regard to a shopping mall, parking garage and related offsite improvements developed by PPG. The authority to enter into these agreements was provided in legislation passed by the General Assembly and signed by the Governor. This legislation further provided for payments to the developer, during the first 20 years only, of an amount equal to the lesser of (a) two-thirds of the amount of sales tax generated from retail transactions occurring at or within the mall or (b) \$3,680,000 in the first five years and \$3,560,000 in years 6 through 20.

The R.I. Convention Center Authority (RICCA) has entered into management contracts with vendors under which these vendors will provide various services relating to the operation of the convention center, parking garages, and hotel. In addition, RICCA has entered into a licensing agreement with a major hotel chain that permits the hotel to use its name, trademark, reservation system and other services.

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.

**Component Units**

The R.I. Airport Corporation (RIAC), a subsidiary and component unit of RIEDC, was obligated for completion of certain airport improvements under commitments of

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

approximately \$5,600,000 which is expected to be funded from current available resources and future operations.

The Narragansett Bay Commission has entered into various engineering and construction contracts for the design and improvement of its facilities as part of a capital improvement program. Commitments under these contracts aggregated approximately \$144,724,000 at June 30, 2004.

The R.I. Resource Recovery Corporation's (RIRRC) currently licensed landfill consists of areas known as Phases I, II, III, and IV. The capacity of Phase I was reached in May 1993. The capacity of Phases II and III was reached in December 2002. Phase IV is expected to reach capacity during fiscal year 2005.

Phase IV consists of four eleven-acre cells of which two cells began accepting refuse in September 2000. Costs incurred in connection with the acquisition and development of Phase V total \$6,599,000 at June 30, 2004. The Corporation expects Phase V to last approximately 6 to 8 years.

The Environmental Protection Agency (EPA) established closure and postclosure care requirements for municipal solid waste landfills as a condition for the right to operate a landfill in the current period. Based on RIRRC's engineers and independent engineering studies, it is estimated that these costs of closure and postclosure activities for Phase I, II, III and IV will be approximately \$43,035,000. The liability at June 30, 2004 is approximately \$43,233,000 with \$1,357,000 remaining to be recognized. RIRRC recognizes an expense and a liability for these costs based on landfill capacity used to date. Based on the estimates of RIRRC's engineers, approximately 92% of capacity of Phase IV has been used to date, and it is expected that full capacity will be reached in fiscal year 2005. Amounts provided for closure and postclosure are based on current costs. These costs may be adjusted each year due to changes in the closure and postclosure care plan, inflation or deflation, technology, or applicable laws and regulations. RIRRC has designated investments in the amount of \$20,384,127 to meet the financial requirements of closure and postclosure costs, and plans to increase these designated investments each year to enable it to pay the costs as they are incurred.

In prior years, the EPA issued administrative orders requiring the RIRRC to conduct environmental studies of the landfill and undertake various plans of action. Additionally, in 1986, the landfill was named to the EPA's Superfund National Priorities List. The majority of the studies were completed and were submitted to the EPA for review. During 1996, the RIRRC entered into a consent decree with the EPA concerning remedial actions taken by the RIRRC for groundwater contamination. The consent decree, which was approved by the U.S. District Court on October 2, 1996, requires the establishment of a trust fund in the amount of \$27,000,000 for remedial purposes. The trust is included in restricted assets held in trust on RIRRC's balance sheet. As of June 30, 2004, the market value of the trust was \$32,767,441. The present value of the estimated remaining total expenditures relating to groundwater contamination that will be required as a result of the consent decree is estimated to be approximately \$21,464,000 and is recorded in the financial statements, net of the amount included in the trust fund.

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

RIRRC is required by the R.I. Department of Environmental Management to restore certain wetlands which are located at the Central Landfill. Total costs incurred for this project are approximately \$6,250,000. As of June 30, 2004, the project was substantially complete and awaiting DEM approval.

RIRRC submitted a wetland alteration application to DEM in July 2001. The alteration application entails relocating the second phase of Cedar Swamp Brook, completing its separation from Sedimentation Pond 2, to the south of the proposed Phase V. Phase II of the relocation of Cedar Swamp Brook began in August 2002. The Corporation has incurred approximately \$8,800,000 of engineering and subcontracting costs for this project through June 30, 2004. The project was substantially complete at June 30, 2004 and is awaiting DEM approval.

RIRRC is committed, under various contracts and agreements, for a materials recovery facility and a methane gas collection-flare system.

In addition, RIRRC is required to grant funds to municipalities to assist them in organizing source separation and recycling programs in their communities.

RIRRC has entered into an agreement with the City of Cranston to furnish sewer and water services to RIRRC's Johnston facilities in exchange for payments by RIRRC.

The R.I. Housing and Mortgage Finance Corporation had loan commitments of \$30,503,000 under various loan programs at June 30, 2004.

The R.I. Turnpike and Bridge Authority has entered into various contracts for maintenance of its bridges. At June 30, 2004 remaining commitments on these contracts approximated \$1,525,000, primarily due in one year or less.

The R.I. Public Transit Authority is committed under construction contracts in the amount of \$6,235,574 at June 30, 2004.

The R.I. Higher Education Assistance Authority is required to return to the federal government \$1,116,117 as it's share of Reserve Funds pursuant to the 1998 reauthorization of the Higher Education Act recall from guaranty agencies. The Authority's share is payable in three installments due on September 1, 2002, 2006 and 2007, respectively. The first installment was paid on August 30, 2002. As of June 30, 2004, the amount outstanding is \$736,637 and recorded in the Federal Fund.

The University of Rhode Island, Rhode Island College and Community College of Rhode Island have begun a technology modernization of core administration systems. This is being accomplished system wide through the Office of Higher Education and will be financed over a seven-year period beginning in fiscal year 2000 at a cost of \$3,700,000, \$2,200,000, and \$1,500,000, respectively.

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

The R.I. Children's Crusade has estimated its cost of scholarships for currently enrolled students to be \$24,900,000 of which \$12,400,000 will be funded by investments and \$12,500,000 to be funded by pledged scholarships.

**Note 13. Contingencies**

**Primary Government**

The State is involved in various civil lawsuits which could result in monetary loss to the State. The lawsuits are in various developmental stages, some to the point that a favorable decision, with no or minimal loss is anticipated, others, where the outcome and amount of loss, if any, cannot be determined and others which are still in the discovery stage.

In June 2002, the Tobacco Settlement Financing Corporation (Corporation), a blended component unit, issued revenue bonds that are the sole obligation of the Corporation. The bonds are asset-backed instruments that are secured solely by the Tobacco Settlement Revenues (TSR's) receivable by the Corporation. The State sold to the Corporation its future rights in the (TSR's) under the Master Settlement Agreement and the Consent Decree and Final Judgement (the MSA). When the Corporation's obligations with the bonds have been fulfilled, the TSR's will revert back to the State.

The Corporation's rights to receive TSR's are expected to produce funding for its obligations. The TSR payments are dependent on a variety of factors, which include:

- the financial capability of the participating cigarette manufacturers to pay TSR's;
- future cigarette consumption which impacts the TSR payment; and
- future legal and legislative challenges against the tobacco manufacturers and the master settlement agreement that provides for the TSR payments.

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



**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

**Federal Grants**

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

**Moral Obligation Bonds**

Some component units issue bonds with bond indentures requiring capital reserve funds. Moneys in the capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bond holder(s). These bonds are considered "moral obligations" of the State when the General Laws require the executive director to submit to the Governor the amount needed to restore each capital reserve fund to its minimum funding requirement and the Governor is required to include the amount in the annual budget. At June 30, 2004 the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had \$260,466,777 and \$67,676,636 respectively, in "moral obligation" bonds outstanding. Certain of the RIEDC bonds are economic development revenue bonds whereby the State will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the State anticipates paying approximately \$1,600,000 of the debt on the related economic development revenue bonds in fiscal year 2005.

**Component Units**

**R.I. Student Loan Authority**

The R.I. Student Loan Authority (RISLA) maintains letters of credit in the original stated amount of \$31,940,000 on its January 1995 weekly adjustable interest rate bonds and the originally stated amount of \$69,203,000 on its April 1996 Series I, II and III variable rate bonds. The letters of credit obligate the letter of credit provider to pay to the trustee an amount equal to principal and interest on the bonds when the same becomes due and payable (whether by reason of redemption, acceleration, maturity or otherwise) and to pay the purchase price of the bonds tendered or deemed tendered for purchase but not remarketed. The letters of credit will expire on the earliest to occur: a) June 30, 2009, for the January 1995 and April 1996 issue; b) the date the letter of credit is surrendered to the letter of credit provider; c) when an alternative facility is substituted for the letter of credit; d) when the bonds commence bearing interest at a fixed rate; e) when an event of default has occurred or f) when no amount becomes available to the trustee under the letter of credit.

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

**R.I. Public Transit Authority**

The R.I. Public Transit Authority has a \$2,000,000 line of credit with a financial institution. The line of credit is due on demand with interest payable at a floating rate at the financial institution's base rate or fixed rate options at the financial institution's cost of funds plus 2.00%. No amount was due under this line of credit at June 30, 2004.

**R.I. Children's Crusade for Higher Education**

The R.I. Children's Crusade for Higher Education has a \$850,000 line of credit agreement. Interest is payable monthly at the prime rate less one quarter, which was 3.75% at June 30, 2004. There was no outstanding balance as of June 30, 2004.

**Note 14. Employer Pension Plans**

**Plan Descriptions**

The State, through the Employees' Retirement System (System), administers four defined benefit pension plans. Three of these plans; the Employees' Retirement System (ERS), a cost-sharing multiple-employer defined benefit pension plan and the Judicial Retirement Benefits Trust (JRBT) and the State Police Retirement Benefits Trust (SPRBT), single-employer defined benefit pension plans; cover most State employees. The State does not contribute to the Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan. The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to State employees, which is subject to amendment by the general assembly, is established by the General Laws as listed below. In addition to the State, there are 40 local public school entities that are members of the ERS. The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained by writing to the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903.

**Summary of Significant Accounting Policies**

**Basis of Accounting**

The financial statements of the System are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Dividend income is recorded on the ex-dividend date. The gains or losses on foreign currency exchange contracts are included in income in the period in which the exchange rates change. Gains and losses on contracts which hedge specific foreign currency

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

denominated commitments are deferred and recognized in the period in which the transaction is completed. Investment transactions are recorded on a trade date basis.

**Method Used to Value Investments**

Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale. The fair value of fixed income and domestic and international stocks are generally based on published market prices and quotations from national security exchanges and securities pricing services. Real estate is primarily valued on appraisals by independent appraisers or as adjusted by the general partner. Other securities and investments, which are not traded on a national security exchange, are valued based on audited December 31 net asset values adjusted for purchases, sales, and cash flows for the period January 1 through June 30. Commingled funds consist primarily of institutional equity index funds. The fair value of the commingled funds is based on the reported share value of the respective fund. Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded.

**Funding Policy and Annual Pension Cost**

The State's annual pension cost (expressed in thousands) for the current year and related information for each plan is listed below. The most recent actuarial information may be found in the separately issued audit report referred to above.

	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust
Contribution rates:			
State	9.60%	26.77%	33.90%
Plan members - state employees	8.75%	8.75%	8.75%
State contribution for teachers	5.16% and 5.73%		
Annual pension cost	\$100,739	\$2,224	\$1,830
Contributions made - state employees	\$55,700	\$2,224	\$1,830
Contributions made - teachers	\$45,039		
Actuarial valuation date	June 30, 2001	June 30, 2001	June 30, 2001
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed
Equivalent Single Remaining Amortization Period	28 years	28 years	28 years
Asset valuation method	5 Year Smoothed Market	5Year Smoothed Market	5Year Smoothed Market
Actuarial Assumptions:			
Investment rate of return	8.25%	8.25%	8.25%
Projected salary increases	4.25% to 14.25%	5% to 15.00%	5.50%
Inflation	3.00%	3.00%	3.00%
Cost-of-living adjustments	3% compounded	\$1,500 per annum	3%
Level of benefits established by:			
General Law(s)	36-8 to 10	42-28-22.1	8-3-16, 8-8-10.1, 8-8.2-7 and 28-30-18.1

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

Three-Year Trend Information

	Year Ending	Annual Pension Cost (APC) (In Thousands)	Percentage of APC Contributed	Net Pension Obligation
Employees' Retirement System	6/30/02	\$ 62,565	100%	\$ 0
	6/30/03	83,384	100%	0
	6/30/04	100,739	100%	0
State Police Retirement Benefits Trust	6/30/02	2,405	100%	0
	6/30/03	2,257	100%	0
	6/30/04	2,224	100%	0
Judicial Retirement Benefits Trust	6/30/02	1,458	100%	0
	6/30/03	1,657	100%	0
	6/30/04	1,830	100%	0

**Other**

Certain employees of the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts with the Teachers' Insurance and Annuity Association. Total expenditures by the institutions for such annuity contracts amounted to \$12,245,124 during the year ended June 30, 2004.

The R.I. Public Transit Authority has two pension plans that cover employees meeting certain eligibility requirements. Employer contribution paid in fiscal year 2004 was \$4,418,938. At January 1, 2004, the most recent valuation date, the total pension benefit obligation was \$50,178,241 and net assets available for benefits were \$25,938,773. The net pension obligation as of June 30, 2004 is \$1,834,886.

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. Postemployment Benefits**

In accordance with the General Laws, postretirement health care benefits are provided to State employees who retire on or after July 1, 1989. The benefits in general cover medical and hospitalization costs for pre-Medicare retirees and a Medicare supplement for Medicare-eligible retirees. The State provides a subsidy for all recipients equal to the difference between the retiree premium and the active premium. This subsidy cost approximately \$5.1 million in FY 2004. Additionally the State provides an additional benefit based upon years of service. The State's share varies with years of service and ranges from 50% for retirees with 10-15 years of service to 100% for retirees with 35 years of service. During fiscal year 2004, the State contributed 1.30% of covered payroll for postretirement healthcare benefits. The contribution rates are not actuarially determined. Postretirement health care expenses for the fiscal year ended June 30, 2004 were \$7,799,544 net of retirees' contributions for the 4,022 retirees receiving benefits.

In addition to the pension benefits described above, expenditures of \$895,098 were recognized for postretirement benefits provided under early retirement incentive programs (an average of \$1,044 for each of the 857 retirees covered by the plans).

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

The above plans are financed on a pay-as-you-go basis.

**Note 16. Deferred Compensation**

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The Department of Administration pursuant to Chapter 36-13 of the General Laws administers the plan. The Department of Administration contracts with private corporations to provide investment products related to the management of the deferred compensation plan. Benefit payments are not available to employees earlier than the calendar year in which the participant attains age 70½, termination, retirement, death or “unforeseeable emergency”.

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

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

**Note 17. Restatement of Net Assets**

Certain beginning balances were restated as listed below (expressed in thousands).

	Beginning Net Assets	Changes	Beginning Net Assets as Restated
Entity-wide			
Governmental Activities			
Entity-wide	\$ (105,291)	\$	\$ (105,291)
Errors and omissions		(12,050)	(12,050)
	<u>\$ (105,291)</u>	<u>\$ (12,050)</u>	<u>\$ (117,341)</u>
Component Units			
URI	\$ 156,659	\$ 71,641	\$ 228,300
RIC	41,095	9,482	50,577
CCRI	29,578	1,504	31,082
Other	1,252,292		1,252,292
	<u>\$ 1,479,624</u>	<u>\$ 82,627</u>	<u>\$ 1,562,251</u>

URI, RIC and CCRI implemented GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* which required them to included their respective foundations in their financial statements.

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

**Note 18. Condensed Financial Statement Information**

The condensed financial statement information for the discretely presented component units is presented (expressed in thousands) in the following schedules:

	RIHMFC	RISLA	RITBA	RIEDC	RIUSTFR	NBC
Other assets	\$ 1,853,547	\$ 900,997	\$ 38,056	\$ 194,946	\$ 2,709	\$ 104,866
Capital assets - nondepreciable			5,803	79,439		205,601
Capital assets - depreciable (net)			58,497	249,560	55	199,706
Due from primary government				601	14	
Long term debt	1,381,033	806,176	33,713	271,906		268,311
Other liabilities	219,215	29,766	3,529	10,929	1,189	19,402
Due to primary government				24		
Net assets:						
Invested in capital assets, net of related debt	18,497		30,586	138,550	55	136,539
Restricted	163,976	62,937	7,714	77,041	685	34
Unrestricted	70,826	2,118	26,814	26,096	849	85,887
Operating expenses	77,900	27,903	4,816	46,109	3,878	25,505
Depreciation, depletion, and amortization	5,934	459	1,482	15,378	15	6,266
Program revenue	61,464	33,997	12,126	61,355	4,543	50,438
Net program (expense) revenue	(22,370)	5,635	5,828	(132)	650	18,667
Interest revenue	26,109	970	(60)	5,115	7	516
Gain (loss) on sale of assets		(3)		(2,049)		
Net increase in fair value of investments		(18)	1,491			
Miscellaneous			(1,265)	(13,625)		(5,721)
Capital contributions				4,523		2,223
Transfers from primary government				12,031		
Transfers (to) primary government						
Change in net assets	3,739	5,379	5,994	5,863	657	15,685
Beginning net assets	249,560	59,676	59,120	235,824	932	206,775
Ending net assets	253,299	65,055	65,114	241,687	1,589	222,460

	RIHEBC	RIRRC	DEPCO	RIHEAA	RIPTA	RIIFC
Other assets	\$ 11,164	\$ 104,227	\$	\$ 25,005	\$ 10,735	\$ 1,280
Capital assets - nondepreciable		18,268		194	2,382	
Capital assets - depreciable (net)	109	48,227		1,304	91,132	
Due from primary government					1,472	
Long term debt		18,301				
Other liabilities	70	75,648		1,664	18,121	842
Due to primary government						
Net assets:						
Invested in capital assets, net of related debt	109	48,194		1,498	93,514	
Restricted		(9,878)		18,585		
Unrestricted	11,094	38,457		4,756	(5,914)	438
Operating expenses	1,333	43,975		21,680	71,024	34
Depreciation, depletion, and amortization	29	12,846		229	9,002	
Program revenue	1,634	62,604		16,092	38,418	(132)
Net program (expense) revenue	272	5,783		(5,817)	(41,608)	(166)
Interest revenue	80	3,346		233	20	7
Gain (loss) on sale of assets		9			(5)	
Net increase in fair value of investments						
Miscellaneous		(918)			(17)	
Capital contributions					9,181	
Transfers from primary government				11,051	30,687	
Transfers (to) primary government		(1,535)			(388)	
Change in net assets	352	6,684		5,467	(2,130)	(159)
Beginning net assets	10,851	70,089		19,372	89,730	597
Ending net assets	11,203	76,773		24,839	87,600	438

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

	RICWFA	RIIRBA	RIWRBC	RIPTCA	RICCHE
Other assets	\$ 700,249	\$ 4,510	\$ 15,012	\$ 1,696	\$ 24,176
Capital assets - nondepreciable		181		821	
Capital assets - depreciable (net)	58	410	6	3,864	50
Due from primary government			8		
Long term debt	427,758		15,708	3,513	
Other liabilities	8,267	3,253	930	1,257	26,608
Due to primary government				214	
Net assets:					
Invested in capital assets, net of related debt	58	592		436	50
Restricted	255,615		(2,037)		
Unrestricted	8,609	1,256	425	961	(2,432)
Operating expenses	19,158	831	29	3,570	9,044
Depreciation, depletion, and amortization	210	14	107	621	41
Program revenue	36,795	236	264	2,379	8,201
Net program (expense) revenue	17,427	(609)	128	(1,812)	(884)
Interest revenue		37	222	157	
Gain (loss) on sale of assets					
Net increase in fair value of investments					
Miscellaneous			(993)	(158)	
Capital contributions					
Transfers from primary government				2,779	1,739
Transfers (to) primary government					
Change in net assets	17,428	(572)	(1,068)	966	855
Beginning net assets	246,854	2,420	(544)	431	(3,237)
Ending net assets	264,282	1,848	(1,612)	1,397	(2,382)

	URI	RIC	CCRI	CFSD	Totals
Other assets	\$ 171,157	\$ 33,753	\$ 10,891	\$ 3,364	\$ 4,212,340
Capital assets - nondepreciable	7,465	7,456	14,333	322	342,265
Capital assets - depreciable (net)	247,478	49,102	30,798	2,746	983,102
Due from primary government				1,001	3,096
Long term debt	129,823	20,537	11,499	1,833	3,390,111
Other liabilities	49,587	15,021	4,790	3,151	493,239
Due to primary government			557		795
Net assets:					
Invested in capital assets, net of related debt	141,511	41,185	39,050	3,069	693,493
Restricted	91,444	14,903	4,911	191	686,121
Unrestricted	13,735	(1,335)	(4,785)	(811)	277,044
Operating expenses	310,647	96,406	82,649	45,934	892,425
Depreciation, depletion, and amortization	14,674	5,101	2,384	187	74,979
Program revenue	258,980	57,229	42,714	8,998	758,335
Net program (expense) revenue	(66,341)	(44,278)	(42,319)	(37,123)	(209,069)
Interest revenue				38	36,797
Gain (loss) on sale of assets					(2,048)
Net increase in fair value of investments	1,149	1,817	241		4,680
Miscellaneous	(6,170)	(845)	(312)		(30,024)
Capital contributions	6,678	4,382	10,369		37,356
Transfers from primary government	83,074	43,100	40,115	35,692	260,268
Transfers (to) primary government					(1,923)
Change in net assets	18,390	4,176	8,094	(1,393)	94,407
Beginning net assets	228,300	50,577	31,082	3,842	1,562,251
Ending net assets	246,690	54,753	39,176	2,449	1,656,658

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

Significant transactions between primary government and component units

	Revenue (Expenses)	Description
Governmental activities		
General Fund		
R.I. Higher Education Assistance Authority	\$ (11,051)	Operating assistance
R.I. Economic Development Corporation	(11,453)	Operating assistance
University of Rhode Island	(82,233)	Educational assistance
Rhode Island College	(42,624)	Educational assistance
Community College of Rhode Island	(40,115)	Educational assistance
Central Falls School District	(35,635)	Educational assistance
ISTEA Fund		
R.I. Public Transit Corporation	(31,231)	Operating assistance
Capital Projects		
University of Rhode Island	(11,014)	Construction, improvement or purchase of assets
Rhode Island College	(6,588)	Construction, improvement or purchase of assets
Community College of Rhode Island	(9,383)	Construction, improvement or purchase of assets
Total Governmental Activities	<u>\$ (281,327)</u>	

**Note 19. Risk Management**

The State is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; employee injury; and natural disasters.

The State has entered into agreements with commercial insurance companies for comprehensive insurance coverage on State property to protect the State against loss from fire and other risks. Furthermore, the State is required by the General Laws to provide insurance coverage on all motor vehicles owned by the State and operated by State employees in the sum of \$100,000 per person and \$300,000 per accident for personal injury and \$20,000 for property damage. The State also contracts with various insurance carriers and health maintenance organizations to provide health care benefits to employees.

The State is self-insured for risks of loss related to torts. Tort claims are defended by the State'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.

There are no funds reserved for pending claims or incurred but not reported liabilities.

**Note 20. Special or Extraordinary Items**

**Component Units**

The early retirement of certain bonds resulted in the bond amortization expense being accelerated, which resulted in an additional expense of \$863,000 being incurred. Legal and professional fees in the amount of \$342,000 were also incurred by RISLA to complete the



**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

transaction. The net result of the early retirement of debt is an extraordinary loss of \$1,205,000 for the fiscal year ended June 30, 2004.

The extinguishing of Series 1994 bonds from the Rhode Island Water Resources Board Corporate (RIWRBC) resulted in an extraordinary loss of \$425,000 consisting of the write off of the remaining bond issuance costs associated with the bond in the amount of \$282,000 and the payment of the required premium of \$143,000.

**Note 21. Related Party Transactions**

The R.I. Industrial-Recreational Building Authority is authorized to insure mortgages and first security agreements for companies conducting business in the State, granted by financial institutions and the R.I. Industrial Facilities Corporation.

The State entered into a lease and operating agreement (the agreement) with the R.I. Airport Corporation (RIAC) a subsidiary of the R.I. Economic Development Corporation providing for the lease and/or transfer from the State to the RIAC all real, personal, and tangible property; intangible property, including accounts receivable, contract rights, choices in action, licenses, permits, grants, and entitlements; and all other assets of the State used or used primarily in connection with the administration, maintenance, management, regulation, operation, improvement, development or use of the State's six airports and other air facilities. RIAC agrees to reimburse the State for principal and interest payments for certain airport related General Obligation Bonds. The term of the agreement is 30 years beginning July 1, 1993, with annual rent of \$1.00.

The Rhode Island Student Loan Authority (RISLA) is a related party to the Rhode Island Higher Education Assistance Authority (RIHEAA). RIHEAA is a public instrumentality created for the dual purpose of guaranteeing loans to student in eligible institutions and administering other programs of post-secondary student financial assistance assigned by law. Lease expenses (including receptionist and mailroom costs) paid to RIHEAA for fiscal years ended June 30, 2004 and 2003 was approximately \$62,000 and \$70,000, respectively.

Under the agreement with Alliance, the Administrative Fund receives account maintenance, direct commission and other fees from the Program Fund. All the Administrative Fund's operating revenues, totaling \$5,520,848, are derived from the Program Fund. In addition, Rhode Island Higher Education Assistance Authority (RIHEAA) receives \$250,000 annually (in quarterly installments) directly from Alliance. During 2002, RIHEAA established two scholarship and grant programs, to be funded with Rhode Island Higher Education Savings Trust (RIHEST) administrative fees, as follows:

Academic Promise Scholarship Program: up to \$1,000,000 is invested annually through RIHEAA in the CollegeBoundfund for the benefit of 100 academic and income-qualified students to provide up to \$10,000 to each student over a four-year scholarship period. During 2004, \$1,000,000 was transferred to RIHEAA and RIHEAA in turn invested that amount in the CollegeBoundfund on behalf of unnamed beneficiaries.

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

5 and 10 Matching Grant Program: up to \$500,000 is invested annually through RIHEAA into the CollegeBoundfund as matching contribution accounts for individual's account established for the benefit of income-qualifying individuals. During 2004, \$500,000 was transferred to RIHEAA, and RIHEAA in turn invested that amount in the CollegeBoundfund on behalf of the unnamed beneficiaries.

During 2004, the Board of Directors authorized the transfer of \$1,797,726 to supplement amounts available for need-based scholarships under the State's grant program.

The Rhode Island Higher Education Assistance Authority is a related party of the Rhode Island Student Loan Authority (RISLA), another component unit of the State. RISLA is a public instrumentality created to provide a statewide student loan program through the acquisition and origination of student loans. Transactions with RISLA as of and during the year ended June 30, 2004 were as follows:

Guaranteed loans outstanding at June 30, 2004	\$ 576,245,000
Loans guaranteed during the year	260,581,000
Guarantee claims paid during the year	21,390,000
Rental income received during the year	92,000

The Rhode Island Housing and Mortgage Finance Corporation (Corporation) and the State have entered into a contractual relationship whereby the Corporation assumed the responsibility for the State Rental Subsidy Program for the period July 1, 1994 through June 30, 1997. In addition, the Corporation made \$3,800,000 in advances on behalf of the State for this program in the fiscal year ended June 30, 1994. As provided in the contractual arrangement, the State agreed to repay the \$3,800,000, subject to appropriations, in installments of \$950,000 over a four year period beginning in the year ended June 30, 1996, but to date no payments have been received, nor have any payments for advances totaling \$27,898,790 made during the years ended June 30, 1998 through 2004 been received

**Note 22. Subsequent Events**

**Primary Government – Governmental Activities**

In April 2004, Moody's downgraded the ratings assigned to the debt obligations of the Tobacco Settlement Financing Corporation, a blended component unit, along with all other tobacco securitization debts of other jurisdictions. This action by the Moody's reflects the potential result of heightened litigation risks facing cigarette manufacturers, increasing competition from discounted brands, and the expectation of continuing declines in domestic cigarette consumption, as well as other factors.

In August 2004, the State issued \$58,910,000 of lease participation certificates, for Kent County Courthouse Project, with interest rates ranging from 2.00% to 5.00%. Maturity dates are from October 2005 to October 2023.

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

In December 2004, the obligor of a mortgage loan receivable (outstanding balance of approximately \$22 million as of December 1, 2004) held by the State Employees' Retirement System (the System) as a plan specific investment defaulted on its obligation. The System has a first lien on commercial real estate located in Providence, Rhode Island with a court approved appraised value of \$18.6 million. The mortgage loan receivable is guaranteed by the Rhode Island Economic Development Corporation to the extent of \$3 million. The System is pursuing its rights through the U.S. Bankruptcy Court. Management cannot estimate the likelihood or amount of loss, if any, that the plan may incur.

In April 2005, the total revenues received by the Tobacco Settlement Finance Corporation (TSFC), a blended component unit, as a result of the Tobacco Master Settlement Agreement (MSA) were \$45,315,618. Eleven of the forty-three Subsequent Participating Manufacturers (SPMs) to the MSA paid their MSA payment due April 15, 2005 into an escrow disputed account and nine SPM withheld all or part of their MSA payment due April 1, 2005. The SPMs asserted that the Independent Auditor's calculation for the MSA payment due April 15, 2005 was incorrect, primarily because it did not contain a Non-Participating Manufacturers (NPM) adjustment. The value of April payments in dispute for the Tobacco Settlement Financing Corporation is approximately \$13,685,994.07. The NPM adjustment would permit the Participating Manufacturers (PM) to reduce their MSA payments if they lose significant market share to companies who have not joined the MSA. The payment reduction is based on the percentage of market share lost to NPMs multiplied by three. To maintain their disputed payments, companies must prove first that their lost market share was due to the strictures of the MSA. Since the State of Rhode Island was the entity which signed the MSA before selling it rights to the revenue stream created by the MSA to the TSFC, the State is contesting this. Rhode Island and the other Settling States are preparing for a Significant Factors Determination (SFD) proceeding to determine whether or not the PMs have lost market share due to the MSA. Pursuant to the MSA, Rhode Island has provided a 30-day notice prior to initiating enforcement proceedings to the SPMs who failed to pay their MSA payments. Rhode Island will continue vigorously enforce the MSA and related statute.

In April 2005, the Rhode Island Convention Center sold the Westin hotel for \$95,500,000. The proceeds from the sale will be used to retire approximately \$90,000,000 in bonds.

In May 2005, the state issued \$52,335,000 of refunding bonds with interest rates ranging from 3.00% to 5.00%. Maturity dates are from August 2005 to August 2018. The proceeds of the refunding bonds were used to advance refund \$51,365,000 of State's general obligation bonds.

In May 2005, the state issued \$8,360,000 of refunding bonds with interest rates ranging from 3.00% to 4.25%. Maturity dates are from August 2005 to August 2014. The proceeds of the refunding bonds were used to advance refund \$7,985,000 of State's general obligation bonds.

In May 2005, the state issued \$56,315,000 of refunding bonds with interest rates ranging from 2.50% to 5.00%. Maturity dates are from August 2005 to August 2018. The proceeds

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

of the refunding bonds were used to advance refund \$55,510,000 State's general obligation bonds.

In May 2005, the state issued \$87,095,000 of general obligation bonds with interest rates ranged from 3.00% to 5.00% with maturity dates of February 2006 through February 2024.

In June 2005, the state issued \$51,985,000 of lease participation certificates, for Training School Project, with interest rates ranging from 3.00% to 5.00%. Maturity dates are from October 2006 to October 2024.

In June 2005, the state issued \$21,565,000 of lease participation certificates, for Traffic Tribunal Project, with interest rates ranging from 3.00% to 5.00%. Maturity dates are from October 2006 to October 2024.

In June 2005, the state issued \$6,950,000 of lease participation certificates, for State Vehicle Project, with interest rates ranging from 3.25% to 4.00%. Maturity dates are from April 2006 to April 2012.

In July 2005, the enacted budget for Fiscal Year 2006 contained, what was considered by many, significant pension reform. This reform modified the minimum age of retirement, the benefit accrual, and tied the cost of living adjustment to CPI with a maximum of 3%. These changes will apply only to those with less than 10 years of service or new employees. The estimated savings to the State are \$12,875 million related to the State employees and \$12,429 million related to the State's share of teachers' retirement.

In July 2005, the General Assembly abolished the State Lottery Commission that oversaw the operations of the State Lottery, a blended component unit, and established the State Lottery as a division of the Department of Administration.

### **Component Units**

In August 2004, the R.I. Housing Mortgage Finance Corporation issued \$66,130,000 in housing bonds.

Since June 30, 2004, the R.I. Health and Educational Building Corporation, The R.I. Economic Development Corporation and the R.I. Industrial Facilities Corporation have issued various conduit debt obligations, which are not obligations of the respective corporations or the State.

Since June 30, 2004, the Rhode Island Resource Recovery Corporation acquired abutters' property for approximately \$3,000,000 through a down payment of approximately \$1,000,000 and the issuance of notes payable in the amount of \$2,000,000. The RIRRC entered into a sales agreement to sell its existing Plainfield Pike location for \$2,200,000. The sales agreement is contingent upon the purchaser obtaining necessary permits for his intended use of the property.

On August 23, 2004, the R.I. Higher Education Savings Trust, a component unit of

**State of Rhode Island and Providence Plantations**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

R.I. Higher Education Assistance Authority, in connection with the closing of the JPM Plan, the 2,456 accounts in the JPM Plan (representing net assets of approximately \$25 million) were transferred from investment portfolios established under the JPM Plan to existing CollegeBound*fund* investment portfolios according to a schedule approved by the SIC.

The Quonset Development Corporation (QDC) was established by an Act of the General Assembly on July 2, 2004 to develop and manage state land for commercial purposes. Effective July 1, 2004, QDC became a governmental agency and public instrumentality of the State with distinct and certain assets and liabilities of RIEDC's general fund will be transferred to QDC. QDC will be a discretely presented component unit of RIEDC.

On July 1, 2004, the Central Falls School District entered into a loan agreement with ARAMARK Educational Services, Inc., in the amount of \$600,000 to be used for kitchen and cafeteria renovations within the School District. The loan bears an interest rate of 125% of the Prime Rate. The loan is being amortized on a straight-line basis commencing July 1, 2004 and continuing until June 2009.

In March 2005, the R.I. Clean Water Finance Agency issued \$42,960,000 In Drinking Water Bonds.

In December 2004, the R.I. Clean Water Finance Agency issued \$69,625,000 In Water Pollution Control Revolving Fund Revenue Bonds.

In December 2004, the Narragansett Bay Commission borrowed \$40,000,000 from R.I. Clean Water Finance Agency.

In June 2005, the Narragansett Bay Commission deposited \$10,977,827 in an irrevocable trust account to defease \$9,246,845 of State guaranteed bonds.

In July 2005, the Rhode Island Housing and Mortgage Finance Corporation issued \$114,070,000 in Homeownership Opportunity Bonds.

**State of Rhode Island  
and Providence Plantations**

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**June 30, 2004**

**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, 2004**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
Revenues				
General Revenues				
Personal Income Tax	\$ 853,310	\$ 885,000	\$ 870,203	(14,797)
General Business Taxes				
Business Corporations	65,060	80,000	75,972	(4,028)
Franchise	0	0	24	24
Public Utilities Gross Earnings	77,800	85,000	92,210	7,210
Financial Institutions	1,500	(3,000)	(7,296)	(4,296)
Insurance Companies	50,600	42,600	43,419	819
Bank Deposits	1,430	1,000	1,580	580
Health Care Provider Assessment	40,940	39,900	40,317	417
Sales and Use Taxes	0	0	0	
Sales and Use	812,206	821,800	822,855	1,055
Motor Vehicle	48,200	45,800	47,356	1,556
Motor Fuel	620	1,075	860	(215)
Cigarettes	119,220	117,000	117,263	263
Alcohol	10,300	10,200	10,342	142
Controlled Substances	0	0	0	0
Other Taxes				
Inheritance and Gift	30,700	24,600	23,905	(695)
Racing and Athletics	5,000	4,785	4,587	(198)
Realty Transfer Tax	8,900	12,300	13,037	737
Total Taxes	<u>2,125,786</u>	<u>2,168,060</u>	<u>2,156,634</u>	<u>(11,426)</u>
Departmental Revenue	<u>287,038</u>	<u>293,900</u>	<u>285,005</u>	<u>(8,895)</u>
Total Taxes and Departmentals	<u>2,412,824</u>	<u>2,461,960</u>	<u>2,441,638</u>	<u>(20,321)</u>
Other				
Gas Tax Transfer	6,608	8,024	7,760	(264)
Other Miscellaneous	71,342	70,400	19,706	(50,694)
Lottery	301,770	283,900	281,142	(2,758)
Unclaimed Property	12,900	16,650	17,042	392
Total Other	<u>392,620</u>	<u>378,974</u>	<u>325,650</u>	<u>(53,324)</u>
Total General Revenues	<u>2,805,444</u>	<u>2,840,934</u>	<u>2,767,288</u>	<u>(73,645)</u>
Federal Revenues	1,632,389	1,700,783	1,664,496	(36,287)
Restricted Revenues	108,229	109,393	105,737	(3,656)
Other Revenues	103,570	104,162	97,124	(7,038)
Total Revenues	<u>4,649,632</u>	<u>4,755,272</u>	<u>4,634,645</u>	<u>(120,626)</u>

**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, 2004**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
<b>Expenditures</b>				
Department of Administration				
Central Management				
General Revenue Total	2,179	2,374	2,353	21
Federal Funds Total	299	288	157	131
Total - Central Management*	2,478	2,662	2,510	152
Accounts & Control				
General Revenue	9,300	4,002	3,975	27
RI e-Government Fund-RI-SAIL	431	444	401	43
Total-Accounts & Control	9,731	4,446	4,376	70
Budgeting				
General Revenue Total	2,395	2,362	2,313	49
Total-Budgeting	2,395	2,362	2,313	49
Municipal Affairs				
General Revenue Total	1,253	1,240	1,189	51
Federal Funds Total	7,573	7,813	5,709	2,104
Total-Municipal Affairs	8,826	9,053	6,898	2,155
Purchasing				
General Revenue Total	1,986	2,026	1,883	143
Total-Purchasing	1,986	2,026	1,883	143
Auditing				
General Revenue Total	1,677	1,663	1,611	52
Total-Auditing	1,677	1,663	1,611	52
Human Resources				
Bridge Project-State Share	0	10	3	7
General Revenue Total	6,889	7,079	6,951	128
Federal Funds Total	0	104	19	85
Total-Human Resources	6,889	7,194	6,973	221
Personnel Appeal Board				
General Revenue Total	116	118	128	(10)
Total-Personnel Appeal Board	116	118	128	(10)
Taxation				
Motor Fuel Tax Evasion Program	56	56	18	38
Temporary Disability Insurance	572	675	624	51
General Revenue Total	17,432	17,479	16,917	562
Federal Funds Total	801	991	852	139
Restricted Receipts Total	1,361	1,206	1,068	138
Total-Taxation	20,223	20,406	19,479	927



**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, 2004**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
Registry of Motor Vehicles				
Auto Emmission CMAQ	0	0	0	0
Registry Denial Program	0	0	0	0
General Revenue Total	15,279	15,663	15,488	175
RI e-Government Fund-OLIS Support-RMV System	195	115	160	(45)
RI e-Government Fund-Digital License System	417	417	633	(216)
Federal Funds Total	435	1,223	107	1,116
Restricted Receipts Total	14	14	14	0
Total-Registry of Motor Vehicles	16,340	17,432	16,402	1,030
Child Support				
General Revenue Total	3,294	3,263	3,202	61
Federal Funds Total	6,534	6,562	6,442	120
Total-Child Support	9,828	9,826	9,643	183
Central Services				
Lighting Conservation	661	0	0	0
General Revenue Totals	16,186	16,293	13,184	3,109
Energy Office Grants	356	355	818	(463)
Federal Funds Totals	19,887	17,851	16,291	1,560
Restricted Receipts Total	1,068	898	618	280
Total-Central Services	38,159	35,397	30,911	4,486
Office of Library & Information Service				
Federal Highway-PL Systems Planning	982	974	887	87
Federal Highway-T2 Systems Planning	130	4	7	(3)
Air Quality Modeling	20	15	15	0
General Revenue Total	3,430	3,383	3,082	301
Federal Funds Total	1,361	1,257	1,237	20
Restricted Receipts Total	5	5	3	2
Total-Office of Library & Information Service	5,928	5,637	5,231	406
General				
RICAP-State House Renovations (Phase 1)	0	0	0	0
RICAP-State House Skylights and Roof Repairs	74	74	74	0
RICAP-State House Terrace/South Stairs	739	739	11	728
RICAP-Pastore Center Sewer Improvements	0	500	0	500
RICAP-Chapin Health Laboratory	394	234	120	114
RICAP-Cranston Street Armory	541	391	445	(54)
RICAP-Cannon Building	276	176	74	102
RICAP-House & Senate Chambers Renovation	0	0	0	0
RICAP-Second State House Elevator	6	0	0	0
RICAP - Ladd Center-Infrastructure	0	0	0	0
RICAP-Old State House	425	100	0	100
RICAP-State Office Building	482	412	197	215
RICAP-Veterans Office Building	436	436	291	145
RICAP-Information Operations Center	200	50	7	43
RICAP-Old Colony House	148	148	14	134
RICAP-Court Building-HVAC	250	250	153	97
RICAP-Asset Inventor	30	0	0	0

**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, 2004**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
RICAP-Washington County Government Center	350	150	114	36
RICAP-State House Security	69	69	36	33
RICAP-State House Renovations - Phase II	403	353	139	214
RICAP-William Powers Building	45	45	42	3
RICAP-State House Renovations-Phase III	230	50	5	45
RICAP-Powers Building Tech Infrastructure	300	50	28	22
RICAP-Board of Elections Building	48	48	19	29
RICAP-Environmental Compliance	1,702	702	489	213
RICAP-Fox Point Hurricane Barrier	50	50	50	0
RICAP-Bio Tech Training Lab-Planning Funds	300	300	100	200
RICAP - Facility Renovation ADA	0	0	0	0
Information Processing Rotary Account-Overhead	480	480	480	0
Property Tax Relief Credit	6,000	6,000	6,000	0
Rhode Island Sports Foundation	368	400	400	0
EDC-RPScore	0	0	0	0
Shepard Building Operating/Parking	1,970	1,970	2,143	(173)
Miscellaneous Grants and Payments	2,147	2,109	2,099	10
Torts-Court Awards	400	400	476	(76)
Asset Inventory	150	150	49	101
Race and Police Community Relations Commission	63	63	63	0
State Employees/Teachers Retiree Health	0	4,962	5,082	(120)
Masonic Temple	500	500	0	500
Contingency Fund	2,018	2,018	1,371	647
Economic Development Corporation Grant	6,486	6,386	6,367	19
Office of City and Town Development-EDC	500	500	500	0
Centers of Excellence	4,000	4,000	4,000	0
Economic Policy Council	300	300	300	0
Housing Resources Commission	3,258	3,255	3,132	123
Neighborhood Opportunities Program	5,000	5,000	5,000	0
Motor Vehicle Excise Tax Payment	104,338	104,987	54,845	50,142
Property Valuation	2,604	2,604	2,485	119
General Revenue Sharing Program	51,426	51,439	51,439	0
Payment in Lieu of Tax Exempt Properties	21,716	21,716	21,716	0
Distressed Communities Relief Program	7,533	7,533	7,533	0
Resource Sharing and State Library Aid	7,587	7,587	7,562	25
Library Construction Aid	2,537	2,157	2,129	28
Federal Funds	298	298	50,151	(49,853)
Restricted Receipts Total	1,196	1,127	1,126	1
Total-General	240,373	243,267	238,857	4,410
Debt Service Payments				
RICAP-DEM - Narragansett Bay Commission	3,333	3,333	3,652	(319)
RICAP-DEM - Wastewater Treatment	1,931	4,551	3,849	702
RICAP-DEM -Hazardous Waste	0	0	0	0
RICAP-DEM - Debt Service Economic Development	0	0	1,201	(1,201)
RICAP-DEM - Debt Service-Recreation	0	7,684	6,882	802
RICAP-Water Resources Board	0	1,117	1,603	(486)
RICAP-University of Rhode Island-Debt Service	0	4,255	4,116	139
RICAP-Rhode Island College-Debt Service	0	473	458	15
RICAP-Community College of Rhode Island-Debt Service	0	1,141	1,117	24

**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, 2004**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
RIPTA Debt Service	431	388	388	0
RICAP-MHRH Com Services	10,067	5,067	4,842	225
RICAP-MHRH Comm. Mental Health	2,273	2,273	2,141	132
Transportation Debt Service	31,785	30,968	30,598	370
RIRBA-Third Rail Project - Quonset Point	0	0	133	(133)
RIRBA - DLT Temporary Disability Insurance	46	46	55	(9)
COPS - DLT Building - TDI	346	361	357	4
Cops-DLT Building-Reed Act	31	30	39	(9)
COPS - Center General - Furniture - TDI	59	20	18	2
COPS-Center General-Furniture-Reed Act	5	6	8	(2)
COPS-Center General-Furniture-Reed Act	2	1	2	(1)
COPS - Pastore Center Telecomm - TDI	17	18	18	0
Debt - URI Education and General	1,089	1,089	3,554	(2,465)
Debt - URI housing Loan Funds	1,752	1,752	1,646	106
Debt - URI Dining Services	267	267	90	177
Debt - URI Health Services	126	126	43	83
Debt - W. Alton Jones Service	113	113	38	75
Debt - URI Memorial Union	98	98	33	65
Debt - URI Sponsored Research (Indirect Cost)	101	101	102	(1)
Debt - RIC Education and General	297	297	216	81
Debt - RIC Housing	568	568	293	275
Debt - RIC Student Center and Dining	178	178	64	114
Debt - RIC Student Union	217	217	274	(57)
Debt - CCRI Bookstore	177	177	176	1
RICAP-DEM Debt Service CWFA	0	2,406	2,307	99
Debt Service Payments	84,998	64,134	64,285	(151)
Debt Service Special Account	0	0	402	(402)
Federal Funds	1,276	1,298	1,329	(31)
RIRBA-DLT-Job Development Fund	46	46	52	(6)
RIRBA-DLT Rapid Reemployment	48	48	23	25
COPS-Center General Furniture-WC	38	42	43	(1)
COPS-DLT Building-WC	224	216	219	(3)
COPS-DLT Building-Job Development Fund	67	59	59	0
COPS-Pastore Center Telecom.-JDF	3	3	3	0
COPS-Center General Furniture-JDF	11	12	12	0
COPS-Pastore Center Telecom.-WC	11	11	11	0
COPS-Center General Furn. Rapid Reempl. Fund	0	2	2	0
COPS-DLT Building-Rapid Reemployment Fund	0	32	30	2
COPS-Center General Furn. Rapid Reempl Fnd	0	6	6	0
Investment Receipts-TANS	1,421	1,859	1,926	(67)
RICCA-Excess Debt Service Rental Payment	3,624	5,030	5,030	0
Total - Debt Service Payments	147,078	141,920	143,744	(1,824)
<b>Sheriffs</b>				
General Revenue Total	14,054	13,502	13,174	328
Total Sheriffs	14,054	13,502	13,174	328
General Revenue Fund Total-Dept Of Admin	413,248	392,431	336,916	55,515
Federal Grant Fund Total-Dept of Admin	38,464	37,685	82,294	(44,609)
Restricted Fund Total-Dept of Admin	9,137	10,615	10,245	370

**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, 2004**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
Other Fund Total-Dept of Admin	65,229	76,183	74,678	1,505
Total-Department of Administration	526,080	516,913	504,133	12,780
Department of Business Regulation				
Central Management				
General Revenue Total	1,646	1,680	1,609	71
Total-Central Management	1,646	1,680	1,609	71
Banking Regulation				
General Revenue Total	1,628	1,659	1,632	27
Total-Banking Regulation	1,628	1,659	1,632	27
Security Regulation				
General Revenue Total	799	788	758	30
Total-Securities Regulation	799	788	758	30
Commercial Licensing and Regulation				
General Revenue Total	1,167	1,171	1,122	49
Restricted Revenue Total	100	100	44	56
Total-Commercial Licensing and Regulation	1,267	1,271	1,167	104
Racing and Athletics				
General Revenue Total	718	628	547	81
Total-Racing and Athletics	718	628	547	81
Insurance Regulation				
General Revenue Total	3,886	3,621	3,535	86
Restricted Receipts Total	501	602	511	91
Total-Insurance Regulation	4,387	4,223	4,045	178
Board of Accountancy				
General Revenue Total	125	129	127	2
Total-Board of Accountancy	125	129	127	2
General Revenue Fund Total-DBR	9,969	9,675	9,330	345
Restricted Fund Total-DBR	601	702	555	147
Total-Department of Business Regulation	10,570	10,377	9,885	492
Department of Labor and Training				
Central Management				
General Revenue Total	353	227	229	(2)
Director of Workers' Compensation	754	397	407	(10)
Total-Central Management	1,106	624	636	(12)

**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, 2004**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
<b>Workforce Development Services</b>				
Reed Act-Woonsocket Network Office Renovations	250	250	86	164
Reed Act-Rapid Job Development	1,726	1,630	1,649	(19)
Reed Act - Workforce Development	2,016	1,987	1,962	25
General Revenue	1,400	1,400	1,695	(295)
Federal Funds Total	14,883	18,904	15,996	2,908
Restricted Receipts	11,617	9,428	9,891	(463)
Total-Workforce Development Services	31,893	33,599	31,279	2,320
<b>Workforce Regulation and Safety</b>				
General Revenue Total	2,873	2,224	2,282	(58)
Total-Workforce Regulation and Safety	2,873	2,224	2,282	(58)
<b>Income Support</b>				
Reed Act-Special Distribution	54	54	54	0
General Revenue Total	2,899	2,982	2,972	10
Federal Funds Total	16,931	17,286	15,362	1,924
Restricted Receipt Total	1,948	2,354	2,191	163
Total-Income Support	21,833	22,677	20,579	2,098
<b>Injured Workers Services</b>				
Restricted Receipts Total	10,785	11,483	9,564	1,919
Total-Injured Workers Services	10,785	11,483	9,564	1,919
<b>Labor Relations Board</b>				
General Revenue Total	391	407	357	50
Total-Labor Relations Board	391	407	357	50
General Revenue Fund Total-DLT	7,916	7,240	7,535	(295)
Federal Grants Fund Total-DLT	31,814	36,191	31,357	4,834
Restricted Fund Total-DLT	25,104	23,662	22,053	1,609
Other Fund Total-DLT	4,046	3,921	3,752	169
Total-Department of Labor and Training	68,880	71,014	64,697	6,317

**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, 2004**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
<b>General Assembly</b>				
General Revenue Fund Total	29,061	28,738	24,362	4,376
Restricted Receipts Fund Total	884	1,284	1,489	(205)
Legislative Office Building	1,500	0	0	0
General Revenue Fund Total-Gen Assembly	29,061	28,738	24,362	4,376
Restricted Fund Total-Gen Assembly	884	1,284	1,489	(205)
Other Fund Total-Gen Assembly	1,500	0	0	0
Total-General Assembly	31,446	30,023	25,851	4,172
<b>Office of the Lieutenant Governor</b>				
<b>Lt. Governor's Office-General</b>				
General Revenue Total	863	839	842	(3)
General Revenue Fund Total-Office of Lieutenant Governor	863	839	842	(3)
Total-Office of the Lieutenant Governor	863	839	842	(3)
<b>Department of State</b>				
<b>Administration</b>				
General Revenue Total	1,180	1,391	1,443	(52)
Total-Administration	1,180	1,391	1,443	(52)
<b>Corporations</b>				
General Revenue Total	1,685	1,467	1,450	17
RI e-Gov Fund-UCC Automated System	100	100	61	39
Total-Corporation	1,785	1,567	1,511	56
<b>State Archives</b>				
General Revenue Total	98	94	97	(3)
Federal Funds Total	0	0	0	0
Restricted Receipts total	554	487	476	11
Total-State Archives	651	581	572	9
<b>Elections</b>				
General Revenue Total	363	401	397	4
Federal Funds Total	8,261	2,506	1,503	1,003
Total-Elections	8,624	2,906	1,900	1,006
<b>State Library</b>				
General Revenue Total	680	709	700	9
Total-State Library	680	709	700	9
<b>Office of Public Information</b>				
General Revenue Total	519	422	408	14
Total-Office of Public Information	519	422	408	14
General Revenue Fund Total-Sec of State	4,626	4,585	4,555	30
Federal Grant Fund Total-Sec of State	8,261	2,506	1,503	1,003
Restricted Fund Total-Sec of State	554	487	476	11

**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, 2004**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
Total-Department of State	13,440	7,577	6,533	1,044
Treasury Department				
Treasury				
General Revenue Total	2,550	2,508	2,447	61
Federal Funds Total	238	247	292	(45)
Restricted Receipts Total	10	10	0	10
Other Funds TDI	0	0	0	0
Total-Treasury	2,798	2,765	2,739	26
State Retirement System				
Administrative Expenses-State Retirement System	4,900	5,193	3,953	1,240
Retirement-Treasury Investment Operations	632	664	639	25
Total-State Retirement System	5,532	5,858	4,592	1,266
Unclaimed Property				
Restricted Receipts Total	19,118	17,491	25,907	(8,416)
Total-Unclaimed Property	19,118	17,491	25,907	(8,416)
RI Refunding Bond Authority				
General Revenue Total	80	80	31	49
Total-RI Refunding Bond Authority	80	80	31	49
Crime Victim Compensation Program				
General Revenue Total	215	1,029	253	776
Federal Funds Total	1,288	4,295	2,080	2,215
Restricted Receipts Total	1,602	1,700	1,763	(63)
Total-Crime Victim Compensation Program	3,105	7,024	4,097	2,927
General Revenue Fund Total-Treasury	2,845	3,617	2,732	885
Federal Grant Fund Total-Treasury	1,526	4,542	2,373	2,169
Restricted Fund Total-Treasury	20,730	19,202	27,670	(8,468)
Other Fund Total-Treasury	5,532	5,858	4,592	1,266
Total-Treasury Department	30,633	33,218	37,366	(4,148)
Boards for Design Professionals-PL				
Boards For Professional Design				
General Revenue Total	391	405	419	(14)
General Revenue Fund Total-Board of Professional Design	391	405	419	(14)
Total-Boards For Professional Designs-PL	391	405	419	(14)
Board of Elections				
General Revenue Total	1,365	1,402	1,316	86
RI e-Government Fund-Electronic Campaign Finance	0	0	0	0
Federal Funds Total	941	1,160	953	207
General Revenue Fund Total-Board of Elections	1,365	1,402	1,316	86
Federal Grant Fund Total-Board of Elections	941	1,160	953	207

**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, 2004**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
Total-Board Of Elections	2,306	2,562	2,269	293
Rhode Island Ethics Commission				
General Revenue Total	969	940	851	89
General Revenue Fund Total-RI Ethics Commision	969	940	851	89
Total-Rhode Island Ethics Commission	969	940	851	89
Office of Governor				
General Revenue Total	4,462	4,425	4,381	44
General Revenue Fund Total-Office of the Governor	4,462	4,425	4,381	44
Total-Office of the Governor	4,462	4,425	4,381	44
Public Utilities Commission				
General Revenue Total	693	684	640	44
Federal Funds Total	70	69	61	8
Restricted Receipts Total	5,124	5,123	3,909	1,214
General Revenue Fund Total-PUC	693	684	640	44
Federal Grant Fund Total-PUC	70	69	61	8
Restricted Fund Total-PUC	5,124	5,123	3,909	1,214
Total-Public Utilities Commission	5,887	5,877	4,610	1,267
Rhode Island Commission on Women				
General Revenue Total	143	68	65	3
General Revenue Fund Total-RI Commision on Women	143	68	65	3
Total-Rhode Island Commission on Women	143	68	65	3
Department of Children, Youth, and Families				
Central Management				
General Revenue Total	7,688	7,777	7,883	(106)
Federal Funds Total	4,422	3,918	3,714	204
Total-Central Management	12,110	11,695	11,597	98
Children's Behavioral Health Services				
RICAP CBHS Grodin Center	0	0	0	0
RICAP-Spurwink/RI	33	33	10	23
General Revenue Total	19,349	21,571	23,807	(2,236)
Federal Funds Total	24,714	26,935	33,090	(6,155)
Total-Children's Behavioral Health Services	44,096	48,539	56,907	(8,368)
Juvenile Correctional Services				
RICAP-RI Training School Bathroom Renovation	47	0	0	0
RICAP-NAFI Center	25	13	11	2
General Revenue Total	26,659	27,375	26,631	744
Federal Funds Total	3,054	2,906	3,150	(244)
Restricted Receipts Total	700	869	233	636
Total-Juvenile Correctional Services	30,485	31,163	30,025	1,138



**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, 2004**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
Child Welfare				
Children's Trust Fund	82,413	83,538	82,676	862
Harmony Hill	0	0	0	0
General Revenues	0	0	0	0
Federal Funds Total	64,044	68,590	69,133	(543)
Restricted Receipts Total	1,311	1,398	1,743	(345)
Total-Child Welfare	147,768	153,527	153,552	(25)
Higher Education Incentive Grant				
General Revenue Total	200	200	200	0
Total-Higher Education Incentive Grants	200	200	200	0
General Revenue Fund Total-DCYF	136,310	140,461	141,197	(736)
Federal Grant Fund Total-DCYF	96,234	102,349	109,087	(6,738)
Restricted Fund Total-DCYF	2,011	2,267	1,976	291
Other Fund Total-DCYF	104	46	21	25
Total-Department of Children, Youth, and Families	234,659	245,123	252,281	(7,158)
Department of Elderly Affairs				
Intermodel Surface Transportation Fund	4,720	4,720	4,718	2
RAPP Foundation Funds	0	10	9	1
General Revenues Total	13,605	13,798	14,748	(950)
Safety and Care of the Elderly	1	1	1	0
RIPAE	14,090	15,213	14,530	683
Federal Funds Total	9,885	15,092	11,777	3,315
General Revenue Fund Total-Dept of Elderly Affairs	27,695	29,012	29,279	(267)
Federal Grant Fund Total-Dept of Elderly Affairs	9,885	15,092	11,777	3,315
Other Fund Totals-Dept of Elderly Affairs	4,720	4,730	4,727	3
Total-Department of Elderly Affairs	42,300	48,834	45,783	3,051
Department of Health				
Central Management				
Trauma Registry	1	0	0	0
General Revenues Total	2,646	2,191	2,304	(113)
RI e-Gov Fund-Automated Vital Records System	0	0	0	0
Federal Funds Total	4,366	5,819	3,637	2,182
Restricted Receipts Total	2,046	2,905	3,304	(399)
Total-Central Management	9,059	10,915	9,245	1,670
State Medical Examiner				
General Revenue Total	1,810	1,797	1,753	44
Federal Funds Total	0	122	89	33
Total-State Medical Examiners	1,810	1,919	1,842	77

**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, 2004**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
<b>Family Health</b>				
General Revenues Total	8,636	9,377	9,173	204
Poison Control Center	0	0	(7)	7
Federal Funds Total	36,651	37,345	34,612	2,733
Restricted Receipts Total	5,728	5,712	3,867	1,845
Total-Family Health	51,015	52,433	47,645	4,788
<b>Health Services Regulation</b>				
General Revenues Total	4,488	4,507	4,425	82
Hospital Care Consultant Report	0	0	0	0
Federal Funds Total	3,547	5,192	4,788	404
Restricted Receipts Total	447	385	339	46
Total-Health Services Regulation	8,482	10,083	9,552	531
<b>Environmental Health</b>				
General Revenue Total	4,384	4,338	4,208	130
Federal Funds Total	3,190	5,664	4,853	811
Restricted Receipts Total	1,475	1,458	1,181	277
Total-Environmental Health	9,049	11,460	10,242	1,218
<b>Health Laboratories</b>				
General Revenue Total	6,179	6,121	6,001	120
Federal Funds Total	1,620	2,311	1,902	409
Total-Health Laboratories	7,800	8,432	7,903	529
<b>Disease Prevention and Control</b>				
General Revenue Total	5,948	5,936	5,863	73
Federal Funds Total	14,848	18,708	17,444	1,264
Restricted Receipts Total	934	1,049	1,038	11
Child Safety Program	72	86	70	16
Walkable Communities Initiative	0	20	9	11
Total-Disease Prevention and Control	21,803	25,799	24,423	1,376
General Revenue Fund Total-Health	34,092	34,267	33,719	548
Federal Grant Fund Total-Health	64,221	75,161	67,324	7,837
Restricted Fund Total-Treasury	10,631	11,508	9,729	1,779
Other Fund Total-Health	73	106	79	27
Total-Department of Health	109,018	121,042	110,852	10,190
<b>Department of Human Services</b>				
<b>Central Management</b>				
General Revenue Total	6,506	6,239	5,666	573
Federal Funds Total	4,372	4,317	3,947	370
Restricted Receipts Total	2,288	2,379	2,335	44
Total-Central Management	13,165	12,935	11,948	987
<b>Individual and Family Support</b>				
RICAP-Blind Vending Facilities	187	0	0	0
RICAP Forand Building Exterior Window Panels	929	0	0	0

**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, 2004**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
General Revenue Total	20,137	19,727	19,609	118
Federal Funds Total	52,464	53,151	49,106	4,045
Restricted Receipts Total	68	85	84	1
Total-Individual and Family Support	73,785	72,963	68,800	4,163
<b>Veterans' Affairs</b>				
General Revenue Total	16,341	16,240	16,041	199
Federal Funds Total	5,523	8,911	6,293	2,618
Restricted Receipts Total	1,949	849	550	299
Total-Veterans' Affairs	23,813	26,000	22,885	3,115
<b>Health Care Quality, Financing and Purchases</b>				
General Revenue Total	23,981	25,282	24,367	915
Federal Funds Total	39,200	39,863	36,997	2,866
Restricted Receipts Total	1,038	862	648	214
Total-Health Care Quality, Financing & Purchase	64,220	66,007	62,013	3,994
<b>Medical Benefits</b>				
General Revenue				
Managed Care	127,668	132,572	135,223	(2,651)
Hospital	95,448	99,656	100,733	(1,077)
Other	90,039	99,250	96,383	2,867
Special Education	17,048	11,118	13,267	(2,149)
Nursing Facilities	119,536	119,224	120,399	(1,175)
General Revenue Total	449,739	461,820	466,005	(4,185)
Federal Funds				
Managed Care	188,931	189,328	192,774	(3,446)
Hospitals	123,814	129,044	131,267	(2,223)
Nursing Facilities	165,942	167,776	171,582	(3,806)
Other	129,009	138,321	137,325	996
Special Education	24,352	15,882	19,852	(3,970)
Federal Funds Total	632,048	640,351	652,800	(12,449)
Restricted Receipts Total	15	15	9	6
Total-Medical Benefits	1,081,802	1,102,186	1,118,814	(16,628)
<b>Supplemental Security Income Program</b>				
General Revenue Total	26,824	26,643	26,561	82
Total-Supplemental Security Income Program	26,824	26,643	26,561	82
<b>Family Independence Program</b>				
TANF/Families Independence Program	18,243	19,081	18,993	88
Child Care	58,797	52,977	53,020	(43)
Federal Funds Total	83,084	87,603	87,654	(51)
Total-Family Independence Program	160,125	159,661	159,666	(5)
<b>State Funded Programs</b>				
General Public Assistance	2,929	3,061	2,972	89
Food Stamp Replacement for Legal Immigrants	0	0	1	(1)
Weatherization One-Time Payment	0	0	0	0

**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, 2004**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
Citizen Participation Program	45	50	50	0
Federal Funds Total	68,556	72,720	72,611	109
Total-State Funded Programs	71,531	75,831	75,635	196
General Revenue Fund Total-Human Services	623,542	631,120	633,286	(2,166)
Federal Grant Fund Total-Human Services	885,248	906,916	909,409	(2,493)
Restricted Fund Total-Human Services	5,358	4,190	3,626	564
Other Fund Total-Human Services	1,116	0	0	0
Total-Department of Human Services	1,515,264	1,542,226	1,546,320	(4,094)
Department of Mental Health, Retardation, and Hospital Central Management				
General Revenue Total	2,261	2,082	2,005	77
Total-Central Management	2,261	2,082	2,005	77
Hospital & Community System Support				
RICAP-Utilities Upgrade	300	300	92	208
RICAP-Medical Center Rehabilitation	400	210	140	70
RICAP-Utilities Systems Water Tanks and Pipes	250	50	9	41
RICAP-Central Power Plant Rehabilitation	500	540	416	124
RICAP-Pastore Center Sewer Improvement	500	0	0	0
General Revenue Total	20,075	23,122	22,377	745
Total-Hospital & Community System Support	22,025	24,222	23,033	1,189
Service for the Developmentally Disabled				
RICAP-DD State Owned Group Homes	200	0	4	(4)
General Revenue Total	94,583	94,401	95,223	(822)
Pirovano Trust	52	52	35	17
Federal Funds Total	131,677	128,333	133,438	(5,105)
Total-Service for the Developmentally Disabled	226,513	222,786	228,700	(5,914)
Integrated Mental Health Services				
General Revenue Total	33,661	34,769	34,762	7
Federal Funds Total	34,856	36,934	37,077	(143)
Total-Integrated Mental Health Services	68,517	71,703	71,839	(136)
Hospital & Community Rehabilitation Svcs				
RICAP-Zambarano Buildings and Utilities	339	39	0	39
General Revenue Total	44,648	45,914	45,700	214
Federal Funds Total	56,797	59,070	59,381	(311)
Total-Hospital & Community Rehabilitation Svcs	101,784	105,023	105,081	(58)
Substance Abuse				
RICAP-Asset Protection	122	22	17	5
General Revenues Total	14,340	14,436	14,436	0
Federal Funds Total	14,536	13,469	11,583	1,886
Restricted Receipts Total	75	75	46	29
Total-Substance Abuse	29,072	28,002	26,082	1,920

**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, 2004**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
General Revenue Fund Total-MHRH	209,620	214,776	214,539	237
Federal Grant Fund Total-MHRH	237,866	237,806	241,479	(3,673)
Restricted Fund Total-MHRH	75	75	46	29
Other Fund Total-MHRH	2,611	1,161	678	483
 Total-Department of Mental Health, Retardation, and Hospitals	 450,172	 453,818	 456,742	 (2,924)
 Office of Child Advocate				
General Revenue Total	415	475	497	(22)
Federal Funds Total	48	63	84	(21)
Restricted Receipts Total	0	18	17	1
General Revenue Fund Total-Office of Child Advocate	415	475	497	(22)
Federal Grant Fund Total-Office of Child Advocate	48	63	84	(21)
Restricted Fund Total-Office of Child Advocate	0	18	17	1
 Total-Office of the Child Advocate	 463	 556	 598	 (42)
 Rhode Island Commission of the Deaf and Hard of Hearing				
Commission On Deaf and Hard Of Hearing				
General Revenue Total	285	268	237	31
General Revenue Fund Total-RI Comm of the Deaf	285	268	237	31
 Total-Rhode Island Commission of the Deaf and Hard of Hearin	 285	 268	 237	 31
 State Council on Developmental Disabilities				
Federal Funds Total	549	556	481	75
Federal Grant Fund Total-State Comm on Dev Disab.	549	556	481	75
 Total-State Council on Developmental Disabilities	 549	 556	 481	 75
 Governor's Commission on Disabilities				
General Revenue Total	534	539	538	1
Federal Funds Total	147	88	18	70
Restricted Receipts Total	51	43	12	31
RICAP-Handicapped Accessibility Facility Renovation	500	100	17	83
General Revenue Fund Total-Governor's Comm on Disab.	534	539	538	1
Federal Grant Fund Total-Governor's Comm on Disab.	147	88	18	70
Restricted Fund Total-Governor's Comm on Disab.	51	43	12	31
Other Fund Total-Governor's Comm on Disab.	500	100	17	83
 Total-Governor's Commission on Disabilities	 1,232	 770	 585	 185
 Rhode Island Commission for Human Rights				
General Revenue Total	895	1,031	1,039	(8)
Federal Funds Total	271	232	63	169
General Revenue Fund Total-RI Comm for Human Rights	895	1,031	1,039	(8)
Federal Grant Fund Total-RI Comm for Human Rights	271	232	63	169
 Total-Rhode Island Commission for Human Rights	 1,166	 1,263	 1,101	 162

**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, 2004**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
Office of Mental Health Advocate				
General Revenue Total	318	315	323	(8)
General Revenue Fund Total-Office of Mental Health Advocate	318	315	323	(8)
Total-Office of Mental Health Advocate	318	315	323	(8)
Department of Elementary and Secondary Education				
State Aid				
State Support Local School Operations	617,153	617,347	617,345	2
Federal Funds Total	1,257	1,501	1,858	(357)
Restricted Funds Total	0	984	984	0
Total-State Aid	618,410	619,831	620,187	(356)
School Housing Aid				
General Revenue Total	40,747	40,741	40,741	0
Total-School Housing Aid	40,747	40,741	40,741	0
Teachers' Retirement				
General Revenue Total	45,449	46,213	45,039	1,174
Total-Teachers' Retirement	45,449	46,213	45,039	1,174
RI School for the Deaf				
RICAP-School for the Deaf-Physical Education Fac	484	484	33	451
General Revenue Total	5,631	6,052	6,052	0
Federal Funds Total	1,213	1,277	470	807
Restricted Receipts Total	0	0	0	0
Total-RI School for the Deaf	7,329	7,813	6,555	1,258
Central Falls School District				
General Revenue Total	35,635	35,635	35,635	0
Total-Central Falls School District	35,635	35,635	35,635	0
Davies Career and Technical School				
RICAP - Davies Roof Repair	442	459	22	437
General Revenue Total	11,330	11,066	11,044	22
Federal Funds Total	1,031	1,369	1,155	214
Restricted Receipts Total	101	98	86	12
Total-Davies Career and Technical School	12,904	12,992	12,306	686
Metropolitan Career and Technical School				
General Revenue Total	5,750	5,750	5,750	0
Total-Metropolitan Career and Technical School	5,750	5,750	5,750	0
Program Operations				
RICAP-Woonsocket Vocational HVAC	0	0	0	0
RICAP-East Providence Vocational HVAC	354	354	0	354
RICAP-Hanley-HVAC	1	0	0	0
RICAP-State Owned Schools-Fire Alarm Systems	93	719	143	576
Transportation Study General Reveue	10	10	0	10
General Revenue Total	14,934	14,558	14,421	137

**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, 2004  
(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
Federal Funds Total	164,740	187,258	148,021	39,237
Restricted Receipts Total	1,030	1,477	831	646
Total-Program Operations	181,162	204,366	163,415	40,951
General Revenue Fund Total-Dept of Elem & Sec Education	776,639	777,361	776,026	1,335
Federal Grant Fund Total-Dept of Elem & Sec Education	168,241	191,404	151,504	39,900
Restricted Fund Total-Dept of Elem & Sec Education	1,132	2,559	1,901	658
Other Fund Total-Dept of Elem & Sec Education	1,375	2,017	198	1,819
Total-Department of Elementary and Secondary Education	947,387	973,341	929,629	43,712
Board of Governors for Higher Education				
Board Of Governors/Office				
General Revenue Fund Total	172,265	171,041	171,028	13
Federal Fund Total	3,021	3,021	1,882	1,139
General Revenue Fund Total-BOG Higher Education	172,265	171,041	171,028	13
Federal Grant Fund Total-BOG Higher Education	3,021	3,021	1,882	1,139
Total-Board of Governors for Higher Education	175,286	174,062	172,910	1,152
Rhode Island State Council on the Arts				
Operating Support	468	459	420	39
Grants	1,846	1,828	1,186	642
Federal Funds Total	696	611	569	42
Restricted Receipts Total	200	200	12	188
General Revenue Fund Total-RI State Council on the Arts	2,314	2,287	1,606	681
Federal Grant Fund Total-RI State Council on the Arts	696	611	569	42
Restricted Fund Total-RI State Council on the Arts	200	200	12	188
Total-Rhode Island State Council on the Arts	3,210	3,098	2,187	911
Rhode Island Atomic Energy Commission				
URI Sponsored Research	154	150	149	1
RICAP-Roof Replacement-North Bunker	0	0	0	0
General Revenue Total	646	699	696	3
Federal Funds Total	325	325	124	201
General Revenue Fund Total-RI Atomic Energy Council	646	699	696	3
Federal Grant Fund Total-RI Atomic Energy Council	325	325	124	201
Other Fund Total-RI Atomic Energy Council	154	150	149	1
Total-Rhode Island Atomic Energy Commission	1,125	1,175	968	207
Rhode Island Higher Education Assistance Authority				
Needs Based Grant and Work Opportunities	9,933	9,933	9,933	0
Authority Operations and Other Grants	1,127	1,119	1,119	0
General Revenue Fund Total-RIHEAA	11,060	11,052	11,051	1
0	0	0	0	0
Total-Rhode Island Higher Education Assistance Authority	11,060	11,052	11,051	1

**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, 2004**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
<b>Historical Preservation and Heritage Commission</b>				
General Revenue Total	1,095	1,078	1,022	56
Federal Funds Total	535	523	511	12
Restricted Receipts Total	252	274	78	196
General Revenue Fund Total-Historical Preservation	1,095	1,078	1,022	56
Federal Grant Fund Total-Historical Preservation	535	523	511	12
Restricted Fund Total-Historical Preservation	252	274	78	196
 Total-Historical Preservation and Heritage Commission	 1,881	 1,875	 1,612	 263
 <b>Rhode Island Public Telecommunications Authority</b>				
General Revenue Total	1,252	1,238	1,218	20
General Revenue Fund Total-RIPTA	1,252	1,238	1,218	20
Total-Rhode Island Public Telecommunications Authority	1,252	1,238	1,218	20
 <b>Department of Attorney General</b>				
<b>Criminal</b>				
General Revenue Total	10,742	10,631	10,177	454
Federal Funds Total	1,372	1,591	1,403	188
Restricted Receipts Total	184	340	184	156
Total-Criminal	12,298	12,561	11,764	797
 <b>Civil</b>				
General Revenue Total	3,503	3,381	3,348	33
Federal Funds Total	67	72	0	72
Restricted Receipts Total	447	450	484	(34)
Total-Civil	4,017	3,903	3,832	71
 <b>Bureau of Criminal Identification</b>				
General Revenue Total	719	754	742	12
Federal Funds Total	0	335	75	260
Total-Bureau of Criminal Identification	719	1,089	817	272
 <b>General</b>				
General Revenue Total	1,820	1,828	1,810	18
Total-General	1,820	1,828	1,810	18
 General Revenue Fund Total-Dept of Attorney General	 16,784	 16,593	 16,078	 515
Federal Grant Fund Total-Dept of Attorney General	1,439	1,999	1,478	521
Restricted Fund Total-Dept of Attorney General	631	789	668	121
 Total-Department of Attorney General	 18,853	 19,381	 18,224	 1,157
 <b>Department of Corrections</b>				
<b>Central Management</b>				
General Revenue Total	9,603	9,733	9,250	483
Federal Funds Total	0	296	95	201
Total-Central Management	9,603	10,029	9,345	684



**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, 2004**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
<b>Parole Board</b>				
General Revenue Total	999	1,054	830	224
Total-Parole Board	999	1,054	830	224
<b>Institutional Corrections</b>				
RICAP-Fire Code Safety Improvements	406	56	23	33
RICAP-Security Camera Installation	577	0	4	(4)
RICAP-HVAC Renovations-Maximum	0	0	0	0
RICAP-Window Replacement-Women's	63	0	0	0
RICAP-Dix Expansion-Phase II	554	0	0	0
RICAP-Reintegration Center State Match	354	437	1	436
RICAP-Dix Expansion-State Match	38	63	17	46
RICAP-General Renovations-Maximum	864	864	310	554
RICAP-Roof/Masonry Renovations-Women's	828	128	97	31
RICAP-High Security Fire Alarm HVAC	200	200	98	102
RICAP-Aquidneck & Prudence Cellblock Roofs	0	0	0	0
RICAP-Perimeter/Security Upgrades	314	314	126	188
RICAP - Women's Bath Renovation	756	106	4	102
RICAP - Dix Expansion Consolidation	0	0	0	0
RICAP-Correctional Industries Roof	265	265	88	177
General Revenue Total	117,627	123,297	123,263	34
Federal Funds Total	7,648	6,362	1,175	5,187
Restricted Receipts Total	2,738	2,108	1,811	297
Total-Institutional Corrections	133,230	134,199	127,017	7,182
<b>Community Corrections</b>				
General Revenue Total	11,848	11,216	10,741	475
Federal Funds Total	1,813	1,673	530	1,143
Total-Community Corrections	13,661	12,889	11,271	1,618
General Revenue Fund Total-Corrections	140,077	145,300	144,083	1,217
Federal Grant Fund Total-Corrections	9,461	8,331	1,800	6,531
Restricted Fund Total-Corrections	2,738	2,108	1,811	297
Other Fund Total-Corrections	5,217	2,432	769	1,663
Total-Department of Corrections	157,493	158,171	148,463	9,708
<b>Judicial Department</b>				
<b>Supreme Court</b>				
RICAP-Garrahy Judicial Complex Renovation	4	0	0	0
RICAP-Garrahy Complex Roof Repair	0	0	0	0
RICAP-Licht Exterior/Interior Refurbishment	0	0	0	0
RICAP - Murray Judicial Complex - Interior Refurbishment	360	310	237	73
RICAP-Fogarty Judicial Annex	56	56	8	48
RICAP-Garrahy Lighting & Ceiling	15	0	0	0
RICAP-Licht Judicial Complex Roof Study	25	0	0	0
RICAP-Licht Judicial Complex-Foundation	10	35	0	35
General Revenue Total	22,371	21,070	20,679	391
Defense of Indigents	1,950	2,250	2,377	(127)

**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, 2004**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
Federal Funds Total	636	928	553	375
Restricted Receipts Total	889	886	822	64
Total-Supreme Court	26,316	25,535	24,676	859
Superior Court				
Federal Funds Total	164	215	161	54
General Revenue Total	16,681	16,807	16,836	(29)
Total-Superior Court	16,846	17,022	16,997	25
Family Court				
General Revenue Total	12,622	12,695	13,172	(477)
Federal Funds Total	2,950	3,565	1,940	1,625
Restricted Receipts Total	148	148	125	23
Total-Family Court	15,720	16,408	15,236	1,172
District Court				
General Revenue Total	7,924	8,154	8,075	79
Federal Funds Total	0	5	(2)	7
Restricted Receipts Total	0	0	(1)	1
Total-District Court	7,924	8,159	8,072	87
Traffic Tribunal				
General Revenue Total	6,220	6,261	6,290	(29)
Total-Traffic Tribunal	6,220	6,261	6,290	(29)
Worker's Compensation Court				
Restricted Receipts Total	6,009	6,607	6,264	343
Total-Worker's Compensation Court	6,009	6,607	6,264	343
General Revenue Fund Total-Judicial Dept	67,768	67,236	67,428	(192)
Federal Grant Fund Total-Judicial Dept	3,750	4,713	2,651	2,062
Restricted Fund Total-Judicial Dept	7,046	7,641	7,209	432
Other Fund Total-Judicial Dept	470	401	245	156
Total-Judicial Department	79,034	79,990	77,534	2,456

**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, 2004**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
Militia of the State				
National Guard				
Rails to Trails	0	0	0	0
RICAP-Bristol Armory Rehabilitation	290	290	195	95
RICAP-Benefit St. Arsenal Rehabilitation	192	62	29	33
RICAP-Schofield Armory Rehabilitation	120	120	0	120
RICAP-US Property and Finance Office-HVAC	42	42	0	42
RICAP-Warren Armory	301	301	7	294
RICAP - Warwick Armory Boiler	50	25	0	25
RICAP-Vehicle Exhaust Vent System	1	0	0	0
RICAP - North Smithfield Armory	46	46	2	44
RICAP-CSMS/Armory Construction	376	0	0	0
RICAP-AMC Roof Rehabilitation	100	0	0	0
RICAP-Army Aviation Support Facility	25	0	0	0
General Revenue Total	1,678	1,550	1,442	108
Federal Funds Total	7,908	8,402	5,021	3,381
Restricted Receipts Total	0	10	0	10
Total-National Guard	11,130	10,849	6,697	4,152
Emergency Management				
General Revenue Total	1,119	552	578	(26)
Federal Funds Total	26,886	22,556	17,383	5,173
Restricted Receipts Total	128	167	80	87
Total-Emergency Management	28,133	23,274	18,041	5,233
General Revenue Fund Total-Militia of the State	2,797	2,102	2,020	82
Federal Grant Fund Total-Militia of the State	34,794	30,958	22,404	8,554
Restricted Fund Total-Militia of the State	128	177	80	97
Other Fund Total-Militia of the State	1,544	887	233	654
Total-Militia of the State	39,263	34,123	24,738	9,385
E-911 Uniform Emergency Telephone System				
General Revenue Total	4,438	4,205	4,037	168
General Revenue Fund Total-E-911 Uniform Emer Telephone S	4,438	4,205	4,037	168
Total-E-911 Uniform Emergency Telephone System	4,438	4,205	4,037	168

**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, 2004**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
Fire Safety Code Board of Appeal and Review				
Fire Code Commission				
General Revenue Total	235	223	212	11
General Revenue Fund Total-Fire Safety Code	235	223	212	11
	0	0	0	0
Total-Fire Safety Code Board of Appeal and Review	235	223	212	11
Division of Fire Safety				
Fire Safety & Training Academy				
General Revenue Total	1,739	1,678	1,515	163
Federal Funds Total	286	342	100	242
Other Funds	0	20	0	20
General Revenue Fund Total-Div. of Fire Safety	1,739	1,678	1,515	163
Federal Grant Fund Total-Div. of Fire Safety	286	342	100	242
Other Fund Total-Div. of Fire Safety	0	20	0	20
Total-Division of Fire Safety	2,025	2,040	1,615	425
Commission on Judicial Tenure & Discipline				
General Revenue Total	133	128	96	32
General Revenue Fund Total-Comm on Judicial Tenure	133	128	96	32
Total-Commission on Judicial Tenure & Discipline	133	128	96	32
Rhode Island Governor's Justice Commission				
General Revenue Total	163	162	162	0
Federal Funds Total	5,701	5,899	4,749	1,150
Restricted Receipts Total	90	90	20	70
General Revenue Fund Total-RI Gov Just Comm	163	162	162	0
Federal Grant Fund Total-RI Gov Just Comm	5,701	5,899	4,749	1,150
Restricted Fund Total-RI Gov Just Comm	90	90	20	70
Total-Rhode Island Governor's Justice Commission	5,954	6,151	4,931	1,220

**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, 2004**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
Municipal Police Training School				
General Revenue Total	356	352	343	9
Federal Funds Total	35	73	22	51
General Revenue Fund Total-Municipal Police Training School	356	352	343	9
Federal Grant Fund Total-Municipal Police Training School	35	73	22	51
Total-Municipal Police Training School	391	425	365	60
Rhode Island State Police				
RICAP - Barracks & Training Headquarters'	425	89	85	4
RICAP-Headquarters Repair/Renovation	107	0	0	0
Traffic Enforcement-Municipal Training	150	119	141	(22)
Lottery Commission Assistance	124	116	114	2
Road Construction Reimbursement	1,499	1,587	2,106	(519)
General Revenue Total	40,686	39,381	39,147	234
Federal Funds Total	1,300	2,204	1,323	881
Restricted Receipts Total	223	590	379	211
General Revenue Fund Total-State Police	40,686	39,381	39,147	234
Federal Grant Fund Total-State Police	1,300	2,204	1,323	881
Restricted Fund Total-State Police	223	590	379	211
Other Fund Total-State Police	2,305	1,912	2,446	(534)
Total-Rhode Island State Police	44,515	44,087	43,296	791
Office of Public Defenders				
General Revenue Total	6,575	6,377	6,291	86
Federal Funds Total	442	526	384	142
General Revenue Fund Total-Office of Public Defenders	6,575	6,377	6,291	86
Federal Grant Fund Total-Office of Public Defenders	442	526	384	142
Total-Office of Public Defenders	7,017	6,903	6,675	228

**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, 2004**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
Department of Environmental Management				
Policy and Administration				
DOT Recreational Projects	21	21	25	(4)
Blackstone Bikepath Design	1,244	1,243	332	911
RICAP-Dam Repair	1,512	400	106	294
General Revenue Total	8,195	8,128	7,923	205
Permanent Streamlining	0	0	0	0
Federal Funds Total	2,939	3,100	549	2,551
Restricted Receipts Total	3,066	3,074	3,453	(379)
Total-Policy and Administration	16,977	15,966	12,387	3,579
Natural Resources				
RICAP-Westerly Boat Ramp	1	0	0	0
RICAP-Fort Adams Rehabilitation	250	250	250	0
RICAP-Recreational Facilities Improvement	687	1,137	133	1,004
RICAP-Fish and Wildlife Office/Laboratory	0	0	0	0
RICAP-Wickford Marine facility	50	0	0	0
RICAP-Galilee Piers	1,552	800	303	497
RICAP-Newport Piers	2	2	0	2
RICAP-Boyd's Marsh Habitat Restoration	400	0	0	0
General Revenue Total	15,053	15,067	15,447	(380)
Federal Funds Total	13,668	14,019	7,306	6,713
Restricted Receipts Total	3,677	3,239	2,767	472
Total-Natural Resources	35,339	34,513	26,206	8,307
Environmental Protection				
Aquafund	0	0	0	0
General Revenue Total	7,769	7,638	8,079	(441)
Rose Hill	299	0	0	0
RIPDES-State	663	663	0	663
Federal Funds Total	8,566	8,950	6,781	2,169
RIPDES-Federal	180	180	0	180
Restricted Receipts Total	3,305	3,283	3,637	(354)
Total-Environmental Protection	20,782	20,713	18,497	2,216
General Revenue Fund Total-DEM	31,978	31,496	31,448	48
Federal Grant Fund Total-DEM	25,353	26,249	14,636	11,613
Restricted Fund Total-DEM	10,048	9,595	9,856	(261)
Other Fund Total-DEM	5,719	3,852	1,149	2,703
Total-Department of Environmental Management	73,098	71,192	57,090	14,102
Coastal Resources Management Council				
RICAP - South Coast Restoration Project	968	0	0	0
RICAP - Allins Cove	172	172	172	0
General Revenue Total	1,550	1,462	1,458	4
Federal Funds Total	1,466	2,362	1,541	821
Restricted Total	4,500	5,210	5,210	0

**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, 2004**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance
General Revenue Fund Total-Coastal Resources	1,550	1,462	1,458	4
Federal Grant Fund Total-Coastal Resources	1,466	2,362	1,541	821
Restricted Fund Total-Coastal Resources	4,500	5,210	5,210	0
Other Fund Total-Coastal Resources	1,140	172	172	0
 Total-Coastal Resources Management Council	 8,657	 9,206	 8,381	 825
 Water Resources Board				
RICAP-Big River Management Area	105	105	92	13
RICAP-Groundwater Protection/Acquisition	0	0	0	0
RICAP-Water Allocation Plan	70	70	70	0
RICAP-Supplemental Water Supplies Development	39	39	39	0
General Revenue Total	941	905	911	(6)
Federal Total	0	828	554	274
Restricted Receipts Total	984	984	538	446
			0	
General Revenue Fund Total-Water Resources Board	941	905	911	(6)
Federal Grant Fund Total-Water Resources Board	0	828	554	274
Restricted Fund Total-Water Resources Board	984	984	538	446
Other Fund Total-Water Resources Board	214	214	202	12
	0	0	0	0
Total-Water Resources Board	2,139	2,930	2,205	725
Departmental Expenditures	4,635,955	4,704,007	4,594,643	109,364
 Transfer of Excess Budget Reserve to Bond Capital Fund			55,548	(55,548)
 Total Expenditures	 4,635,955	 4,704,007	 4,650,191	 53,816
 Change in Fund Balance	 <u>\$ 13,677</u>	 <u>\$ 51,265</u>	 <u>(15,546)</u>	 <u>66,811</u>
 Beginning Fund Balance			171,840	
Ending Fund Balance			<u>\$ 156,294</u>	
 General Revenue Funds Total	 \$ 2,791,768	 \$ 2,789,670	 \$ 2,726,473	 63,197
Federal Grants Funds Total	1,632,389	1,700,783	1,664,496	36,287
Restricted Funds Total	108,229	109,393	109,566	(173)
Other funds total	103,569	104,161	94,108	10,053
 General Fund Grand Total	 <u>\$ 4,635,955</u>	 <u>\$ 4,704,007</u>	 <u>\$ 4,594,643</u>	 <u>109,364</u>

\*May not add due to rounding.

**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, 2004  
(Expressed in Thousands)

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
<b>Revenues:</b>				
Taxes	\$ 141,600	\$ 141,600	\$ 142,487	\$ 887
Departmental restricted revenue	37,408	27,000	1,670	(25,330)
Federal grants	197,231	197,341	167,207	(30,134)
Other revenues	4,000	4,590	2,119	(2,471)
Total revenues	<u>380,239</u>	<u>370,531</u>	<u>313,483</u>	<u>(57,048)</u>
Other financing sources:				
Operating transfers in			64,288	64,288
Total revenues and other financing sources	<u>380,239</u>	<u>370,531</u>	<u>377,771</u>	<u>7,240</u>
<b>Expenditures:</b>				
Central Management				
Gasoline Tax	3,264	3,442	3,160	282
Federal Funds	9,222	9,218	3,829	5,389
Total - Central Management	<u>12,486</u>	<u>12,660</u>	<u>6,989</u>	<u>5,671</u>
Management and Budget				
Gasoline Tax	2,066	1,902	1,871	31
Total - Management and Budget	<u>2,066</u>	<u>1,902</u>	<u>1,871</u>	<u>31</u>
Infrastructure - Engineering				
Gasoline Tax	53,609	52,064	55,387	(3,323)
RICAP - RIPTA Land and Buildings		590		590
State Infrastructure Bank	1,000	1,000		1,000
Land Sale Revenue	4,000	4,000		4,000
Federal Funds	188,009	188,124	158,974	29,150
Restricted Receipts	36,408	26,000	31,105	(5,105)
Subtotal - Infrastructure - Engineering	<u>283,026</u>	<u>271,778</u>	<u>245,466</u>	<u>26,312</u>
State Match - FHWA			25,761	(25,761)
Total - Infrastructure - Engineering	<u>283,026</u>	<u>271,778</u>	<u>271,227</u>	<u>551</u>
Infrastructure - Maintenance				
Gasoline Tax	39,178	39,447	41,123	(1,676)
Total - Infrastructure - Maintenance	<u>39,178</u>	<u>39,447</u>	<u>41,123</u>	<u>(1,676)</u>
Total Expenditures	<u>336,756</u>	<u>325,787</u>	<u>321,210</u>	<u>4,577</u>
<b>Other financing uses:</b>				
Transfers to other funds			44,219	(44,219)
Total expenditures and other financing uses	<u>336,756</u>	<u>325,787</u>	<u>365,429</u>	<u>(39,642)</u>
Net change in net assets	<u>\$ 43,483</u>	<u>\$ 44,744</u>	<u>12,342</u>	<u>(32,402)</u>
Net assets, beginning			<u>25,454</u>	
Net assets, ending			<u>\$ 37,796</u>	



**State of Rhode Island and Providence Plantations**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Rhode Island Temporary Disability Insurance Fund**  
**For the Fiscal Year Ended June 30, 2004**  
(Expressed in Thousands)

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual Amounts</b>	<b>Variance With Final Budget</b>
<b>* Revenues:</b>				
Taxes	\$ 178,758	\$ 178,758	\$ 178,758	\$
Other revenues	1,088	1,088	1,088	
Total revenues	<u>179,846</u>	<u>179,846</u>	<u>179,846</u>	
<b>Expenditures:</b>				
Department of Labor and Training				
Income Support				
Temporary Disability Insurance Fund	177,671	162,518	163,463	(945)
Total - Income Support	<u>177,671</u>	<u>162,518</u>	<u>163,463</u>	<u>(945)</u>
Total - Department of Labor and Training	<u>177,671</u>	<u>162,518</u>	<u>163,463</u>	<u>(945)</u>
Treasury Department				
Temporary Disability Insurance Fund	246	255	219	36
Total - Treasury Department	<u>246</u>	<u>255</u>	<u>219</u>	<u>36</u>
Total Expenditures	<u>177,917</u>	<u>162,773</u>	<u>163,682</u>	<u>(909)</u>
Net change in fund balance	1,929	17,073	16,164	(909)
* Fund balance - beginning	<u>114,094</u>	<u>114,094</u>	<u>114,094</u>	
Fund balance - ending	<u>\$ 116,023</u>	<u>\$ 131,167</u>	<u>\$ 130,258</u>	<u>\$ (909)</u>

\* Resources are not legislatively adopted, budgeted revenues and opening surplus are assumed to equal actual amounts.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information**  
**Schedules of Funding Progress**  
**June 30, 2004**  
*(Expressed in thousands)*

**Employees' Retirement System**

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability (AAL) - Entry Age - ( b )	Unfunded AAL (UAAL) ( b - a )	Funded Ratio ( a / b )	Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll (( b - a ) / c)
06/30/2003	5,695,358	8,746,641	3,051,283	65.1%	1,440,744	211.8%
06/30/2002	5,907,680	8,141,130	2,233,450	72.6%	1,378,905	162.0%
06/30/2001	6,026,141	7,768,536	1,742,395	77.6%	1,287,476	135.3%

**State Police Retirement Benefits Trust**

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability (AAL) - Entry Age - ( b )	Unfunded AAL (UAAL) ( b - a )	Funded Ratio ( a / b )	Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll (( b - a ) / c)
06/30/2003	20,966	28,443	7,477	73.7%	11,286	66.3%
06/30/2002	17,770	23,527	5,757	75.5%	10,933	52.7%
06/30/2001	14,386	16,650	2,264	86.4%	9,139	24.8%

**Judicial Retirement Benefits Trust**

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability (AAL) - Entry Age - ( b )	Unfunded AAL (UAAL) ( b - a )	Funded Ratio ( a / b )	Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll (( b - a ) / c)
06/30/2003	13,270	18,435	5,165	72.0%	5,303	97.4%
06/30/2002	11,129	16,243	5,114	68.5%	4,738	107.9%
06/30/2001	9,190	12,026	2,836	76.4%	4,092	69.3%

**State of Rhode Island and Providence Plantations**  
**Notes to Required Supplementary Information**  
**June 30, 2004**

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund and certain special revenue funds. Preparation and submission of the budget is governed by both the State Constitution and the Rhode Island General Laws. The budget, as enacted by the General Assembly and signed by the Governor, contains a complete plan of estimated revenues (general, federal and restricted), transfers in (general and restricted) and proposed expenditures.

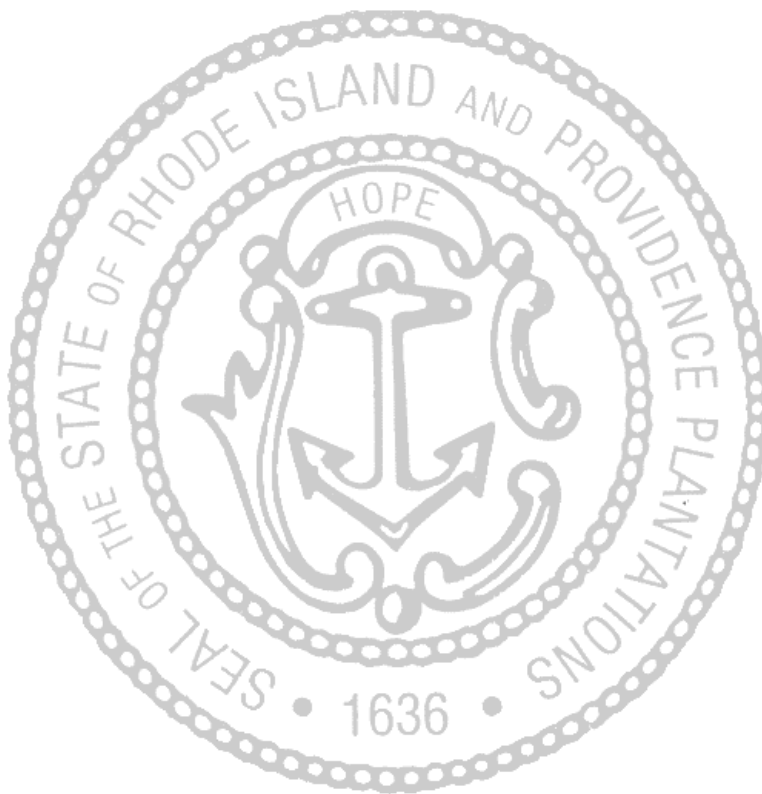
The legal level of budgetary control, i.e. the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch. Federal grant appropriations may also be limited by the availability of matching funds and may also require special approval from a federal agency before reallocating resources among programs.

Internal administrative and accounting budgetary controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations and the supervisory powers and functions exercised by management. Management cannot reduce the budget without special approval.

Unexpended general revenue appropriations lapse at the end of the fiscal year, unless the department/agency directors identify unspent appropriations related to specific projects/purchases and request a reappropriation. If the requests are approved by the Governor, such amounts are reappropriated for the ensuing fiscal year and made immediately available for the same purposes as the former appropriations. Unexpended appropriations of the General Assembly and its legislative commissions and agencies may be reappropriated by the Joint Committee on Legislative Services. If the sum total of all departments and agencies general revenue expenditures exceeds the total general revenue appropriations, it is the policy of management to lapse all unexpended appropriations, except those of the legislative and judicial branches.

The original budget includes the amounts in the applicable appropriation act, general revenue appropriations carried forward by the Governor, the unexpended balances in the R.I Capital Fund projects and any unexpended balances designated by the General Assembly.

Schedule of Expenditures  
of Federal Awards



Schedule of Expenditures of  
Federal Awards

Table of Contents

PAGE

Schedule of Expenditures of Federal Awards ..... B-1  
Notes to Schedule of Expenditures of Federal Awards ..... B-13

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

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2004

Federal Grantor Program Title	CFDA Number	Total Expenditures
<b>U.S. Department of Agriculture</b>		
Plant and Animal Disease, Pest Control, and Animal Care	10.025	\$ 115,554
Inspection Grading and Standardization	10.162	164,777
Very Low to Moderate Income Housing Loans (See Note 2)	10.410	269,000
Rural Housing Preservation Grants	10.433	27,128
Food Donation (See Note 2)	10.550	4,699,037
Food Stamp Cluster:		
Food Stamps	10.551	72,582,664
State Administrative Matching Grants for Food Stamp Program	10.561	7,172,725
Child Nutrition Cluster:		
School Breakfast Program	10.553	4,126,108
National School Lunch Program	10.555	18,769,123
Special Milk Program for Children	10.556	85,186
Summer Food Service Program for Children	10.559	953,453
Special Supplemental Nutrition Program for Women, Infants, and Children (See Note 4)	10.557	18,731,305
Child and Adult Care Food Program	10.558	6,435,367
State Administrative Expenses for Child Nutrition	10.560	685,686
Emergency Food Assistance Cluster:		
Emergency Food Assistance Program (Administrative Costs)	10.568	206,714
WIC Farmers' Market Nutrition Program	10.572	282,835
Team Nutrition Grants	10.574	98,487
Cooperative Forestry Assistance	10.664	587,141
Watershed Surveys and Planning	10.906	553,805
<b>Total U.S. Department of Agriculture</b>		\$ 136,546,095
<b>U.S. Department of Commerce</b>		
Personal Census Search	11.006	\$ 28,324
Economic Development - Support for Planning Organizations	11.302	85,171
Public Works and Economic Development Cluster:		
Economic Adjustment Assistance (See Note 2)	11.307	12,873,238
Interjurisdictional Fisheries Act of 1986	11.407	95,931
Coastal Zone Management Administration Awards	11.419	1,499,540
Coastal Zone Management Estuarine Research Reserves	11.420	747,816
Marine Fisheries Initiative (B)	11.433	342,790
Unallied Management Projects	11.454	82,421
Unallied Science Program	11.472	82,893
Coastal Services Center	11.473	41,834
Atlantic Coastal Fisheries Cooperative Management Act (B)	11.474	137,931
<b>Total U.S. Department of Commerce</b>		\$ 16,017,889
<b>U.S. Department of Defense</b>		
Procurement Technical Assistance for Business Firms	12.002	\$ 312,831
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	215,634
National Guard Military Operations and Maintenance (O&M) Projects	12.401	5,057,539
<b>Total U.S. Department of Defense</b>		\$ 5,586,004
<b>U.S. Department of Housing and Urban Development</b>		
Interest Reduction Payments - Rental and Cooperative Housing for Lower Income Families	14.103	\$ 1,221,917

*See Accompanying Notes to the Schedule of Expenditures of Federal Awards*

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2004

<b>Federal Grantor</b> Program Title	CFDA Number	Total Expenditures
Mortgage Insurance - Homes (See Note 2)	14.117	29,405,913
Section 8 Project-Based Cluster:		
Section 8 New Construction and Substantial Rehabilitation	14.182	90,031,281
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	511,807
Home Equity Conversion Mortgages (See Note 2)	14.183	12,603,145
Community Development Block Grants/State's Program	14.228	5,382,353
Emergency Shelter Grants Program	14.231	301,820
Supportive Housing Program	14.235	4,348,450
Shelter Plus Care	14.238	547,592
HOME Investment Partnerships Program	14.239	4,151,401
Housing Opportunities for Persons with AIDS	14.241	618,048
Community Development Block Grants/Brownfields Economic Development Initiative (B)	14.246	120,019
Fair Housing Assistance Program - State and Local	14.401	7,533
Fair Housing Initiatives Program	14.408	43
Section 8 Housing Choice Vouchers	14.871	7,466,713
Lead Based Paint Hazard Control in Privately-Owned Housing	14.900	726,261
<b>Total U.S. Department of Housing and Urban Development</b>		<b>\$ 157,444,296</b>
<b>U.S. Department of Interior</b>		
Fish and Wildlife Cluster:		
Sport Fish Restoration	15.605	\$ 3,058,651
Wildlife Restoration	15.611	928,518
Clean Vessel Act	15.616	59,732
North American Wetlands Conservation Fund	15.623	240
Historic Preservation Fund Grants-In-Aid	15.904	511,398
Outdoor Recreation - Acquisition, Development and Planning	15.916	499,596
<b>Total U.S. Department of Interior</b>		<b>\$ 5,058,135</b>
<b>U.S. Department of Justice</b>		
Law Enforcement Assistance - Narcotics and Dangerous Drugs - Laboratory Analysis	16.001	\$ 10,286
State Domestic Preparedness Equipment Support Program	16.007	2,005,126
Protection of Voting Rights	16.104	2,455,932
Offenders Reentry Program	16.202	371,022
Sex Offender Management Discretionary Grant	16.203	22,810
Law Enforcement Assistance-Discretionary Grant	16.501	100,075
Juvenile Accountability Incentive Block Grants	16.523	1,181,447
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	473,831
Part D - Research, Evaluation, Technical Assistance and Training	16.542	317,910
Victims of Child Abuse	16.547	(1,169)
Title V - Delinquency Prevention Program	16.548	21,354
State Justice Statistics Program for Statistical Analysis Centers	16.550	86,430
National Criminal History Improvement Program (NCHIP)	16.554	104,540
Crime Laboratory Improvement-Combined Offender DNA		
Index System Backlog Reduction	16.564	17,756
Crime Victim Assistance	16.575	1,500,480
Crime Victim Compensation	16.576	2,093,401
Byrne Formula Grant Program	16.579	2,825,937
Edward Byrne Memorial State and Local Law Enforcement Assistance		
Discretionary Grants Program	16.580	241,991
Drug Court Discretionary Grant Program	16.585	439,098

*See Accompanying Notes to the Schedule of Expenditures of Federal Awards*

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2004

Federal Grantor Program Title	CFDA Number	Total Expenditures
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	384,705
Violence Against Women Formula Grants	16.588	1,515,971
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	10,084
Local Law Enforcement Block Grants Program	16.592	10,263
Residential Substance Abuse Treatment for State Prisoners	16.593	207,107
State Identification Systems Grant Program	16.598	(65)
State Criminal Alien Assistance Program	16.606	615
Community Prosecution and Project Safe Neighborhoods	16.609	40,007
Closed-Circuit Televising of Child Victims of Abuse	16.611	(4)
Public Safety Partnership and Community Policing Grants	16.710	1,188
Enforcing Underage Drinking Laws Program	16.727	339,335
National Incident Based Reporting System	16.733	225,810
<b>Total U.S. Department of Justice</b>		\$ 17,003,273
<b>U.S. Department of Labor</b>		
Labor Force Statistics	17.002	\$ 736,831
Compensation and Working Conditions	17.005	12,215
Employment Services Cluster:		
Employment Service	17.207	3,037,937
Disabled Veterans' Outreach Program (DVOP)	17.801	310,771
Local Veterans' Employment Representative Program	17.804	305,796
Unemployment Insurance (See Note 5)	17.225	249,558,689
Senior Community Service Employment Program	17.235	481,624
Trade Adjustment Assistance - Workers	17.245	2,558,718
Welfare-to-Work Grants to States and Localities	17.253	48,713
Workforce Investment Act	17.255	(1,309)
WIA Cluster:		
WIA Adult Program	17.258	1,650,901
WIA Youth Activities	17.259	4,778,585
WIA Dislocated Workers	17.260	3,154,437
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261	273,805
Employment and Training Administration Evaluations	17.262	52,212
Consultation Agreements	17.504	425,913
<b>Total U.S. Department of Labor</b>		\$ 267,385,838
<b>U.S. Department of Transportation</b>		
Airport Improvement Program	20.106	\$ 9,473,744
Aviation Research Grants	20.108	156,586
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	152,309,022
Motor Carrier Safety	20.217	811,380
Local Rail Freight Assistance	20.308	125,005
Federal Transit Cluster:		
Federal Transit - Formula Grants	20.507	23,137,782
Federal Transit Managerial Training Grants	20.503	392,451
Federal Transit - Metropolitan Planning Grants	20.505	308,686
Formula Grants for Other Than Urbanized Areas (A)	20.509	469,515
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	3,054,149
Transit Planning and Research	20.514	414,009
State Planning and Research	20.515	206,927

*See Accompanying Notes to the Schedule of Expenditures of Federal Awards*



## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2004

Federal Grantor Program Title	CFDA Number	Total Expenditures
Highway Safety Cluster:		
State and Community Highway Safety	20.600	3,904,244
Pipeline Safety	20.700	60,539
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	59,746
Freight Rail Improvement Project	None	<u>13,026,015</u>
<b>Total U.S. Department of Transportation</b>		<u>\$ 207,909,800</u>
<b>U.S. Department of Treasury</b>		
Jobs and Growth Tax Relief Reconciliation Act	21.999	<u>\$ 50,000,000</u>
<b>Total U.S. Department of Treasury</b>		<u>\$ 50,000,000</u>
<b>Equal Opportunity Employment Commission</b>		
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002	<u>\$ 55,113</u>
<b>Total Equal Opportunity Employment Commission</b>		<u>\$ 55,113</u>
<b>Federal Mediation and Conciliation Service</b>		
Labor Mediation and Conciliation	34.001	<u>\$ 18,521</u>
<b>Total Federal Mediation and Conciliation Service</b>		<u>\$ 18,521</u>
<b>General Services Administration</b>		
Donation of Federal Surplus Personal Property (See Note 2)	39.003	<u>\$ 138,730</u>
<b>Total General Services Administration</b>		<u>\$ 138,730</u>
<b>National Foundation on the Arts and the Humanities</b>		
Promotion of the Arts - Partnership Agreements	45.025	\$ 548,088
Promotion of the Arts - Leadership Initiatives	45.026	20,526
Museum for America Grants	45.301	<u>872,623</u>
<b>Total National Foundation on the Arts and the Humanities</b>		<u>\$ 1,441,237</u>
<b>National Science Foundation</b>		
Mathematical and Physical Sciences	47.049	\$ 39,787
Social, Behavioral, and Economic Sciences	47.075	6,700
Education and Human Resources	47.076	<u>76,161</u>
<b>Total National Science Foundation</b>		<u>\$ 122,648</u>
<b>U.S. Department of Veteran's Affairs</b>		
Grants to States for Construction of State Home Facilities	64.005	\$ 1,252,776
Veterans State Nursing Home Care	64.015	4,961,017
Veterans Housing - Guaranteed and Insured Loans (See Note 2)	64.114	3,478,033
All-Volunteer Force Educational Assistance	64.124	42,557
State Cemetery Grants	64.203	<u>79,422</u>
<b>Total U.S. Department of Veteran's Affairs</b>		<u>\$ 9,813,805</u>

*See Accompanying Notes to the Schedule of Expenditures of Federal Awards*

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2004

Federal Grantor Program Title	CFDA Number	Total Expenditures
<b>Environmental Protection Agency</b>		
Air Pollution Control Program Support	66.001	\$ 752,239
State Indoor Radon Grants	66.032	202,589
Surveys Studies, Investigations Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	290,781
Water Pollution Control State and Interstate Program Support	66.419	129,313
State Public Water System Supervision	66.432	386,098
Water Quality Management Planning	66.454	95,373
National Estuary Program	66.456	151,324
Capitalization Grants for Clean Water State Revolving Funds	66.458	9,200,540
Wastewater Operator Training Grant Program (Technical Assistance)	66.467	110
Capitalization Grants for Drinking Water State Revolving Funds	66.468	7,733,738
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	9,286
Beach Monitoring and Notification Program Implementation Grants	66.472	213,330
Water Protection Grants to the States	66.474	116,431
Environmental Protection Consolidated Grants - Program Support	66.600	107,443
Performance Partnership Grants	66.605	3,797,077
Surveys, Studies, Investigations and Special Purpose Grants	66.606	1,032,728
Environmental Information Exchange Network Grant Program	66.608	12,401
Innovative Community Partnership	66.651	5,930
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	31,326
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	288,462
Pollution Prevention Grants Program	66.708	33,925
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	740,692
Leaking Underground Storage Tank Trust Fund Program	66.805	988,741
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809	203,104
Brownsfield Cleanup Revolving Loan Fund	66.811	188,255
State and Tribal Response Program Grants	66.817	307,666
<b>Total Environmental Protection Agency</b>		\$ 27,018,902
<b>U.S. Department of Energy</b>		
National Energy Information Center	81.039	\$ 8,334
State Energy Program	81.041	554,672
Weatherization Assistance for Low-Income Persons	81.042	1,132,063
Regional Biomass Energy Programs	81.079	28,750
University Nuclear Science and Reactor Support	81.114	123,664
<b>Total U.S. Department of Energy</b>		\$ 1,847,483
<b>U.S. Department of Education</b>		
Adult Education - State Grant Program	84.002	\$ 2,518,380
Civil Rights Training and Advisory Services	84.004	24,205
Student Financial Assistance Cluster: (See Note 6)		
Federal Supplemental Educational Opportunity Grants	84.007	2,522,113
Federal Family Education Loans (See Note 2)	84.032	23,969,373
Federal Work-Study Program	84.033	1,998,918
Federal Perkins Loan Program-Federal Capital Contributions (See Note 2)	84.038	13,363,143
Federal Pell Grant Program	84.063	18,002,418
Federal Direct Student Loans (See Note 2)	84.268	44,410,964

*See Accompanying Notes to the Schedule of Expenditures of Federal Awards*

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2004

<b>Federal Grantor</b> Program Title	CFDA Number	Total Expenditures
Title I Grants to Local Educational Agencies	84.010	43,367,302
Migrant Education - State Grant Program	84.011	137,546
Title I Program for Neglected and Delinquent Children	84.013	419,875
Special Education Cluster:		
Special Education - Grants to States	84.027	33,026,628
Special Education - Preschool Grants	84.173	1,622,384
Federal Family Education Loans (Guaranty Agency) (See Note 2)	84.032	2,967,712
TRIO Cluster:		
TRIO-Student Support Services	84.042	660,543
TRIO-Talent Search	84.044	458,998
TRIO-Upward Bound	84.047	587,198
TRIO-Educational Opportunity Centers	84.066	652,062
Vocational Education - Basic Grants to States	84.048	6,535,314
Leveraging Educational Assistance Partnership	84.069	376,272
Fund for the Improvement of Postsecondary Education	84.116	144,522
Rehabilitation Services -Vocational Rehabilitation Grants to States	84.126	8,882,261
National Institute on Disability and Rehabilitation Research	84.133	6,434
Magnet Schools Assistance	84.165	944
Independent Living - State Grants	84.169	296,703
Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	84.177	234,376
Special Education - Grants for Infants and Families With Disabilities	84.181	2,066,496
Byrd Honors Scholarships	84.185	112,500
Safe and Drug-Free Schools and Communities - State Grants	84.186	1,985,871
Supported Employment Services for Individuals with Severe Disabilities	84.187	352,744
Bilingual Education - Professional Development	84.195	13,064
Education for Homeless Children and Youth	84.196	117,183
Even Start - State Educational Agencies	84.213	1,052,570
Fund for the Improvement of Education	84.215	498,340
Private Schools-Capital Expenses	84.216	6,932
Assistive Technology	84.224	411,174
Tech-Prep Education	84.243	664,451
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265	14,464
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	(4,903)
School to Work Opportunities	84.278	1,357,607
Eisenhower Professional Development State Grants	84.281	751,007
Charter Schools	84.282	1,325,454
Twenty-First Century Community Learning Centers	84.287	1,513,547
State Grants for Innovative Programs	84.298	2,263,524
Education Technology State Grants	84.318	2,528,864
Special Education - State Program Improvement Grants for Children with Disabilities	84.323	456,245
Special Education - Research and Innovation to Improve Services and Results for Children with Disabilities	84.324	35,627
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	95,920
Grants to States for Incarcerated Youth Offenders	84.331	19,267
Comprehensive School Reform Demonstration (A)	84.332	640,626
Demonstration Project to Ensure Students with Disabilities Receive a Higher Education	84.333	240,663
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	1,434,746
Teacher Quality Enhancement Grants	84.336	254,783
Reading Excellence	84.338	490,903
Class Size Reduction	84.340	116,125

*See Accompanying Notes to the Schedule of Expenditures of Federal Awards*

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2004

Federal Grantor Program Title	CFDA Number	Total Expenditures
Community Technology Centers	84.341	1,506
Vocational Education-Occupational and Employment Information State Grants	84.346	123,722
Title I Accountability Grants	84.348	62,543
Arts in Education	84.351	498,799
Grants for School Repairs and Renovations	84.352	1,858,178
Reading First State Grants	84.357	560,482
Rural Education	84.358	2,145
English Language Acquisition Grants	84.365	958,565
Mathematics and Science Partnerships	84.366	15,398
Improving Teacher Quality State Grants	84.367	12,309,391
Grants for Enhanced Assessment Instruments	84.368	749,353
Grants for State Assessments and Related Activities	84.369	1,786,787
National Writing Project	84.928	40,167
Other Department of Education Awards	N/A	1,804
<b>Total U.S. Department of Education</b>		\$ 246,971,222
<b>U.S. Department of Health and Human Services</b>		
Public Health and Social Services Emergency Fund	93.003	\$ 464,874
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006	244,786
Special Programs for the Aging - Title VII, Chapter 3 - Programs for the Prevention of Elder Abuse, Neglect, and Exploitation	93.041	25,603
Special Programs for the Aging-Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042	66,089
Special Programs for the Aging-Title III, Part D - Disease Prevention and Health Promotion Services	93.043	203,952
Aging Cluster:		
Special Programs for the Aging-Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	2,583,058
Special Programs for the Aging-Title III, Part C - Nutrition Services	93.045	2,928,589
Nutrition Services Incentive Program	93.053	699,292
Special Programs for the Aging-Title IV and Title II - Discretionary Projects	93.048	109,749
Alzheimer's Disease Demonstration Grants to States	93.051	256,219
National Family Caregiver Support	93.052	820,231
Food and Drug Administration - Research	93.103	4,937
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	1,243,049
Maternal and Child Health Federal Consolidated Programs	93.110	456,225
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	543,861
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118	(9,991)
Small Business Innovation Research	93.126	134,040
Emergency Medical Services for Children	93.127	71,625
Primary Care Services - Resource Coordination and Development	93.130	173,989
Injury Prevention and Control Research and State and Community Based Programs	93.136	587,971
Projects for Assistance in Transition from Homelessness (PATH)	93.150	289,494
Health Program for Toxic Substances and Disease Registry	93.161	(16)
Grants for State Loan Repayment	93.165	50,811
Research Related to Deafness and Communication Disorders	93.173	4,874
Disabilities Prevention	93.184	381,543
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	1,153,627

*See Accompanying Notes to the Schedule of Expenditures of Federal Awards*

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2004

Federal Grantor Program Title	CFDA Number	Total Expenditures
Family Planning - Services	93.217	1,171,318
Consolidated Knowledge Development and Application (KD&A) Program	93.230	309,867
Traumatic Brain Injury State Demonstration Grant Program	93.234	205,430
Abstinence Education	93.235	210,346
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	13,786
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	292,066
Innovative Food Safety Projects	93.245	(50)
Universal Newborn Hearing Screening	93.251	129,197
State Planning Grants Health Care Access for the Uninsured	93.256	45,841
Immunization Grants	93.268	1,931,753
Drug Abuse National Research Service Awards for Research Training	93.278	11,907
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	12,576,491
Student Financial Assistance Cluster: (See Note 6)		
Health Professions Student Loans, Including Primary Care Loans/ Loans for Disadvantaged Students (See Note 2)	93.342	1,013,706
Nursing Student Loans (See Note 2)	93.364	1,321,218
Cancer Detection and Diagnosis Research	93.394	27,573
Promoting Safe and Stable Families	93.556	1,516,271
Temporary Assistance for Needy Families	93.558	84,695,662
Family Support Payments to States - Assistance Payments	93.560	6
Child Support Enforcement	93.563	7,364,853
Refugee and Entrant Assistance - State Administered Programs	93.566	387,854
Low-Income Home Energy Assistance	93.568	14,468,810
Community Services Block Grant	93.569	3,639,552
Community Services Block Grant - Discretionary Awards	93.570	95,354
CCDF Cluster:		
Child Care and Development Block Grant	93.575	18,839,761
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	11,579,989
State Court Improvement Program	93.586	92,060
Grants to States for Access and Visitation Programs	93.597	126,968
Chafee Education and Training Vouchers Program	93.599	90,090
Head Start	93.600	120,115
Developmental Disabilities Basic Support and Advocacy Grants	93.630	481,413
Voting Access for Individuals with Disabilities Grants to States	93.617	11,134
Developmental Disabilities Projects of National Significance	93.631	60,151
University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632	413,419
Children's Justice Grants to States	93.643	83,215
Child Welfare Services - State Grants	93.645	1,208,800
Social Services Research and Demonstration	93.647	125,093
Foster Care - Title IV-E	93.658	13,489,925
Adoption Assistance	93.659	6,142,336
Social Services Block Grant	93.667	6,654,030
Child Abuse and Neglect State Grants	93.669	472,401
Family Violence Prevention and Services - Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671	809,700
Chaffee Foster Care Independent Living	93.674	782,332
State Children's Insurance Program	93.767	34,291,619

*See Accompanying Notes to the Schedule of Expenditures of Federal Awards*

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2004

Federal Grantor Program Title	CFDA Number	Total Expenditures
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	639,122
State Survey and Certification of Health Care Providers and Suppliers	93.777	2,423,024
Medical Assistance Program (See Note 4)	93.778	968,453,255
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	474,389
Grants to States for Operation of Offices of Rural Health	93.913	69,563
HIV Care Formula Grants	93.917	6,007,422
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	30,408
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	698,764
HIV Prevention Activities - Health Department Based	93.940	1,891,290
Human Immunodeficiency Virus/(HIV) Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	196,301
Assistance Programs for Chronic Disease Prevention and Control	93.945	55,790
Improving EMS/Trauma Care in Rural Areas	93.952	40,242
Trauma Care Systems Planning and Development	93.953	2,059,851
Occupational Health and Safety Surveillance	93.957	121,611
Block Grants for Community Mental Health Services	93.958	1,455,396
Block Grants for Prevention and Treatment of Substance Abuse	93.959	7,543,893
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	376,652
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	849,255
Preventive Health and Health Services Block Grant	93.991	609,394
Maternal and Child Health Services Block Grant to the States	93.994	2,619,866
<b>Total U.S. Department of Health and Human Services</b>		\$ 1,237,407,331
<b>Corporation for National and Community Service</b>		
Learn and Serve America - School and Community Based Programs	94.004	\$ 26,188
Americorps	94.006	3,977
Foster Grandparent/Senior Companion Cluster: Senior Companion Program	94.016	348,202
<b>Total Corporation for National and Community Service</b>		\$ 378,367
<b>Social Security Administration</b>		
Disability Insurance/SSI Cluster:		
Social Security - Disability Insurance	96.001	\$ 6,880,323
Social Security Research and Demonstration	96.007	2,595
<b>Total Social Security Administration</b>		\$ 6,882,918
<b>U.S. Department of Homeland Security</b>		
State Domestic Preparedness Equipment Support Program	97.004	\$ 12,284,302
Boating Safety Financial Assistance	97.012	519,543
Community Assistance Program - State Support Services Element (CAP - SSSE)	97.023	45,883
Flood Mitigation Assistance	97.029	172,856
Public Assistance Grants	97.036	727,926
First Responder Counter-Terrorism Training Assistance	97.038	15,127
National Dam Safety Program	97.041	91,559

*See Accompanying Notes to the Schedule of Expenditures of Federal Awards*

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2004

<b>Federal Grantor</b> Program Title	CFDA Number	Total Expenditures
Emergency Management Performance Grants	97.042	1,624,625
Pre-Disaster Mitigation	97.047	370,897
State and Local All Hazards Emergency Operations Planning	97.051	55,606
Emergency Operations Centers	97.052	60,123
Citizen Corps	97.053	24,288
Community Emergency Response Teams	97.054	155,238
Other U.S. Department of Homeland Security	N/A	119,000
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 16,266,973</b>
<b>Research and Development Cluster:</b>		
<b>U.S. Department of Agriculture</b>		
Agricultural Research - Basic and Applied Research	10.001	\$ 327,071
Grants for Agricultural Research, Special Research Grants	10.200	420,898
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203	2,278,296
Grants for Agricultural Research - Competitive Research Grants	10.206	459,004
Higher Education Challenge Grant	10.217	47,033
Buildings and Facilities Program	10.218	984,387
Higher Education Multicultural Scholars Program	10.220	47,382
Fund For Rural American - Research, Education, and Extension Activities	10.224	(912)
Initiative for Future Agriculture and Food Systems	10.302	82,067
Integrated Programs	10.303	1,205,698
Homeland Security - Agricultural	10.304	26,897
Crop Insurance	10.450	113,757
Cooperative Extension Service	10.500	284,395
<b>U.S. Department of Commerce</b>		
Sea Grant Support	11.417	2,808,810
Coastal Zone Management Administration Awards	11.419	58,730
Coastal Zone Management Estuarine Research Reserves	11.420	32,206
Fisheries Development and Utilization Research and Development Grants		
Cooperative Agreements Program	11.427	396,847
Undersea Research	11.430	20,755
Climate and Atmospheric Research	11.431	234,565
Environmental Sciences, Applications, Data, and Education	11.440	22,871
Unallied Management	11.454	13,154
Cooperative Science and Education Program	11.455	297,096
Special Oceanic and Atmospheric Projects	11.460	90,192
Applied Meteorological Research	11.468	9,951
Office of Administration Special Program	11.470	10,301
Center for Sponsored Coastal Ocean Research - Coastal Ocean Program	11.478	323,871
<b>U.S. Department of Defense</b>		
Basic and Applied Scientific Research	12.300	6,943,045
Basic Scientific Research	12.431	428,092
Air Force Defense Research Sciences Program	12.800	11,549
Other Research and Development	N/A	3,254
<b>U.S. Department of Housing and Urban Development</b>		
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	42,758
Community Outreach Partnership Center Program	14.511	3,867
Community Development Work-Study Program	14.512	3,078
Resident Opportunity and Supportive Services	14.870	(5,359)

*See Accompanying Notes to the Schedule of Expenditures of Federal Awards*

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2004

<b>Federal Grantor</b> Program Title	CFDA Number	Total Expenditures
<b>U.S. Department of Interior</b>		
Fish, Wildlife, and Parks Programs on Indian Lands	15.039	173,354
Water Recalamtion and Reuse Program	15.504	42,392
Fish and Wildlife Management Assistance	15.608	32,832
Coastal Wetlands Planning, Protection and Restoration Act	15.614	15,972
Assistance to State Water Resources Research Institutes	15.805	75,160
U.S. Geological Survey - Research and Data Collection	15.808	334,580
National Cooperative Geologic Mapping Program	15.810	38,867
<b>U.S. Department of Justice</b>		
Law Enforcement Assistance - FBI Advanced		
Police Training	16.300	88,636
Grants to Reduce Violent Crime Against Women on Campus	16.525	139,624
Crime Laboratory Improvement-Combined Offender DNA Index System Backlog Reduction	16.564	22,080
National Institute of Justice Domestic Anti-Terrorism Technology Development Program	16.565	227,232
Drug-Free Communities Support Program Grants	16.729	(1,225)
<b>U.S. Department of State</b>		
Other Research and Development	N/A	2,292,439
<b>U.S. Department of Transportation</b>		
Highway Planning and Construction	20.205	16,069
University Transportation Centers Program	20.701	1,463,910
<b>National Aeronautics and Space Administration</b>		
Aerospace Education Services Program	43.001	41,039
Technology Transfer	43.002	1,571,812
<b>National Foundation on the Arts and the Humanities</b>		
Promotion of the Humanities - Fellowships and Stipends	45.160	28,185
<b>National Science Foundation</b>		
Engineering Grants	47.041	728,993
Mathematical and Physical Sciences	47.049	263,563
Geosciences	47.050	2,727,034
Computer and Information Science and Engineering	47.070	205,158
Biological Sciences	47.074	5,423,761
Social, Behavioral, and Economic Sciences	47.075	139,526
Education and Human Resources	47.076	1,102,642
Polar Programs	47.078	219,490
Other Research and Development	N/A	1,425
<b>Environmental Protection Agency</b>		
Water Pollution Control - State and Interstate Program		
Support	66.419	73,395
Surveys, Studies, Investigations Demonstrations, and Training	66.436	6,218
National Estuary Program	66.456	269,472
Wetlands Program Development Grants	66.461	3,716
Water Quality Cooperative Agreements	66.463	37,102
Environmental Protection - Consolidated Research	66.500	595,154
Surveys, Studies, Investigations and Special Purpose Grants	66.606	247,964
Training and Fellowships for the Environmental Protection Agency	66.607	17,349
Pollution Prevention Grants Program	66.708	81,826
Environmental Education Grants	66.951	15,044

*See Accompanying Notes to the Schedule of Expenditures of Federal Awards*



## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2004

Federal Grantor Program Title	CFDA Number	Total Expenditures
<b>U.S. Department of Energy</b>		
Office of Science Financial Assistance Program	81.049	129,584
Fossil Energy Research and Development	81.089	260
<b>U.S. Department of Health and Human Services</b>		
Biological Response to Environmental Health Hazards	93.113	268,113
Grants to Increase Organ Donations	93.134	225,206
Mental Health Research Grants	93.242	3,693
Advanced Education Nursing Grant Program	93.247	280,800
Alcohol Research Programs	93.273	1,016,366
Drug Abuse Research Program	93.279	7,632
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	63,168
Advanced Education Nursing Traineeships	93.358	40,018
Nursing Research	93.361	375,095
National Center for Research Resources	93.389	3,430,437
Cancer Cause and Prevention Research	93.393	843,345
Cancer Detection and Diagnosis Research	93.394	358,806
Cancer Treatment Research	93.395	200,980
Cancer Biology Research	93.396	317,394
Cancer Control	93.399	61,838
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	524,226
Heart and Vascular Diseases Research	93.837	1,589
Allergy, Immunology and Transplantation Research	93.855	23,483
Microbiology and Infectious Disease Research	93.856	522,188
Biomedical Research and Research Training	93.859	442,948
Aging Research	93.866	634,591
Medical Library Assistance	93.879	23,784
Health Care and Other Facilities	93.887	118,424
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Program	93.919	102,337
Geriatric Education Centers	93.969	432,948
International Research and Research Training	93.989	14,627
Other Research and Development	N/A	28,709
<b>U.S. Department of Social Security Administration</b>		
Social Security - Disability Insurance	96.001	38,717
<b>U.S. Department of Homeland Security</b>		
Federal Assistance to Individuals and Households	97.049	47,895
 <b>Total Research and Development Cluster</b>		\$ 47,366,597
Other Expenditures of Federal Awards		1,081,758
<b>Total Expenditures of Federal Awards (See Note 2)</b>		\$ 2,459,762,935

*See Accompanying Notes to the Schedule of Expenditures of Federal Awards*

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Fiscal Year Ended June 30, 2004

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of the State of Rhode Island and Providence Plantations (the State). The reporting entity is defined in the Notes to the 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).

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

Cash assistance is presented using the same basis of accounting as that used in reporting the expenditures (or expenses) of the related funds 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 Basis of Accounting and Financial Statement Presentation).

Non-cash expenditures of federal awards are presented as follows:

- Food Donation (CFDA 10.550) – reported at the fair market value of food distributed.
- The following guaranteed/insured mortgage loan programs are reported at the value of loans disbursed during the fiscal year: Very Low to Moderate Income Housing Loans (CFDA 10.410); Mortgage Insurance-Homes (CFDA 14.117); Property Improvement Loan Insurance for Improving All Existing Structures and Building of New Non-residential Structures (CFDA 14.142); Home Equity Conversion Mortgages (CFDA 14.183); and Veterans Housing - Guaranteed and Insured Loans (CFDA 64.114).
- 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.
- Donation of Federal Surplus Personal Property (CFDA 39.003) – reported at the fair market value of the donated property at the time of receipt.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 Fiscal Year Ended June 30, 2004

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation (continued)**

- Federal Family Education Loans-Guaranty Agency (CFDA 84.032) and Federal Direct Loan Program (CFDA 84.268) - reported at the value of loans made during the fiscal year.
- Federal Perkins Loan Program – Federal Capital Contribution (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) - reported at the balance of loans outstanding at June 30, 2004.

**NOTE 2. NON-CASH ASSISTANCE**

CFDA Number	<u>Loan, Loan Guarantee and Insurance Programs</u>	Expenditures of Federal Awards - Year Ended <u>June 30, 2004</u>	Insurance, Loans and Loan Guarantees Outstanding - <u>June 30, 2004</u>
10.410	Very Low to Moderate Income - Housing Loans	\$ 269,000	\$ 9,214,028
11.307	Economic Adjustment Assistance	12,873,238	7,384,601
14.117	Mortgage Insurance – Homes	29,405,913	176,682,583
14.183	Home Equity Conversion Mortgages	12,603,145	
64.114	Veterans Housing – Guaranteed and Insured Loans	3,478,033	23,864,100
84.032	Federal Family Education Loans	23,969,373	
84.032	Federal Family Education Loans (Guaranty Agency)	(a)	1,165,493,509
84.038	Federal Perkins Loan Program – Federal Capital Contribution	13,363,143	13,243,414
84.268	Federal Direct Loan Program	44,410,964	
93.342	Health Professions Student Loans, Including Primary Care Loans/ Loans for Disadvantaged Students	1,013,706	1,013,706
93.364	Nursing Student Loans	1,321,218	1,321,218
	<u>Other Non-Cash Assistance</u>		
10.550	Food Donation	4,699,037	
39.003	Donation of Federal Surplus Personal Property	<u>138,730</u>	
	Total Non-Cash Assistance	<u>\$ 139,987,460</u>	

(a) Administrative cost allowances (cash assistance) totaling \$2,967,712 are reported in the schedule, however, for the purpose of determining federal awards expended in accordance with OMB Circular A-133 loan guarantees outstanding are added to the cash assistance amount for the FFEL (Guaranty Agency) Program – CFDA 84.032. The amount of Federal Family Education Loan guarantees outstanding was not available, the total reflected above for the guarantee agency represents the original principal amount of loans guaranteed.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 Fiscal Year Ended June 30, 2004

**NOTE 3. FEDERAL AWARDS RECEIVED FROM PASS-THROUGH ENTITIES**

The majority of expenditures of federal awards reflected in the schedule are from awards made directly by the federal government to the State and its component units. An immaterial amount of funds have been passed-through from other entities to component units of the State totaling approximately \$6.4 million. Of this amount, \$5.8 million relates to the Research and Development Cluster of which all is unidentified as to the pass-through entity. Of the remaining amount (\$641,000), approximately \$425,000 is unidentified as to either the CFDA number and/or the pass-through entity.

**NOTE 4. REBATES OF PROGRAM EXPENDITURES**

The State received the following program expenditure rebates during fiscal 2003:

<u>Program</u>	<u>CFDA Number</u>	<u>Rebate Amount</u>
Medical Assistance Program	93.778	\$ 34,844,499
Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	10.557	\$ 4,593,048

Manufacturers of infant formula (WIC) and prescription drugs (Medical Assistance) made the rebates. The Medical Assistance Program rebates reduced previously-incurred program expenditures therefore Medical Assistance Program expenditures are reported net of the applicable federal share of rebates collected during fiscal year 2004. WIC program expenditures include amounts funded by rebates collected as well as direct federal assistance.

**NOTE 5. UNEMPLOYMENT INSURANCE EXPENDITURES**

Expenditures of federal awards for Unemployment Insurance (CFDA Number 17.225) represent \$204.5 million funded from the State's account in the federal Unemployment Trust Fund and \$45.1 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 \$106.6 million.

## Auditor's Reports



**Auditor's Reports**

**Table of Contents**

	<u>PAGE</u>
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 <i>Government Auditing Standards</i> .....	C-1
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 .....	C-4



STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE OF THE AUDITOR GENERAL

ERNEST A. ALMONTE, CPA, CFE  
Auditor General

ernest.almonte@oag.ri.gov

- ◆ Integrity
- ◆ Reliability
- ◆ Independence
- ◆ Accountability

**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 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, 2004, which collectively comprise the State's basic financial statements, and have issued our report thereon dated July 29, 2005. The scope of our audit was limited because (1) we were unable to obtain sufficient evidence regarding the completeness of the furniture and equipment, depreciable intangible and building improvement categories of capital assets included in the governmental activities section of the State's basic financial statements at June 30, 2004, and (2) we were unable to obtain sufficient evidence regarding the completeness of accounts payable and related expenditures, federal revenue and federal receivables within the Intermodal Surface Transportation Fund, a major fund. Our report was qualified because of the omission of encumbrances outstanding at June 30, 2004 as a component of reserved fund balance of the General, Intermodal Surface Transportation, and GARVEE major governmental funds and other non-major funds included in the aggregate remaining fund information.

Our opinions expressed therein, insofar as they relate to component units whose financial statements were audited by other auditors, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. The reports of the other auditors on the internal control over financial

reporting of component units in accordance with *Government Auditing Standards* were furnished to us, and this report, insofar as it relates to these component units, was based solely on the reports of the other auditors. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 2004-1, 2004-2, 2004-3, 2004-4, 2004-5, 2004-6, 2004-7, 2004-8, 2004-9, 2004-10, 2004-11, 2004-12, 2004-13, 2004-14, 2004-15, 2004-16, 2004-17, 2004-18, 2004-19, 2004-20, 2004-21, 2004-22, 2004-23, 2004-24, 2004-25, 2004-26, 2004-27, and 2004-28.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting and the reports of the other auditors would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Findings 2004-1, 2004-2, 2004-4, 2004-5, 2004-6, 2004-7, 2004-8, 2004-9, 2004-10, 2004-12, 2004-19, 2004-20, 2004-23, 2004-24, 2004-25, 2004-26, and 2004-27 to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's basic 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 reports of other auditors who audited the component units' compliance with laws, regulations, contracts and grant agreements in accordance with *Government Auditing Standards* were furnished to us, and this report, insofar as it relates to these component units, is based solely on the reports of the other auditors.

The results of our tests and the reports of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the State in a separate communication dated July 29, 2005. Other auditors noted certain matters that they have communicated to management of the component units.



Finance Committee  
Joint Committee on Legislative Services

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

A handwritten signature in cursive script that reads "Ernest A. Almonte".

Ernest A. Almonte, CPA, CFE  
Auditor General

July 29, 2005



STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE OF THE AUDITOR GENERAL

ERNEST A. ALMONTE, CPA, CFE  
Auditor General

ernest.almonte@oag.ri.gov

- ◆ Integrity
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited, except as described in the next three sentences, the compliance of the State of Rhode Island and Providence Plantations (the State) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. We did not audit the compliance of component units administering major federal programs with the requirements described in the preceding sentence. These major federal programs had combined expenditures of federal awards representing 15% of the reporting entity's total major federal program expenditures of federal awards in fiscal year 2004. Those audits were performed by other auditors whose reports on compliance with requirements applicable to the major federal programs administered by these component units were furnished to us, and this report, insofar as it relates to the component units that were audited by other auditors, is based solely on the reports of the other auditors. The State's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other

procedures as we considered necessary in the circumstances. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion. Our audit does not provide a legal determination of the State's compliance with those requirements.

We were unable to obtain sufficient documentation supporting the compliance of the State with the Food Stamp Cluster (CFDA #'s 10.551 and 10.561), Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA # 10.557), Unemployment Insurance (CFDA # 17.225), Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA # 84.126), Child Support Enforcement (CFDA # 93.563), Foster Care – Title IV-E (CFDA # 93.658) and the State Domestic Preparedness Equipment Support Program (CFDA # 97.004) programs regarding the equipment and real property management requirement, nor were we able to satisfy ourselves as to the State's compliance with this requirement by other auditing procedures.

As described in Findings 2004-35 and 2004-36 in the accompanying schedule of findings and questioned costs, the State (through its component unit – the Rhode Island Economic Development Corporation) did not comply with the requirements regarding reporting and cash management that are applicable to its Economic Adjustment Assistance (CFDA # 11.307) program within the Public Works and Economic Development Cluster. Compliance with these requirements is necessary, in the opinion of the auditor of the component unit, for the State to comply with the requirements applicable to that program.

As described in Finding 2004-37 in the accompanying schedule of findings and questioned costs, the State (through its component unit – the Rhode Island Housing and Mortgage Finance Corporation) did not comply with the requirements regarding eligibility that is applicable to its Section 8 Housing Choice Vouchers (CFDA # 14.871) program. Compliance with this requirement is necessary, in the opinion of the auditor of the component unit, for the State to comply with the requirements applicable to that program.

As described in Finding 2004-43 in the accompanying schedule of findings and questioned costs, the State did not comply with the reporting requirement that is applicable to the Freight Rail Improvement Project (no CFDA #). Compliance with this requirement is necessary, in our opinion for the State to comply with the requirements applicable to that program.

As described in Findings 2004-69 and 2004-70 in the accompanying schedule of findings and questioned costs, the State did not comply with the eligibility and reporting requirements that are applicable to the Foster Care – Title IV-E (CFDA # 93.658) program. Compliance with these requirements is necessary, in our opinion for the State to comply with the requirements applicable to that program.

As described in Findings 2004-87, 2004-88 and 2004-89 in the accompanying schedule of findings and questioned costs, the State did not comply with the cash management and subrecipient monitoring requirements that are applicable to the State Domestic Preparedness Equipment Support Program (CFDA # 97.004). Compliance with these requirements is necessary, in our opinion for the State to comply with the requirements applicable to that program.

In our opinion, based on the results of our audit and the reports of the other auditors, and except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the State's compliance with the requirements of the Food Stamp Cluster, Special Supplemental Nutrition Program for Women, Infants, and Children, Unemployment Insurance, Rehabilitation Services – Vocational Rehabilitation Grants to States, Child Support Enforcement, Foster Care – Title IV-E and the State Domestic Preparedness Equipment Support Program programs regarding the equipment and real property management requirement, and except for the noncompliance described in the five preceding paragraphs, the State complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. The results of our auditing procedures and the reports of the other auditors also disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2004-32, 2004-44, 2004-45, 2004-63, 2004-70, 2004-76 and 2004-81.

#### Internal Control Over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133. Other auditors have audited certain major federal programs administered by component units which had combined expenditures of federal awards representing 15% of the reporting entity's total major federal program expenditures of federal awards in fiscal year 2004. The other auditors have furnished us their reports on their consideration and testing of the component units' internal control over compliance with requirements that could have a direct and material effect on a major federal program.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. The other auditors also noted certain matters involving the component units' internal control over compliance and its operation that they consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as 2004-29, 2004-30, 2004-31, 2004-33, 2004-34, 2004-35, 2004-36, 2004-38, 2004-39, 2004-40, 2004-41, 2004-42, 2004-43, 2004-46, 2004-47, 2004-48, 2004-49, 2004-50, 2004-51, 2004-52, 2004-53, 2004-54, 2004-55, 2004-56, 2004-57, 2004-58, 2004-59, 2004-60, 2004-61, 2004-62, 2004-64, 2004-65, 2004-66, 2004-67, 2004-68, 2004-69, 2004-71, 2004-72,

Finance Committee  
Joint Committee on Legislative Services

2004-73, 2004-74, 2004-75, 2004-77, 2004-78, 2004-79, 2004-80, 2004-82, 2004-83, 2004-84, 2004-85, 2004-86, 2004-88, 2004-89, 2004-90, 2004-91, and 2004-92.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration, and the other auditors' consideration of the internal control over compliance, would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider, based on our auditing procedures and the reports of other auditors, findings 2004-43, 2004-72, 2004-77, 2004-88, 2004-89, 2004-90 and 2004-91 to be material weaknesses.

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



Ernest A. Almonte, CPA, CFE  
Auditor General

July 29, 2005

Schedule of Findings  
and Questioned Costs



**Schedule of Findings and  
Questioned Costs**

**Table of Contents**

	<u>PAGE</u>
Section I – Summary of Auditor’s Results .....	D-1
Section II – Financial Statement Findings.....	D-4
Section III – Federal Award Findings and Questioned Costs	
Table of Findings by Federal Program .....	D-40

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section I – Summary of Auditor’s Results

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### **Basic Financial Statements**

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

<b><u>Opinion Unit</u></b>	<b><u>Opinion</u></b>
Governmental Activities	Qualified
Business-type Activities	Unqualified
Aggregate Discretely Presented Component Units	Unqualified
Major funds –	
General, Intermodal Surface Transportation, GARVEE	Qualified
R.I Temporary Disability	Unqualified
Lottery, Convention Center Authority, Employment Security	Unqualified
Aggregate Remaining Fund Information	Qualified

- 2) The audit of the basic financial statements disclosed reportable conditions and material weaknesses in internal control over financial reporting.
- 3) The audit disclosed no instances of noncompliance which are material to the basic financial statements.

### **Federal Awards**

- 4) The audit disclosed reportable conditions in internal control over major programs, some of which were classified as material weaknesses.
- 5) The independent auditor’s report on compliance for major programs expressed an unqualified opinion for all major programs except for the following programs in which it expressed a qualified opinion:

<b><u>Program</u></b>	<b><u>CFDA #</u></b>
Food Stamps Cluster:	
Foods Stamps	10.551
State Administrative Matching Grants for Food Stamp Program	10.561
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557
Public Works and Economic Development Cluster:	
Economic Adjustment Assistance	11.307
Section 8 Housing Choice Vouchers	14.871
Unemployment Insurance	17.225
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126
Child Support Enforcement	93.563
Foster Care – Title IV-E	93.658
State Domestic Preparedness Equipment Support Program	97.004
Freight Rail Improvement Project	None



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

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- 6) The audit disclosed findings that must be reported under OMB Circular A-133 provisions.
- 7) Major programs are listed in the table below.
- 8) The dollar threshold used to distinguish between Type A and Type B programs was \$7,379,289.
- 9) The State did not qualify as a low-risk auditee as defined by OMB Circular A-133.

**Major Programs**

<u>Program Title</u>	<u>CFDA Number</u>
Food Stamp Cluster:	
Food Stamps	10.551
State Administrative Matching Grants for Food Stamp Program	10.561
Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Milk Program for Children	10.556
Summer Food Service Program for Children	10.559
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557
Public Works and Economic Development Cluster:	
Economic Adjustment Assistance	11.307
Mortgage Insurance – Homes	14.117
Section 8 Project Based Cluster:	
Section 8 New Construction and Substantial Rehabilitation	14.182
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856
Home Equity Conversion Mortgages	14.183
Section 8 Housing Choice Vouchers	14.871
Unemployment Insurance	17.225
WIA Cluster:	
WIA Adult Program	17.258
WIA Youth Activities	17.259
WIA Dislocated Workers	17.260
Airport Improvement Program	20.106
Highway Planning and Construction Cluster:	
Highway Planning and Construction	20.205
Federal Transit Cluster:	
Federal Transit – Formula Grants	20.507
Freight Rail Improvement Project	None
Jobs and Growth Tax Relief Reconciliation Act	21.999

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Section I – Summary of Auditor’s Results**

**Major Programs**

<u>Program Title</u>	<u>CFDA Number</u>
Capitalization Grants for Clean Water State Revolving Funds	66.458
Capitalization Grants for Drinking Water State Revolving Funds	66.468
Student Financial Assistance Cluster:	
Federal Supplemental Educational Opportunity Grants	84.007
Federal Family Education Loans	84.032
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
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342
Nursing Student Loans	93.364
Title I Grants to Local Educational Agencies	84.010
Special Education Cluster:	
Special Education – Grants to States	84.027
Special Education – Preschool Grants	84.173
Federal Family Education Loans (Guaranty Agency)	84.032
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126
Improving Teacher Quality State Grants	84.367
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283
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 and Development Fund	93.596
Foster Care – Title IV-E	93.658
State Children’s Insurance Program	93.767
Medicaid Cluster:	
State Medicaid Fraud Control Units	93.775
State Survey and Certification of Health Care Providers and Suppliers	93.777
Medical Assistance Program	93.778
Block Grants for Prevention and Treatment of Substance Abuse	93.959
State Domestic Preparedness Equipment Support Program	97.004
Research and Development Cluster	Various

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Section II – Financial Statements Findings

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**Finding 2004-1**

CONTROLS OVER ACCOUNTING AND FINANCIAL REPORTING - STATEWIDE  
ACCOUNTING SYSTEM

The State's RISAIL accounting system does not have the capability to generate complete financial statements without significant manual involvement and extensive accumulation of data from various sources external to the accounting system. These system limitations combined with the lack of appropriately designed and effective accounting controls to ensure the proper recording and authorization of transactions, seriously impaired the State's ability to prepare accurate and timely financial statements.

The consequences of untimely financial reporting and ineffective accounting systems are many -- one of the more significant is the impact on the budget process. Audit adjustments required to fairly present the financial statements of the general fund at June 30, 2004 reduced available resources by \$25 million. This impacted expected operating results for fiscal 2005 and the budget deliberations for fiscal 2006. In recent years, the State has routinely prepared annual budgets without the benefit of audited financial statements for the prior fiscal year.

The inadequacies of the accounting system prevent the State from being able to (1) expedite year-end closing procedures to generate useful and timely financial data to decision makers, and (2) use the accounting system to guide its financial decision-making during the year. Further, the accounting system weakens rather than supports an overall control structure for financial reporting.

Accounting System Design

The RISAIL accounting system does not contain a significant amount of the interrelated data needed to prepare financial statements for the State in accordance with generally accepted accounting principles. The accounting system is not integrated - transaction level data does not automatically post to the general ledger and various accounting system modules, necessary to achieve this integration, have not been implemented to account for certain transaction types. Significant manual intervention is still required by accounting personnel to record material balances for receivables, capital assets, and long-term liabilities within the State's accounting system. This data is contained in other independent accounting systems. Because there is no interconnectivity to the system, this data must be manually recorded in summary form by journal entry at fiscal year-end.

The State's overall financial reporting capabilities would be significantly enhanced if all accounting transactions were directly recorded in the accounting system and automatically posted and reflected in the State's general ledger. Such integration would also greatly enhance

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section II – Financial Statements Findings

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the State's ability to reconcile critical accounts in a timely manner, enhancing overall control over its financial reporting process.

RISAIL has two principal components, the BuySpeed accounts payable module which is used to process receipt and disbursement transactions, and the Oracle general ledger. Because access to the RISAIL general ledger is very limited, departments and agencies derive data regarding receipts and expenditures from the BuySpeed accounts payable component of RISAIL or from various web-based information sources that have been designed to bridge information gaps in the system. Each of the information sources (general ledger, BuySpeed, and web-based) has different combinations of data. Differences can exist between these data sources because of the manual processes employed. In addition, individual agencies have little knowledge and understanding of the State's general ledger within RISAIL.

Various subsidiary accounting systems (e.g., payroll, investment accounting, budget, and departmental cost allocation systems) still utilize the legacy account structure that was in place prior to the implementation of RISAIL in July 2001. This necessitates continual maintenance of account conversion tables and increases the risk that data may be misposted in the accounting system.

#### Accounting Controls and Procedures

Any accounting system is dependent upon compliance with established policies and procedures for authorizing and recording transactions properly and consistently. We continued to observe significant noncompliance with RISAIL accounting policies and procedures. For example, controls over the classification of expenditures at the fund level for capital outlay, debt service, intergovernmental expenditures and operating transfers were not reliable during fiscal 2004. This noncompliance continued to impact the accuracy of financial statements generated by the State's RISAIL system.

The State needs to improve oversight and reconciliation of material account balances to ensure amounts are accurately reflected in the financial statements. Many accounts within RISAIL continued to go unreconciled during the fiscal year. In many instances, agencies do not understand how transactions post to the general ledger and in some cases, are unaware that general ledger accounts specific to their agencies exist. This lack of understanding often results in transactions being adjusted incorrectly or general ledger accounts remaining unreconciled for long periods of time. The Office of Accounts and Control has complete access to general ledger detail but often does not have the specific understanding of an account's activity to identify when the account's balance is misstated. Individual agencies often have the understanding of the account activity and the underlying data needed to reconcile specific accounts but lack the access to the general ledger transactions or balances needed to conduct the necessary reconciliations. Reconciliation of these accounts should be better coordinated between the Office of Accounts and Control and the individual agencies that initiate transactions recorded in these accounts.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Section II – Financial Statements Findings**

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The State needs to address the systemic limitations within the RISAIL system to enhance its overall financial reporting capabilities. A well-designed, integrated accounting system would greatly improve the State's ability to prepare accurate and timely financial statements in conformance with generally accepted accounting principles. This would also (1) significantly enhance the State's control structure over financial reporting and all categories of accounting transactions, (2) minimize the manual intervention and post analysis of transactions currently required, and (3) reduce the excessive time needed to prepare financial statements.

**RECOMMENDATIONS**

- |         |   |
|---------|---|
| 2004-1a | Enhance RISAIL to result in an integrated accounting system that fully meets the State's financial reporting and management needs.                                    |
| 2004-1b | Improve oversight of the general ledger by adopting procedures to ensure that all significant account balances are fairly stated in the State's financial statements. |
| 2004-1c | Convert subsidiary accounting systems using the legacy account structure to the current RISAIL account structure.   |
| 2004-1d | Ensure agency compliance with procedures for recording transactions within the State's accounting system.   |
| 2004-1e | Improve controls over the use of RISAIL natural accounts to classify transactions so that the system will yield reliable amounts for financial reporting purposes.    |

**Finding 2004-2**

**CONTROLS OVER ACCOUNTING TRANSACTIONS – RISAIL ACCOUNTING SYSTEM**

We observed weaknesses relating to controls over the authorization, recording, and propriety of certain accounting transactions during fiscal 2004. The volume of transactions processed through the RISAIL accounting system is significant -- the State disbursed over \$4 billion directly through the RISAIL accounting system during fiscal year 2004. We noted the following control weaknesses during our audit:

- The Office of Accounts and Control did not consistently perform certain control procedures relating to the review and approval of various transactions within the RISAIL accounting system as follows:
  - verification of authorized signatures to authorized agent logs;

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section II – Financial Statements Findings

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- review of supporting documentation prior to approving transactions;
  - verification of authorization and propriety of transactions recording disbursements and accounting adjustments;
  - verification that appropriate document types are utilized for all transactions, e.g., cash transfers between funds are recorded via BSJE/CSH documents;
  - verification of natural account codes to ensure that transactions are being charged to the correct expenditure category; and
  - review of transaction handling codes to ensure that payments to vendors are being appropriately disbursed.
- 
- Accounting policies and procedures, in certain instances, have not been updated or formalized. For instance, approval requirements for various transaction and document types have not been updated for current RISAIL documents and the “new” account structure.
  - Certain large dollar accounting transactions which are adjusting balances or moving revenue or expenditure activity (BSBF documents) receive only cursory review prior to posting in the accounting system – the effect of these transactions can be significant on the State’s financial statements. These transactions can originate at the department or agency level or within the accounting section at the Office of Accounts and Control. For example, two transactions were inappropriately recorded resulting in an understatement of both assets and liabilities by \$35 million. Typically, no, or very limited, documentation accompanies the document forwarded to the Office of Accounts and Control for approval.
  - Certain transactions are recorded in the RISAIL system via batch import. These transactions are sent to the Office of Accounts and Control in text format, usually via diskette and uploaded into RISAIL. These files can be easily manipulated because they lack data integrity controls such as encryption. Modification of these files could result in improper payments and/or inaccurate posting to the accounting system.
  - Standardized procedures have not been formally established within the Office of Accounts and Control (Pre-audit section) to ensure that all transactions are consistently reviewed prior to being approved for payment.
  - The Office of Accounts and Control is limited in its ability to adequately review purchase order documents in sufficient detail to effectively evaluate disbursement transactions.

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section II – Financial Statements Findings

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- ❑ System access control limitations allow certain employees reviewing documents within the Controller’s office the ability to change the “invoice payee field” within RISAIL before approving invoice payments. The RISAIL system does not currently have adequate controls over this process to ensure that invoice payees are not being inappropriately altered.
- ❑ The RISAIL system does not restrict user’s access to only the specific accounts to which the user is authorized. The lack of this control can result in users intentionally or erroneously charging accounts of other agencies.
- ❑ ACH payments do not originate within the accounting system – instead they are coded as wire transfer transactions and then Treasury enters the data into an external bank supplied system to originate the ACH payment. Since reentry of the data makes it susceptible to change and/or data entry error, no controls are in place to ensure the disbursement data is the same as that recorded within the accounting system. Additionally, ACH functionality has only been established within the General Fund bank account. Consequently, when disbursements originating in other funds are to be accomplished via ACH, the disbursement is made from the General Fund with a corresponding movement of cash to reimburse the General Fund. These reimbursements to the General Fund are not tracked nor recorded within the accounting system. Since bank reconciliations were not performed timely during fiscal 2004, controls to ensure all amounts were reimbursed were lacking.
- ❑ The Office of Accounts and Control transmits an electronic file representing approved payments to Treasury (RISAIL “check run” file). This file is transmitted in text format and lacks controls to ensure that it is not subsequently altered. Treasury is then responsible for the actual check production. Treasury has the capability to change data included in the file (for example, payee and amount) prior to generating checks. Upon completion of check printing, Treasury transmits a file to the banks representing checks issued that day (“positive pay” file). This file allows the bank to track outstanding checks and also serves as a control mechanism by allowing the bank to match a check presented for payment to an authorized issue list. Treasury can also modify this file prior to its transmission to the bank representing a further control weakness. The State needs to implement controls to safeguard the integrity of both the “check run” and “positive pay” files to prevent inappropriate manipulation.
- ❑ Certain staff at the Office of the General Treasurer have the system access and capability to initiate and approve journal entry transactions (BSJE) primarily to approve receipt transactions after verification of bank deposits. This access also allowed them to initiate and approve accounting adjustments resulting from bank reconciliations. Initiation and approval of these accounting transactions compromises segregation of duty controls.

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section II – Financial Statements Findings

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The State needs to improve its overall controls over accounting transactions by addressing the system limitations inherent within RISAIL. In addition, procedures need to be implemented to address the above weaknesses to ensure the propriety of transactions recorded in the State accounting system.

### RECOMMENDATIONS

- |         |   |
|---------|---|
| 2004-2a | Improve controls over transaction recorded in the RISAIL accounting system.   |
| 2004-2b | Address the RISAIL system limitations that weaken the State's overall controls over accounting transactions.                            |
| 2004-2c | Implement data integrity controls over check payment files (including positive pay) to prevent inappropriate manipulation.              |
| 2004-2d | Formalize policies and procedures relating to the review and approval of accounting transactions by the Office of Accounts and Control. |

### **Finding 2004-3**

#### INTERFUND TRANSACTIONS AND INTERFUND RECEIVABLES AND PAYABLES

Interfund transactions occur commonly within the RISAIL accounting system that require cash movement of funds between bank accounts. The general ledger component of the RISAIL accounting system is programmed with certain defaults that recognize interfund transactions and record corresponding interfund payables and receivables. RISAIL currently processes all interfund transactions through the State's General Fund resulting in offsetting overstatements of interfund receivables and payables between various funds. In addition, the State did not post transactions to the RISAIL general ledger until April 2004 resulting in the State's inability to settle interfund balances timely during the fiscal year.

In one instance, a transaction was duplicated in November 2003 that transferred funding for capital projects from the State's Bond Capital fund to the General Fund for approximately \$40 million. To accomplish the duplicated transfer of funds, investments within the Bond Capital fund were liquidated and an advance of \$15 million was made from the General Fund to the Bond Capital Fund. Had the State been conducting timely settlements of interfund balances, this error would have been corrected in a timely manner and these funds would have been returned to the Bond Capital fund bank account. Because of the State's inability to settle interfund balances, this transfer remained due to the State's Bond Capital fund until settled in May impacting the State's cash flow and investment income within the Bond Capital fund.



# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section II – Financial Statements Findings

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The State did continue the immediate settlement (cash movement) of interfund transactions over a certain dollar threshold as well as attempting to settle and net down interfund balances at year-end, both of which did improve overall settlement and financial reporting of interfund receivables and payables. However, significant overstatement of General Fund interfund accounts still existed at June 30, 2004 due to the RISAIL default settlement through the General Fund.

The current interfund transaction process prevents the accounting system from reporting the actual amount owed to or from any specific fund including the specific transactions that support the amount owed. For example, large dollar interfund transactions are settled immediately by movement of cash between fund bank accounts. Although the interfund balances have actually been eliminated, the accounting system retains the original balances and creates offsetting interfund balances in the opposite direction. These balances remain in the system until the accounting section does an overall netting (typically done at fiscal closing) to offset the balances. While the “net” position is the same and the actual interfund payable or receivable could be derived, the accounting system does not currently provide easily retrievable information regarding interfund transactions to support the State’s overall cash management objectives.

The State should continue to explore a systematic resolution that will enable the accounting system to (1) settle interfund transactions as they are posted, (2) eliminate the manual processes needed to settle and account for interfund transactions, and (3) accurately report current information on interfund balances.

### RECOMMENDATIONS

- |         |  |
|---------|--|
| 2004-3a | Reduce interfund payable and receivable balances as cash settlements occur.  |
| 2004-3b | Move towards more frequent settlement of interfund receivable and payable balances through one overall process rather than cash settlement of large individual transactions. |
| 2004-3c | Ensure the accounting system reports accurate interfund receivables and payables and detail transaction level support is available for all balances.                         |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Section II – Financial Statements Findings

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**Finding 2004-4**

TIMELY BANK RECONCILIATIONS

Bank reconciliations continued to not be performed timely during fiscal year 2004. Reported cash balances as of June 30, 2004 were not completed until January 2005. Timely bank reconciliations are an integral component of internal control over the recording of receipts and disbursements. Consequently, controls over receipts and disbursements continued to be severely weakened during fiscal 2004.

As a result of bank reconciliations performed subsequent to fiscal year end, material adjustments were required to post unrecorded or incorrectly recorded transactions. Bank reconciliations during the fiscal year would have identified these differences and allowed for timely correction in the underlying accounting records.

Delay in completing bank reconciliations significantly impacted timely preparation of the State's financial statements in fiscal 2002, 2003 and 2004. An unreconciled variance of approximately \$1.3 million (book over bank) was identified as part of the reconciliation process for the General Fund bank accounts. This variance was adjusted for financial reporting purposes.

As reported in prior years, bank reconciliations were significantly impacted by the implementation of the RISAIL accounting system. Changes in the reconciliation process were necessary to respond to data being provided in new formats and from different sources. Many of the problems encountered in performing bank reconciliations after implementation of RISAIL were not fully discovered until after the close of fiscal 2003. Consequently, control weaknesses related to timely bank reconciliations began to be addressed during fiscal 2004.

During fiscal 2004 and 2005, the Offices of Accounts and Control and the General Treasurer have worked to eliminate transaction-processing issues which contributed to the reconciliation problems. Various changes in transaction processing have been implemented in fiscal 2004 and 2005 to facilitate bank reconciliation procedures. These include ensuring transaction level data from RISAIL is available and sorted in a manner which facilitates reconciliation to bank activity.

Efforts should continue between Accounts and Control and the General Treasurer to ensure the following:

- ❑ monthly reconciliations are performed timely to restore this essential control over receipts and disbursements;

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section II – Financial Statements Findings

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- ❑ options to automate as much of the reconciliation process as possible are explored with the State’s financial institutions by aligning the manner in which transactions are processed by both the bank and Accounts and Control to allow electronic matching for reconciliation purposes – for example, the General Treasurer’s Office nets various documents transferring cash between bank accounts – in these instances the bank activity differs from what is recorded in the accounting system; and
- ❑ the existing configuration of bank accounts is reviewed with the objective of streamlining the number of accounts and the amount of inter-account transactions.

### RECOMMENDATIONS

- 2004-4a      Perform timely reconciliations of bank balances to cash balances reported in the State’s accounting system.
- 2004-4b      Explore options to automate as much of the reconciliation process as possible with the State’s financial institutions by aligning the manner in which transactions are processed by both the bank and Accounts and Control to allow electronic matching for reconciliation purposes.
- 2004-4c      Assess the existing configuration of bank accounts with the objective of streamlining the number of accounts and the amount of inter-account transactions.

### **Finding 2004-5**

#### ACCOUNTING CONTROL OVER INVESTMENT TRANSACTIONS

Short-term investment of available cash balances within the various funds of the State are made by the Office of the General Treasurer (Treasury). Treasury records these transactions within an independent investment system (SI50) which tracks purchases, sales, maturities, and investment income. Treasury’s SI50 investment system cannot communicate directly to the State’s accounting system. During fiscal 2004, investment activity was recorded on a monthly basis within the State accounting system based on data exported from SI50. Investment purchases, sales, and income are not initially recorded in RISAIL. Daily cash balances reported by RISAIL are inaccurate because they do not reflect daily investment activity.

Investment purchases and sales represent a significant dollar volume of cash receipt and disbursement transactions. Such activity during fiscal 2004 approximated \$1.2 billion per month (all funds). Failure to record this activity within the State accounting system on a timely basis significantly weakens controls over cash receipts and disbursements.

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section II – Financial Statements Findings

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Investment activity should be recorded on a daily basis in the accounting system by modifying the existing SI50 investment system so that it can communicate directly to the RISAIL accounting system or through acquiring a module to the accounting system that allows direct and timely recording of investment activity.

Treasury initiates investment purchases and sales, records the activity in its own investment system, wires funds to and from financial institutions to settle investment transactions, and receives confirmation of transactions. A small number of employees perform these functions at Treasury and opportunities for segregation of duties are limited within the investment function at Treasury. Combined with the fact that (1) investment transactions were not initiated and recorded timely within the State accounting system during fiscal 2004, and (2) bank reconciliations were not performed during the fiscal year; controls over this material component of cash receipts and disbursements were severely weakened.

### RECOMMENDATION

2004-5            Improve control over investment transactions by integrating the investment function within the state accounting system.

### **Finding 2004-6**

#### ACCOUNTING AND PHYSICAL CONTROL OVER CAPITAL ASSETS

Accounting controls were not adequate during fiscal 2004 to ensure that the acquisition and disposal of capital assets was accurately recorded within the accounting system. Our testing indicated that many items were charged to capital asset natural accounts erroneously, and conversely, many items that should have been reflected as capital items were charged to operating accounts. Adequate control procedures were not in place to ensure that the acquisition of capital items was identified consistently within the RISAIL accounting system and then recorded at historical cost within the electronic file used by the State to accumulate capital asset data. Additionally, sales, disposals, and transfers of capital assets are not recorded within the accounting system and instead are tracked by an ineffective manual process that originates at the department or agency level. Consequently, sales and disposals are likely understated. This weakness in accounting controls is largely attributable to (1) over reliance on manual accounting procedures to accumulate the data, (2) ineffective monitoring procedures, and (3) a general lack of awareness by accounting personnel in the departments and agencies regarding the importance of account classifications and the distinction between capital and operating items.

These control weaknesses and ineffective accounting procedures continue to result in a qualification of our independent auditor's report on the State's financial statements because amounts recorded for equipment are incomplete and may also include items that are no longer in

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section II – Financial Statements Findings

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service. Although significant attention has been focused on this issue, management has not been able to accumulate capital asset data that is considered complete.

In fiscal 2004, the State had not adopted a permanent accounting system to account for capital assets and related depreciation. Instead multiple databases (originally created to accumulate capital asset data for the first time in fiscal 2002) were still being used. These databases do not adequately meet the State's capital asset accounting needs and should be replaced by a system or systems that more fully meet these needs and allow for implementation of controls over access, tracking changes, etc. Further, there is no integration functionality between the accounting system and the databases used to record capital asset data. All capital asset data must be separately recorded in the capital asset databases. Controls are inadequate to ensure all data is accurately captured and maintained in the capital asset databases.

Controls over capital assets were deficient in the following respects:

- ❑ various department and agencies did not consistently adhere to required procedures for the preparation and submission of documentation for the acquisition and disposal of capital assets – for example:
  - computer equipment with an approximate cost of \$1 million was acquired during fiscal 2004 for the State's data center by a capital lease agreement -- the acquisition was not recorded in the capital asset accounting records.
  - a backhoe acquired with certificates of participation for approximately \$80,000 was not recorded in the capital asset records. Inquiry regarding this asset with DOA's State Fleet Operations found that the asset was not registered or insured.
- ❑ reconciliations of capital asset databases with data reported in the State's accounting system were not performed;
- ❑ controls relating to the identification and accumulation of costs for capital projects were not reliable;
- ❑ physical inventories were not performed of the state departments and agencies to ensure that furniture and equipment were fairly presented on the State's financial statements at June 30, 2004;
- ❑ capital asset accounting and reporting policies were not consistently applied in determining amounts to be capitalized;
- ❑ controls in place to reclassify assets from construction in progress as they become operational were not found to be effective - \$54.5 million of project costs were reclassified by audit adjustment to capital assets placed in service.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section II – Financial Statements Findings

---

- controls are inadequate to ensure all disposals and sales of capital assets are recorded in the capital assets records – disposals of only \$1.8 million were recorded during fiscal 2004 which mostly represented disposal or trade-in of 58 vehicles. Only 1 piece of equipment was reported as disposed during fiscal 2004.

During fiscal year 2004, the State expensed approximately \$2 million of capital assets that had been previously reported within internal service funds. Upon inquiry, the State indicated that the assets were removed because sufficient data did not exist to locate and identify these assets. In addition, our audit testing resulted in the identification of capital assets totaling \$30 million that had been omitted by the State. Audit adjustments were proposed to record these assets in the financial statements.

Office of Management and Budget (OMB) Circular A-102 requires States to use, manage, and dispose of equipment acquired with federal funds in accordance with state laws and procedures. The State's weaknesses in accounting and physical controls over capital assets impacted its ability to identify equipment purchased with federal funds and to ensure compliance with its own procedures regarding the use, management and disposition of all equipment.

#### RECOMMENDATION

- 2004-6      Enhance systems and procedures necessary to provide adequate accounting and physical control over capital assets.

### **Finding 2004-7**

#### CONTROL OVER LONG-TERM OBLIGATIONS

The State lacks adequate accounting controls to accumulate all long-term obligations for inclusion in the State's government-wide financial statements. Controls are also inadequate to ensure all required payments are made when due.

The State's debt service accounting system includes only information for certain general obligation bonds (current-interest bonds), representing approximately one-half of the total obligations reported in the government-wide financial statements. Obligations not recorded in the debt service accounting system include capital appreciation bonds, multi-modal rate bonds, lease obligations, certificates of participation, arbitrage rebate liabilities, and other long-term liabilities. The debt service accounting system is incapable of accepting data for certain categories of long-term obligations and consequently these obligations are recorded on a variety of independent subsystems without centralized control.

A new subsidiary accounting system is required to capture all categories of long-term obligations, detail all debt service requirements to maturity, prompt payments on the required

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section II – Financial Statements Findings

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dates and calculate accrued interest for financial reporting purposes. GASB Statement No. 34 also requires presentation of a category of net assets – invested in capital assets net of related debt - on the government-wide financial statements. To meet this requirement each issuance of debt must be segregated into its capital and non-capital components. The State currently has no system to provide this information. Such information should be included in a comprehensive debt management accounting system.

The Office of the General Treasurer utilizes a debt management system primarily to prompt debt service payments. This system may be capable of addressing other long-term debt accounting issues as well. Ideally, the comprehensive debt management system should interface with the statewide accounting system to provide information necessary for financial reporting purposes, and generally improve control over the State's long-term obligations.

### RECOMMENDATION

2004-7 Acquire a new subsidiary accounting system to account for all long-term general obligations of the State and improve controls over financial reporting and debt service payments.

## **Finding 2004-8**

### CONTROLS OVER DATA ACCUMULATED FOR PURPOSES OF FINANCIAL REPORTING FROM VARIOUS STATE INFORMATION SYSTEMS

The State has various information systems located within its departments and agencies to administer various functions of State government. These functions include the receipt of taxes, court fines, and child support collections, employee personnel and payroll, and human service benefit programs. Although the results of these operations do ultimately get recorded in the State accounting system, the State must request data specifically from these other systems to record various accruals and other information within the State's financial statements.

We found several instances where the data utilized from these other systems was inaccurate and/or the specific data request was misinterpreted. In most instances, due diligence (through the performance of data analysis and/or comparison) was not adequately performed on the data to ensure its accuracy. When we discussed our findings with individuals knowledgeable regarding the requested data, the data was immediately identified as inaccurate or inconsistent.

Our analysis of accruals relating to tax receivables, compensated absences, and court fines receivable all noted obvious discrepancies in the data utilized by the State to record amounts in the State accounting system. For instance, our analysis of the data utilized by the State to estimate the personal income tax withholding receivable in the financial statements noted that several programming errors resulted in a net overstatement of the receivable balance

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section II – Financial Statements Findings

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by approximately \$20 million. The underlying tax receipt data accumulated for multiple years to derive this estimated receivable was overstated in excess of \$50 million in each of the years reported. For example, withholding tax data accumulated during fiscal years 2000 and 2001 supported a withholding tax accrual ranging from \$12 to \$15 million. New data accumulated by the Division of Taxation for fiscal years 2002 through 2004 (subsequently determined to be in error) indicated withholding accruals ranging from \$67 million to \$79 million. Neither the Division of Taxation nor the Office of Accounts and Control recognized the inconsistency of this data prior to it being utilized to record amounts in the financial statements.

Other examples of misreported data from other systems include:

- ❑ The data utilized to calculate compensated absences reported approximately 1,400 more personnel data records than the previous year, a number far greater than the actual change in employees utilizing the State's personnel system during that year. In addition, certain data fields within the extract contained values that were clearly not valid. For instance, accumulated personal time of 999 hours was reported for certain employees. The maximum accrual of personal time for most employees is 28 or 35 hours.
- ❑ Data submitted by the Courts for purposes of recording receivables for court assessments (fees and fines) had significant changes to prior year receipt amounts with no explanation given. The Office of Accounts and Control made no inquiry of the Courts to determine why the prior year amounts had changed. Receipt data reported from the Courts should be reconciled with the State accounting system as a means of ensuring the reasonableness of the amounts reported as receivables and the related allowance for uncollectible accounts within the State's financial statements.

The State should adopt procedures to ensure that data accumulated from other information systems for financial reporting is accurate and reliable. These procedures should include having individuals familiar with the requested information being involved in the request, reporting, and verification processes relating to the data being used to record amounts in the financial statements.

#### RECOMMENDATION

- 2004-8      Adopt controls to ensure the accuracy of data derived from various State information systems utilized to record amounts in the State's financial statements.



SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Section II – Financial Statements Findings

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**Finding 2004-9**

ACCOUNTING CONTROLS OVER FEDERAL REVENUE

The State does not have adequate accounting controls in place to ensure that federal program expenditures do not exceed grant awards from the federal government. Federal revenue for the General Fund alone approximated \$1.7 billion for fiscal 2004. As federal program expenditures are recorded, federal revenue should be recognized since these expenditures are considered reimbursable by the federal government. 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 dollar amount for a specific grant period. These grant periods are often for the federal fiscal year and are not aligned with the State's fiscal year. Expenditures could be recorded in a specific federal program account yet not be reimbursable from the federal government because grant funds have been exhausted.

The State currently relies on the linkage of federal accounts by CFDA number to report expenditures and revenue by federal program. We found that the State had approximately 170 federal accounts with omitted or inaccurate CFDA references within the general ledger. The failure to correctly link federal accounts by CFDA resulted in the misstatement of federal receivable and deferred revenue balances at June 30, 2004. Audit adjustments totaling \$12.7 million were recorded to correct these balances in the State's financial statements. Inadequate control procedures over the reporting of federal expenditures also impaired the State's ability to prepare the Schedule of Expenditures of Federal Awards.

Departments and agencies administering federal programs are responsible for monitoring expenditure amounts compared to grant awards and preparing federal reports detailing this information. Controls over financial reporting are not adequate at an overall statewide level to ensure that federal program expenditures recorded in the accounting system are consistent with amounts reported to the federal government and do not exceed federal grant awards.

The Office of Accounts and Control has a procedure in place where departments and agencies are required to submit an annual Federal Grants Information Schedule (FGIS) which is intended to reconcile federal program expenditures as reported to the federal government with amounts included in the state accounting system. Many departments and agencies do not comply with this procedure. Reconciliations submitted to the Office of Accounts and Control are not reviewed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Section II – Financial Statements Findings

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RECOMMENDATIONS

- 2004-9a      Ensure all departments and agencies administering federal programs funds complete Federal Grants Information Schedules on a timely basis after the close of the fiscal year. These schedules should then be reviewed as part of the preparation of annual financial statements to ensure federal program expenditures and revenues are consistent with grant awards and expenditures reported to the federal government.
- 2004-9b      Ensure that all federal accounts are linked to the appropriate CFDA reference within the general ledger to allow for accurate reporting of federal revenue and expenditures by program.

**Finding 2004-10**

ENCUMBRANCES

Generally accepted accounting principles require presentation of encumbrances outstanding as a reservation of fund balance on the financial statements of governmental funds or disclosure of such amounts in the notes to the financial statements. The RISAIL accounting system did not accurately report the balance of encumbrances outstanding at June 30, 2004 and consequently these balances were omitted from the financial statements.

During fiscal year 2004, the State attempted to disclose encumbrance amounts by accumulating unliquidated purchase order amounts at year-end. This resulted in an inaccurate reporting of encumbrances because the State had established purchase orders, in many instances, to facilitate payments to certain non-vendor type entities such as municipalities. In these instances, the outstanding purchase order amounts were not contractual commitments for goods or services. The process implemented by the State to accumulate encumbrance data did not include any analysis of the outstanding purchase orders to determine if they were still valid commitments at June 30, 2004.

RECOMMENDATION

- 2004-10      Ensure accurate data regarding outstanding encumbrances is provided by the RISAIL accounting system to allow preparation of financial statements in accordance with generally accepted accounting principles.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Section II – Financial Statements Findings

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**Finding 2004-11**

LIABILITY FOR COMPENSATED ABSENCES

Recognition of the liability for compensated absences (earned vacation, personal, and sick time credits) is recorded in the government-wide financial statements as required by generally accepted accounting principles. These amounts are derived from accrued vacation, personal and sick hours reported by the State's payroll accounting system. Not all agencies and departments of the State report earned and discharged compensated absences for inclusion in the State payroll accounting system. Approximately 1,500 employees are not reporting earned and discharged vacation, personal and sick pay credits within the payroll accounting system. Accordingly, the liability for compensated absences included in the government-wide financial statements for fiscal 2004 is understated by an undetermined amount.

RECOMMENDATION

- 2004-11      Require agencies and departments to report earned and discharged vacation, personal time, and sick hours through the State's payroll accounting system or devise a means to estimate the compensated absence liability for employees not included in the State payroll accounting system.

**Finding 2004-12**

ESCROW LIABILITY BALANCES

Various escrow liability accounts have been established within the State's General Fund to account for funds held on behalf of others and/or pending distribution. The total of all escrow liability balances at June 30, 2004 was \$73.6 million. Activity in these accounts (receipts and disbursements) exceeded \$2 billion during the fiscal year. Child support collections and payroll clearing accounts are included in this category. Routine review and reconciliation of these escrow liability accounts is not performed to ensure that such amounts are accurately and appropriately reflected in the general ledger.

We found the following inconsistencies during our audit of escrow liability balances:

- ❑ Many accounts had large unexplained debit balances rather than normally expected credit balances for escrow liability accounts – two accounts related to health care for retirees had debit balances totaling \$50.6 million;

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section II – Financial Statements Findings

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- ❑ An account intended to represent amounts pending disbursement to a health care insurance provider for retirees showed a credit balance of \$28 million;
- ❑ 28 payroll related accounts were inactive during the fiscal year which is inconsistent with the normal activity for payroll clearing accounts – typically funds are credited to an account after each payroll cycle and disbursed shortly thereafter;
- ❑ Bank fees approximating \$1.1 million were charged to an escrow liability account and were not recognized as expenditures in the General Fund; and
- ❑ Most of the accounts related to the receipt and disbursement of employee payroll costs reported balances that indicated inappropriate recording of receipts and/or disbursements during the fiscal year.

All escrow liability balances should be analyzed and reconciled to supporting information. New accounts should be established to segregate current operating activity from old unexplained variances. Activity in each liability account should be reviewed on a current basis to ensure receipts and disbursements are recorded appropriately. Balances accumulated for future settlement of various payroll related costs should be segregated from biweekly payroll activity.

### RECOMMENDATIONS

- |          |  |
|----------|--|
| 2004–12a | Analyze escrow liability balances and reconcile to supporting documentation. Activity in each liability account should be reviewed on a current basis to ensure receipts and disbursements are recorded appropriately. |
| 2004–12b | Establish new accounts to segregate current activity from old variances relating to prior fiscal years.  |
| 2004–12c | Establish additional accounts for amounts accumulated for future settlement of certain payroll related costs to segregate these amounts from current amounts owed to providers.  |

**Finding 2004-13**

### TAXATION – CONTROLS OVER ELECTRONIC FUNDS TRANSFER RECEIPTS

The majority of taxation collections (based on dollars) are received electronically. Funds are deposited automatically in the State’s bank account and an electronic file is transmitted to the Division of Taxation by the State’s bank which contains abbreviated tax payment data (taxpayer

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section II – Financial Statements Findings

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identification number, payment amount, tax type, tax period). This electronic file is in an open text file format which allows, rather than restricts, manipulation of data prior to recording in the Division of Taxation's computer systems.

Additionally, the Division of Taxation has not segregated certain duties regarding the processing of electronic funds transfer receipts. Select personnel are assigned responsibility for downloading the electronic file, reconciling the electronic file information to the amount recorded in the State's bank account, creating manual adjustments and ensuring that the information is uploaded properly to the taxation computer systems.

Optimally, the entire EFT process should be revised to the extent that the tasks of downloading and uploading payment detail files is re-assigned to the operations staff at the State Data Center. Upon uploading the payment files, error or exception reports would be created to highlight discrepancies requiring resolution or correction. This would provide an audit trail for any changes to EFT payment information.

### RECOMMENDATIONS

- |          |   |
|----------|---|
| 2004-13a | Segregate duties relative to the processing of electronic funds transfer tax receipts.  |
| 2004-13b | Request the electronic file be provided by the State's bank in a file format that prevents possible manipulation of tax payment data.   |
| 2004-13c | Reassign upload of EFT payment data to the operations staff at the State Data Center. Highlight discrepancies requiring resolution or correction through generation of error reports. |

### **Finding 2004-14**

#### RISAIL ACCESS CONTROLS

We found that access to the RISAIL accounting system was not sufficiently restricted during fiscal 2004. RISAIL system access is controlled through unique passwords and assigned system access roles. These roles, which are assigned based on job function and responsibility level, permit or limit access to various system capabilities. Access is further controlled by permitting only viewing of data or the actual entry or changing of system information.

We found that various individuals within the Department of Administration had either (1) system access that was in excess of what was required for their respective duties, or (2) have access provided through multiple access roles that create rather than restrict the opportunity for perpetrating or concealing errors or irregularities. Unique access roles are assigned to both the

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Section II – Financial Statements Findings

---

BuySpeed and Oracle components of the RISAIL accounting system. In general, roles that allow users to initiate, process, and approve disbursement transactions, modify vendor information, or adjust accounting records must be adequately controlled and duties should be segregated.

A review of all users' system access is necessary to ensure access is appropriate based upon assigned functions. In some instances, new roles may need to be established to better tailor access to an individual's assigned functions. For example, certain Treasury employees have accounts payable supervisor access in order to approve receipts transactions, however, this access also allows entry and approval of other transactions as well.

RECOMMENDATION

- 2004-14      Review the access of all RISAIL system users to ensure access is appropriate to their assigned functions and does not allow inappropriate access that results in control weaknesses.

**Finding 2004-15**

CONTROLS OVER TAXATION SYSTEMS

Controls over access and use of the State's taxation systems should be enhanced by the implementation of adequate identification, authentication and authorization mechanisms, linking users and resources with access rules. Such mechanisms should prevent unauthorized personnel from accessing computer resources. Procedures should also be in place to keep authentication and access mechanisms effective.

We noted the following weaknesses within the area of logical access controls:

- A written password policy does not exist dictating:
  - An initial password change on first use,
  - The minimum length and makeup of passwords (i.e. 8 alphanumeric/special characters), and
  - Encryption of stored passwords on the mainframe.
- Automatic logon denial and deactivation of accounts for users who attempted to logon past a maximum number of unsuccessful logon attempts (e.g., 3 or 6 attempts) does not exist.
- Automatic logoffs of users who have been inactive for a short period of time (e.g., 30 minutes) does not exist.
- The systems do not record audit trails of changes to system data elements.

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section II – Financial Statements Findings

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- Appropriate segregation of duties does not exist in the area of system security, as the security officers are system and password administrators, and supervisory programmers.

With the constraints found within both the current operating system and the version of COBOL used within the development of these systems, logical access controls considered to be industry standard “best practices”, cannot be easily applied to these legacy systems. A possible solution to this problem is to have these system modules go through an application program code migration, thus allowing all of the Taxation mainframe systems to operate under the MVS (Multiple Virtual Storage) component of the new IBM OS/390 operating system. These systems could then be protected by the extended security controls offered by the IBM’s Resource Access Control Facility (RACF) security package. Applying the appropriate security features found in RACF over these mainframe tax system modules would resolve many of the reported logical access control weaknesses.

The programming of the State’s taxation systems often require modification as objectives and conditions change over time. Program change controls involve controlling and managing changes to information systems to ensure the integrity of both data and programming logic. Controls over program changes within the State’s Taxation systems are not adequate to ensure that only authorized changes are made to the system’s programming logic.

### RECOMMENDATION

- |          |  |
|----------|--|
| 2004-15a | Enhance access controls over the State’s taxation systems by implementing formal standard best-practices and procedures. |
| 2004–15b | Implement program change control procedures for the State’s taxation systems.  |

### **Finding 2004-16**

#### CONTROLS OVER EMPLOYEE PAYROLL SYSTEM

Payroll data for the majority of State employees is entered via on-line access to the payroll system at the department or agency level. We reviewed the controls over data entry for the employee payroll system and found that established procedures now mandate the assignment of unique passwords for each user to control and restrict access to the system, however, the existing password control system does not record user identification information within the data files to identify individuals making specific file changes thereby providing a clear audit trail. System access controls need to be improved by utilizing the user identification to track all transactions

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section II – Financial Statements Findings

---

initiated by an individual user. Management may decide to identify key data fields to track transactions by specific user identification.

Controls over access and use of the State's payroll system should be enhanced by the implementation of adequate identification, authentication and authorization mechanisms, linking users and resources with access rules. Such mechanisms should prevent unauthorized personnel from accessing computer resources. Procedures should also be in place to keep authentication and access mechanisms effective. The same migration to a more current operating system described in Finding 2004-15 could address similar password access control weaknesses noted for the payroll accounting system.

Programming of the employee payroll system often requires modification as objectives and conditions change over time. Program change controls involve controlling and managing changes to information systems to ensure the integrity of both the data and programming logic. Controls over program changes within the employee payroll system are not adequate to ensure that only authorized changes are made to the system's programming logic.

### RECOMMENDATIONS

- |          |   |
|----------|---|
| 2004-16a | Capture and maintain the employee's unique user identification password within the transaction file to specifically identify transactions by individual user. |
| 2004-16b | Enhance access controls over the State's payroll accounting systems by implementing formal standard best-practices and procedures.                            |
| 2004-16c | Implement program change control procedures for the employee payroll system.  |

### **Finding 2004-17**

#### COMPREHENSIVE DISASTER RECOVERY / BUSINESS CONTINUITY PLAN

The Division of Information Technology (DoIT) does not have a formal written disaster recovery/business continuity plan for all computer applications utilizing the Information Technology Operations Center (ITOC) located in Johnston, as well as its operations located at One Capitol Hill in Providence. Key computer applications utilizing ITOC include the State's centralized accounting, tax collection, and employee payroll systems. Such a plan should be designed to allow the continuation of essential data processing and support functions in the event existing data processing facilities are destroyed, impaired or unavailable. Without a formal plan, the State's ability to re-establish key computer applications in a timely manner may be compromised.



SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Section II – Financial Statements Findings

---

RECOMMENDATION

2004-17      Develop a formal written disaster recovery/business continuity plan for the Information Technology Operations Center and operations at One Capitol Hill.

**Finding 2004-18**

COMPREHENSIVE INFORMATION SYSTEMS SECURITY POLICIES AND PROCEDURES

The Division of Information Technology (DoIT) has been charged with the safe and secure operation of the Department of Administration's (DOA) mission critical automated systems (i.e. Statewide Accounting, Personnel, Payroll, Taxation, Division of Motor Vehicles, etc.). The information contained within these systems, is now accessible through either departmental or statewide networks. As the State opens these systems to greater user interaction, there exists the possibility that access security is compromised, thereby exposing the State to losses and other risks.

The State has not developed a comprehensive documented information systems security plan designed to address all of the security risks specific to any of the mission critical DOA applications.

Security procedures in the past were largely confined to application specific measures. Comprehensive security procedures must include the various ways which access to an application is obtained including Local Area Networks (LAN's), Wide Area Networks (WAN's), and individual workstations, as well as, the control over specific applications.

The oversight and management of DOA's information security program relies upon the development and implementation of a standardized, formal, comprehensive information systems security plan. The information systems security plan should consist of detailed policies, procedures, standards, and guidelines that are designed to safeguard all of the information contained within the agency specific systems. The plan must be comprehensive in its coverage of all security issues and reflect the security needs of the specific agency and its applications.

Further, to be successful, the plan must be designed with the correct mix of technological and non-technological safeguards. These safeguards should be installed to achieve an acceptable level of protection, while not impeding daily business operations. We believe the plan should be formulated and developed utilizing recognized industry standards (i.e., Federal Information Systems Controls Audit Manual – "FISCAM", National Institute of Standards and Technology

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section II – Financial Statements Findings

---

(NIST) and Information Systems Audit and Control Association (ISACA) – COBIT Model) governing controls and security of automated systems.

### RECOMMENDATIONS

- 2004-18a      Develop and implement a formal information system security plan including policies, procedures, and standards to control and monitor the State's information systems.
- 2004-18b      Appoint an individual or individuals to monitor and maintain the plan. This individual should report directly to DOA upper management.

### **Finding 2004-19**

#### FINANCIAL REPORTING – INTERMODAL SURFACE TRANSPORTATION EFFICIENCY ACT (ISTEA) FUND

Controls over financial reporting for the Intermodal Surface Transportation Efficiency Act (ISTEA) Fund are deficient and need to be improved to ensure consistent and accurate reporting of ISTEA Fund activity. The ISTEA Fund has been established as a special revenue fund to account for federal/state highway projects. Federal revenues, bond proceeds for highway projects, and amounts collected from the state gasoline tax are used to support specific transportation related activities of the State including the highway construction program.

Financial statements for the ISTEA Fund are prepared with information included within the State's accounting system and information provided by the Department of Transportation's internal records and systems. Both sources of information are not complete on their own, and extensive work is required each year to assemble and reconcile the various pieces of information needed to prepare the financial statements. Most of the account balances included in the June 30, 2004 financial statements required significant audit adjustment. For example, our audit disclosed that accounts payable were initially overstated by \$16 million and amounts due from the federal government were overstated by \$15 million.

Internal controls necessary to ensure the proper accounting and reporting of Intermodal Surface Transportation Efficiency Act (ISTEA) Fund accounts payable and the related impact on the Fund's expenditures, federal receivable and revenue were not in place and operating effectively during fiscal year 2004. As a result, our opinion on the ISTEA Fund's financial statements was qualified with respect to these balances. In addition, controls are not adequate to ensure that ISTEA Fund revenues and other financing sources are accurately and consistently identified and recorded to allow preparation of financial statements in accordance with generally accepted accounting principles.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section II – Financial Statements Findings

---

Because of the inadequacy of the fund's accounting records, insufficient information exists to allow effective and timely monitoring of financial operations during the fiscal year and to provide a basis for an expectation of operating results for the fiscal year. This lack of relevant information compromises the preparation of financial statements in conformance with generally accepted accounting principles.

#### Accounts Payable

We noted the following errors in the Department of Transportation's accounts payable and related balances due to the lack of adequate internal controls.

- ❑ Detailed accounts payable listings contained vendor invoices duplicated on more than one listing, invoices previously paid during the fiscal year and vendor invoices relating to other funds (i.e., Bond Capital Fund and Garvee Fund).
- ❑ General ledger journal entries differed from the summarized transaction level data.
- ❑ Journal entries correcting previously booked accrual entries utilized different accounts than the initial entries which complicates assessing the validity of recorded amounts and determining needed corrections.
- ❑ Various categories of accounts payable were overstated because the balance included the long-term portion of payables rather than just the current portion of the balance as required by generally accepted accounting principles.
- ❑ Accounts payable listings did not include a project reference and or the accounts charged thereby allowing appropriate revenue recognition based on the cost sharing (e.g., federal and state) ratio applicable to a specific project. Accordingly, the federal receivable balance related to these payables, while readily available, was estimated. DOT did not accumulate documentation to support its estimate.
- ❑ Approximately \$5 million of expenditures paid to vendors between July and September, which represented valid accounts payable of the ISTEA Fund, were excluded from the Department of Transportation's payable listings.

#### Due from the Federal Government

During fiscal 2004, controls over amounts due from the federal government, which are manually compiled from a variety of sources, continued to require improvement. Amounts due from the federal government for the Highway Planning and Construction Program represent the federal share of program expenditures incurred pending federal reimbursement. These amounts include not only current projects but also substantial amounts relating to prior projects. Amounts due for prior projects are principally categorized by RIDOT as "earned but unbilled". This means that a valid receivable exists but funds have not been drawn either because project modifications are pending federal approval or because RIDOT has chosen to use its allocation of federal funds for new projects instead. RIDOT believes these "earned but unbilled" amounts are a necessary consequence of making the most effective use of federal highway authorizations for the State's highway construction program.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section II – Financial Statements Findings

---

“Earned but unbilled” amounts (which totaled \$10.6 million at June 30, 2004) are not controlled within the state accounting system but instead are reported at fiscal year end by RIDOT to the Office of Accounts and Control. Based on previous history, these amounts will not be fully collected within the next fiscal year. Therefore, an allowance must be established for financial reporting purposes to estimate the amount that is unavailable (the amount that will not be collected within one fiscal year after the balance sheet date). Of the \$10.6 million, \$4.2 million is estimated as likely to be collected within the next year, and \$6.4 million is considered unavailable. The balance of “earned but unbilled” that remains uncollected rolls forward from one fiscal year to another.

The current process to account for these amounts weakens overall control over financial reporting for the ISTEAFund. Federal funds should be drawn for all amounts due from the federal government as soon as all federal requirements have been met (e.g. federal project approval). Failure to collect these amounts due from the federal government for extended periods of time puts the State at a substantial disadvantage.

Amounts due from the federal government are also impacted by the distribution of allocated costs to specific project accounts – allocation of certain components (e.g., vehicles) of these costs was not current at June 30, 2004.

#### Accounts Receivable – Third Parties

The Department of Transportation recorded \$3.4 million as due from third parties at June 30, 2004. These accounts receivable arise from expenditures incurred by RIDOT on behalf of quasi-public agencies, municipalities and neighboring states, and are accumulated in a designated account within the ISTEAFund. As of April 2005 RIDOT had not billed these responsible third parties for amounts owed. We were informed that a significant portion of this balance had been referred to legal counsel for collection, and that in fact this third party accounts receivable could be significantly higher. These unbilled expenditures have been accumulating for the past three fiscal years.

#### Operating Transfers and Fund Balance

ISTEAFund expenditures are funded through three primary sources – federal funds, gas tax collections and bond proceeds. Federal revenue is recorded only to the extent valid federally reimbursable expenditures have been incurred. Gas tax revenues and amounts transferred from the Bond Capital fund are recorded independently of the incurrence of project expenditures funded by these sources. Consequently, any amounts received in excess of actual project expenditures are reflected as fund balance. Bond proceeds transferred from the Bond Capital fund have specific restrictions regarding their use and accordingly the unspent portion of bond proceeds held in the ISTEAFund should be readily identifiable.

Fund balance within the ISTEAFund cannot be distinguished as to source of funds. Amounts transferred from the Bond Capital Fund are done in lump sum and are not made in

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section II – Financial Statements Findings

---

amounts intended to represent the share of project expenditures attributable to that funding source. During fiscal year 2004 transfers from the Bond Capital Fund to the ISTEAFund were approximately \$39.5 million (compared to \$20.5 million in fiscal 2003). Transfers of \$9.6 million were made in September 2003 with the remaining \$29.9 million being transferred in June 2004; since no correlation exists between project costs funded with bond proceeds and transfers from the Bond Capital Fund, an accurate financial position of the ISTEAFund, during the fiscal year by funding source, is not determinable.

The share of project costs to be funded through bond funds should be tracked similar to the federal share of project costs and only that amount should be transferred to the ISTEAFund as valid project expenditures are incurred. Transfers from the Bond Capital Fund should be made at designated time intervals (e.g., monthly) and should be equal to the actual share of project costs to be funded with bond proceeds. If this change were implemented, any fund balance remaining in the ISTEAFund could be attributable to gas tax proceeds and plans for its use could be made in consideration of applicable restrictions.

### Other Issues Impacting Financial Reporting

Our audit of the ISTEAFund also disclosed the following:

- ❑ The ISTEAFund also accounts for federal revenues and expenditures related to certain other federal programs. These programs include the Federal Transit Cluster, State and Community Highway Safety Cluster and other smaller programs. However, the amount of expenditures by federal funding source is incorrectly identified in the State accounting system (e.g., appropriation accounts are not linked to the correct Catalog of Federal Domestic Assistance (CFDA) number and clearing accounts are reflected entirely as Federal expenditures). As a result, amounts reported in the financial statements by federal program could be materially misstated.
- ❑ ISTEAFund encumbrances are not accurately reflected in the RISAIL accounting system. Consequently, encumbrance information, which is required to be disclosed in accordance with generally accepted accounting principles, was omitted from the financial statements.

RIDOT has a new financial reporting system that has been in development for over six years. RIDOT personnel have informed us that the system should be operational as of September 2005. The system is intended to manage the federal state highway program including providing essential information necessary for financial reporting.

### RECOMMENDATIONS

- 2004-19a      Establish internal control procedures to accurately identify and record accounts payable. Identify applicable funding source or cost sharing ratio for each payable.

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section II – Financial Statements Findings

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| 2004-19b | Collect all amounts due from the federal government in reimbursement of highway project expenditures as soon as all federal requirements have been met. |
| 2004-19c | Quantify expenditures attributable to third parties and initiate billings and amounts owed.   |
| 2004-19d | Transfer amounts from the Bond Capital Fund equal to the actual share of project costs to be funded from bond proceeds.                                 |
| 2004-19e | Segregate fund balance within the ISTEA fund based upon source of funds.  |
| 2004-19f | Ensure all federal funding sources (e.g., CFDA #) are correctly identified in the accounting system.  |
| 2004-19g | Accumulate detailed encumbrance data within the accounting system for financial reporting purposes.   |
| 2004-19h | Implement the new RIDOT financial reporting system to improve controls over financial reporting.  |

### **Finding 2004-20**

#### CONTROLS OVER THE IDENTIFICATION AND RECORDING OF YEAR-END ACCRUALS

The State has implemented statewide fiscal closing procedures designed to allow the State's accounting system to accurately report accounts receivable and payable balances at year-end. These procedures require agencies to record all transactions (deposits and payment documents) relating to a fiscal year by a specified closing date. In addition, agencies must submit payment documents with an "effective date" equal to the fiscal year-end date in order for that transaction to be accrued as a liability at year-end. In addition, agencies also have the option of reporting receivables and payables directly to the Office of Accounts and Control using certain standard forms and procedures. Failure to use the correct "effective date" or to submit transactions or required forms by the designated closing date will result in transactions not being properly recorded (accrued) in the correct fiscal year.

We conducted audit procedures to identify unrecorded revenues and expenditures to evaluate whether these transactions were reported in the appropriate fiscal period. We found that the State's control procedures, as described above, are not operating effectively to ensure the

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section II – Financial Statements Findings

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recording of accruals at year-end. We identified unrecorded payables totaling in excess of \$7 million during our audit. Audit adjustments were subsequently recorded to reflect these transactions within the State's financial statements.

Additionally, we noted unrecorded revenue and accounts receivable relating to the internal service funds totaling in excess of \$3.7 million. Management opted not to record proposed audit adjustments for these omissions, resulting in Internal Service Funds reporting a loss of \$3.8 million from operations. This reported loss results mostly due to the recording of Internal Service fund expenditures without the corresponding revenue from billings to other funds.

Controls should be improved to ensure that significant accounting transactions are accurately accrued at year-end.

### RECOMMENDATION

2004-20      Evaluate controls in place to identify and record accrual transactions at year-end.

## **Finding 2004-21**

### INDIRECT COST RECOVERY

Rhode Island General Law section 35-4-37 requires "7% of cash receipts be transferred from all restricted receipts accounts, to be recorded as general revenue". The General Law also cites specific types of accounts (contributions from charitable organizations, unless prohibited by federal law or regulation, court order, or settlement) that should be excluded from the transfer of cash receipts and additionally lists specific appropriation accounts to be excluded. The General Law has not been recently updated for additional restricted receipt accounts excluded from cost recovery mandates. In addition, the State's controls to ensure compliance with the General Law were determined to be ineffective.

We found that the State does not maintain an accurate list of restricted receipt accounts to exclude from indirect cost recovery. Eighty-seven (87) restricted receipt accounts (accounting for 46% of the total number of restricted receipt accounts within the State accounting system) were excluded from indirect cost recovery without supporting documentation for the exclusion. Further inquiry relating to these accounts resulted in documentation being obtained to support exclusion for 40 of the 87 accounts identified. The remaining 37 accounts were determined to be subject to 7% cost recovery, resulting in additional general revenue of \$549,966. This amount was subsequently recorded in the State's financial statements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Section II – Financial Statements Findings

---

The Office of Accounts and Control should improve controls over the identification of restricted receipt accounts subject to 7% cost recovery provisions to ensure compliance with General Laws.

RECOMMENDATIONS

- 2004-21a      Improve controls to ensure compliance with 7% cost recovery provisions for restricted receipt accounts as mandated by RI General Laws.
- 2004-21b      Seek specific statutory exemptions for accounts not intended to be included under indirect cost recovery mandates.

**Finding 2004-22**

LOTTERY GAMING SYSTEMS – LOGICAL ACCESS SECURITY

Logical access security to the computer systems used to operate the Lottery's games should be improved by (1) fully utilizing certain designed functions of the systems, (2) strengthening other system security aspects, and (3) implementing a comprehensive plan for computer systems that includes delegating certain aspects of security to the Lottery and monitoring by the Lottery of the overall system security function. As of June 30, 2004, the Lottery has implemented a formal comprehensive security plan, however, material compliance by the Lottery's gaming system provider has not yet been achieved. Material compliance with the Lottery's comprehensive security plan is vital to ensuring that access to the computer systems used to operate the Lottery's games is appropriately restricted to authorized individuals and any unauthorized access is detected by the Lottery on a timely basis with appropriate follow-up.

RECOMMENDATION

- 2004-22      Ensure material compliance with established comprehensive security policies and procedures to effectively manage and control access to the computer systems used to operate the Lottery's games.

**Finding 2004-23**

PREPARE TIMELY BANK RECONCILIATIONS – EMPLOYEES' RETIREMENT SYSTEM

Monthly bank reconciliations were not performed timely for the Employees' Retirement System of the State of Rhode Island (ERSRI) bank accounts during fiscal 2004. June 30, 2004 balances were not completely reconciled until April 2005. Timely bank reconciliations are an integral component of internal control over the recording of receipts and disbursements.



## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section II – Financial Statements Findings

---

Consequently, controls over receipts and disbursements were severely weakened during fiscal 2004.

Individuals performing the reconciliation of the ERSRI bank accounts need access to, and be trained in using, the ERSRI general ledger accounting system. Additionally, various issues relating to how receipts are batched for deposit and entered into the accounting system need to be addressed to facilitate timely bank reconciliations.

#### RECOMMENDATIONS

- 2004-23a      Reconcile all ERSRI bank accounts to the general ledger on a timely basis.
  
- 2004-23b      Grant appropriate access to the ERSRI accounting system for staff performing monthly bank reconciliations and train staff to use the accounting system.
  
- 2004-23c      Re-examine the processes used to batch and record cash receipts to facilitate timely bank reconciliations.

### **Finding 2004-24**

#### IMPROVE CONTROLS OVER FINANCIAL REPORTING – EMPLOYEES RETIREMENT SYSTEM

ERSRI's process for preparing financial statements is deficient. Information needed to prepare financial statements is not readily available and, in some cases, requires extensive analysis and correction. Personnel resources are insufficient to allow timely posting and monitoring of accounting data during the year. Draft financial statements were not available for audit until ten months after the close of the fiscal year. There is no timely and consistent management oversight of accounting data to ensure adherence to controls over financial reporting and to ensure data reported by the accounting system is accurate and consistent with normally expected results.

#### *Refine the Accounting System to Meet ERSRI's Financial Reporting Needs*

ERSRI implemented a new accounting system, known as ANCHOR, during fiscal 2002 which was designed to meet both its operational and financial reporting needs. During fiscal 2004 most functions of the system become fully operational, however, in certain instances the system is not currently meeting the financial reporting needs of ERSRI. Balances reported by the system, most notably for contributions and contributions receivable, require significant analysis and adjustment to yield amounts that are appropriate for financial statements prepared in accordance with generally accepted accounting principles.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section II – Financial Statements Findings

---

Certain of these issues involve how the system was programmed to meet various operational objectives. At times, these operational objectives, in their current form, are inconsistent with financial reporting objectives. For example, contributions received will remain as deferred revenue until the detail contribution data passes edit checks allowing the data to post to the contribution data base. From a financial reporting perspective the contributions have been “earned” and should be reflected as revenue in the general ledger. Similarly, the State’s matching contribution for teachers is not recorded until all contribution data has passed 100% of the system edits. For financial reporting purposes, revenue should be recognized as contributions to the system are due based upon employer payroll activity.

ERSRI should review each of the major transaction types and assess how the Anchor and general ledger accounting systems handle the transactions and whether the data is consistent with financial reporting objectives. When the operational and financial reporting objectives are not consistent, ERSRI should explore options to make them consistent or develop specific data sources to meet financial reporting needs.

#### RECOMMENDATION

2004-24a      Identify ANCHOR processes that are not consistent with financial reporting objectives. When inconsistencies are found, explore options to make them consistent or develop specific data sources to meet financial reporting needs

#### *Adopt a Standard Closing Process and Schedule*

ERSRI has not adopted a formalized closing process which should detail required closing journal entries to be prepared at the end of each month and end of the fiscal year. The standard closing process should be included in an accounting manual detailing the following information and processes:

- ❑ Data accumulation and analysis required to prepare the journal entries;
- ❑ Expected transaction flows, balances and relationships for specific accounts;
- ❑ Required journal entries including sample entries detailing specific accounts;
- ❑ Sources of data for each standard journal entry (e.g., external sources, Anchor reports, database queries, etc.);
- ❑ Frequency of posting the journal entries (e.g., annually, monthly);
- ❑ Accounting personnel responsible for preparing and approving the journal entries;
- ❑ Schedule for completion of the journal entries and closing process; and

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Section II – Financial Statements Findings

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- Required reconciliations to subsidiary detail or external data sources for certain account balances.

RECOMMENDATION

- 2004-24b      Develop an accounting manual detailing a formalized closing process including sample journal entries, data sources for the journal entries, and responsibility for initiating and approving closing entries.

*Ensure Resources are Adequate to Allow Accounting Functions to be Performed Timely and Implement Effective Oversight of the Accounting and Financial Reporting Functions*

During fiscal 2004 and through the time of our audit, ERSRI had insufficient personnel devoted to accounting functions. A key position, Assistant Director - Finance, was vacant for nearly a year. Consequently, numerous accounting functions were not performed timely and there was limited oversight of accounting and financial reporting functions. The Executive Director became directly responsible for posting journal entries and preparing the draft financial statements. The lack of accounting resources contributed to the delay in preparing financial statements and severely weakened controls over financial reporting.

RECOMMENDATION

- 2004-24c      Reassess existing accounting resources with the goal of ensuring that all key accounting and financial reporting functions can be accomplished within a reasonable time frame. Ensure adequate accounting resources exist to monitor control procedures and provide oversight of key accounting and financial reporting functions.

**Finding 2004-25**

IMPLEMENT RECONCILIATION CONTROLS OVER THE ANCHOR AND GENERAL LEDGER ACCOUNTING SYSTEMS – EMPLOYEES RETIREMENT SYSTEM

The ANCHOR system was designed to include a daily reconciliation function between data contained within the ANCHOR system and data contained within the PeopleSoft general ledger which is used for financial reporting purposes. The purpose of the reconciliation function is to ensure that the data contained within each system is fully synchronized. If variances do occur, the daily reconciliation process allows prompt investigation and correction. Although part of the system design, this function has never been fully operational.

We determined that there were no current operational procedures in place mandating that this reconciliation procedure detailed above, or any other type of reconciliation, be performed on

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section II – Financial Statements Findings

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a daily or ‘as required’ basis. This reconciliation process had not been performed, on any type of scheduled basis, since some point back in calendar year 2002.

In early 2003, the ERSRI commissioned a consultant to perform a review of the reconciliation process to determine if “any additional totals, reports processes or steps are needed to make the procedure more user friendly, complete and comprehensive”. Another objective of this review called for this report to provide recommendations for improvement to these procedures.

The consultant recommended creation of new automated procedures that would electronically match both detail and summary data and, as required, generate “out of balance” reports listing detail and summary amounts that do not ‘match’ between the two systems. ERSRI personnel indicated there had been an initial review of this study but no definitive corrective action has been taken. Recently, ERSRI, working with its systems consultant, started to revisit this area of concern.

Daily reconciliation between the Anchor and PeopleSoft components of the ERSRI accounting system is a critical control feature. Failure to perform this reconciliation is a weakness in control over financial reporting.

### RECOMMENDATIONS

- 2004-25a Determine the current validity of the consultant’s findings and recommendations relative to the reconciliation function between the ANCHOR and PeopleSoft components of the ERSRI accounting system.
- 2004-25b Implement procedures to perform a daily automated reconciliation function between the ANCHOR and PeopleSoft components of the ERSRI accounting system.

### **Finding 2004-26**

#### IMPROVE CONTROLS OVER DATA ENTRY TO ENSURE CORRECT POSTING OF DATA TO EMPLOYER ACCOUNTS – EMPLOYEES RETIREMENT SYSTEM

During fiscal years 2002, 2003, and 2004 data entry errors occurred which resulted in incorrect postings of contribution data to employer accounts. Because the system did not permit correction of this type of error, offline manual records of contributions by employer were maintained to supplement system generated data. Data contained within the system that is known to be inaccurate thereby necessitating offline records is problematic and compromises the reliability of all system reported data. These errors impact the accurate reporting of contributions and contributions receivable by employer unit.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section II – Financial Statements Findings

---

Additional training and controls need to be implemented over the data entry process to ensure that data is correctly entered in to the system. When errors do occur, the system should allow, with appropriate controls, for correction of the erroneous data. ERSRI has requested that its system consultant modify the system to allow for correction of data entry errors.

#### RECOMMENDATIONS

- 2004-26a      Implement additional training as needed to reduce data entry errors for employer contributions. Enhance controls over data entry to limit the opportunity for error.
- 2004-26b      Accelerate implementation of the system modification that will allow for correction of errors to employer contribution accounts.

#### **Finding 2004-27**

##### FISCAL AGENT OVERSIGHT – MEDICAL ASSISTANCE PROGRAM

As described in Finding 2004-77 (Section III – Federal Award Findings and Questioned Costs), the Department of Human Services' oversight of its fiscal agent designated to pay Medical Assistance program claims was not adequate to assure the reliability of data reported by the Medicaid Management Information System (MMIS). Financial monitoring is necessary to ensure that effective controls are in place over program disbursements, and that financial data is being accurately reported for presentation in the State's financial statements and federal reports. Financial monitoring procedures have not been fully developed, and responsibility for financial monitoring has not been centralized or well coordinated.

#### **Finding 2004-28**

##### AUTOMATED DATA PROCESSING (ADP) RISK ANALYSIS AND SYSTEM SECURITY REVIEW

As described in Finding 2004-71 (Section III – Federal Award Findings and Questioned Costs), federal regulations mandate that States are responsible for the security of all ADP operational systems involved in the administration of HHS programs. State agencies are required to determine appropriate ADP security requirements based on recognized industry standards governing security of ADP systems and information processing. DHS utilizes two primary systems, INRHODES and Medicaid Management Information System (MMIS), to administer HHS federal programs. Benefit payments disbursed from these two systems during fiscal 2004 totaled over \$1.6 billion. DHS has not adequately documented the existence and effectiveness of key system controls within these systems. Additionally, the department has not

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section II – Financial Statements Findings

---

tested controls relating to system access, application software development and modification, service continuity, and incident response. DHS should develop a comprehensive ADP risk analysis and system security review process to ensure a coordinated approach to identifying and addressing security risks related to information systems used to administer federal programs.

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

**Table of Findings by Federal Program**

<u>Program Title</u>	<u>CFDA Number</u>	<u>Applicable Findings</u>
Food Donation	10.550	04-31
Food Stamp Cluster:		
Food Stamps	10.551	04-30
State Administrative Matching Grants for Food Stamp Program	10.561	04-29, 04-30
Child Nutrition Cluster:		
School Breakfast Program	10.553	04-29, 04-31
National School Lunch Program	10.555	04-29, 04-31
Special Milk Program for Children	10.556	04-29
Summer Food Service Program for Children	10.559	04-29, 04-31
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	04-29, 04-30, 04-32, 04-33, 04-34
Public Works and Economic Development Cluster:		
Economic Adjustment Assistance	11.307	04-35, 04-36
Mortgage Insurance – Homes	14.117	
Section 8 Project Based Cluster:		
Section 8 New Construction and Substantial Rehabilitation	14.182	
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	
Home Equity Conversion Mortgages	14.183	
Section 8 Housing Choice Vouchers	14.871	04-37
Unemployment Insurance	17.225	04-29, 04-30, 04-38
WIA Cluster:		
WIA Adult Program	17.258	04-29, 04-39
WIA Youth Activities	17.259	04-29, 04-39
WIA Dislocated Workers	17.260	04-29, 04-39
Airport Improvement Program	20.106	
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	04-29, 04-40, 04-41
Federal Transit Cluster:		
Federal Transit – Formula Grants	20.507	04-29, 04-42
Freight Rail Improvement Project	None	04-29, 04-43
Jobs and Growth Tax Relief Reconciliation Act	21.999	
Capitalization Grants for Clean Water State Revolving Funds	66.458	
Capitalization Grants for Drinking Water State Revolving Funds	66.468	04-44, 04-45
Student Financial Assistance Cluster:		
Federal Supplemental Educational Opportunity Grants	84.007	
Federal Family Education Loans	84.032	
Federal Work-Study Program	84.033	
Federal Perkins Loan Program – Federal Capital Contributions	84.038	04-48, 04-49
Federal Pell Grant Program	84.063	04-50, 04-51
Federal Direct Student Loans	84.268	04-49, 04-50, 04-52

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

Program Title	CFDA Number	Applicable Findings
Student Financial Assistance Cluster: (continued)		
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	
Nursing Student Loans	93.364	
Title I Grants to Local Educational Agencies	84.010	04-29, 04-46
Special Education Cluster:		
Special Education – Grants to States	84.027	04-29, 04-46, 04-47
Special Education – Preschool Grants	84.173	04-29, 04-46, 04-47
Federal Family Education Loans (Guaranty Agency)	84.032	
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	04-29, 04-30
Improving Teacher Quality State Grants	84.367	04-29, 04-46
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	04-29, 04-53, 04-54, 04-55
Temporary Assistance for Needy Families	93.558	04-29, 04-56, 04-57, 04-58, 04-59, 04-71
Child Support Enforcement	93.563	04-29, 04-30, 04-60, 04-61, 04-62, 04-63, 04-71
Low-Income Home Energy Assistance	93.568	04-29, 04-64, 04-65, 04-66, 04-67
CCDF Cluster:		
Child Care and Development Block Grant	93.575	04-29, 04-58, 04-59, 04-68, 04-71
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	04-29, 04-58, 04-59, 04-68, 04-71
Foster Care – Title IV-E	93.658	04-29, 04-30, 04-69, 04-70
State Children's Insurance Program	93.767	04-29, 04-71, 04-72, 04-73, 04-74
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	04-29
State Survey and Certification of Health Care Providers and Suppliers	93.777	04-29
Medical Assistance Program	93.778	04-29, 04-56, 04-71, 04-74, 04-75, 04-76, 04-77, 04-78, 04-79, 04-80, 04-81, 04-82, 04-83, 04-84, 04-85
Block Grants for Prevention and Treatment of Substance Abuse	93.959	04-29, 04-86
State Domestic Preparedness Equipment Support Program	97.004	04-29, 04-87, 04-88, 04-89, 04-90, 04-91
Research and Development Cluster	Various	04-92



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

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**Finding 2004-29**

VARIOUS PROGRAMS – refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

CASH MANAGEMENT

The State did not have adequate controls to ensure compliance with federal cash management requirements in drawing cash for federal programs.

The State is required to draw cash for federal programs in accordance with the federal Cash Management Improvement Act (Act) and related regulations at 31 CFR Part 205. For most large federal programs, the State is required to follow the specific provisions of an agreement entered into by the State and the US Treasury pursuant to the Act and related regulations. In the event the State does not comply with the provisions of the Treasury/State agreement in drawing cash for federal programs, it must pay interest for the period the funds were on hand prior to disbursement. For federal programs not included in the agreement, the State is required to minimize the time elapsing between the transfer of funds from the US Treasury and their disbursement, generally considered to be no more than a three-day supply of cash on hand.

The State has developed web-based cash management screens as part of its accounting system to provide information enabling departments and agencies to draw federal funds in compliance with the Treasury/State agreement. Cash management screens are designed to calculate daily Federal drawdown amounts based on clearance patterns specified in the agreement, and expenditures processed through the State accounting system. We noted the following internal control weaknesses relating to the operation of the web-based cash management system:

- ❑ Web-based cash management screens were incomplete or included incorrect information for some federal programs.
- ❑ Not all expenditure transactions, including adjustments, were posted in a timely manner which impacts the timing and amount of federal drawdowns and subsequent interest calculations.
- ❑ Various federal accounts were linked to incorrect or invalid Catalog of Federal Domestic Assistance numbers, thus affecting the accuracy of cash drawdown screens.

Each department is responsible for drawing federal funds for the programs it manages. The following is a summary of major programs administered by the primary government:

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

---

Major programs administered by the primary government	23
# of programs included in the Treasury/State agreement	17
# of programs with material non-compliance with cash management compliance requirements – State Domestic Preparedness Equipment Support Program – CFDA 97.004	1
# of programs that did not adhere to appropriate funding technique outlined in the Treasury/State Agreement	14

In most instances where the techniques specified in the agreement were not consistently followed, funds were generally drawn later than permitted.

Since the State does not have procedures to centrally administer or monitor compliance with federal cash management requirements, various internal control deficiencies relating to cash management were also noted at the department level. Centralized monitoring controls are necessary to ensure compliance with the Treasury/State agreement and CMIA requirements.

RECOMMENDATION

2004-29a      Implement a centralized monitoring system and strengthen controls over draw down procedures to ensure department compliance with the Treasury/State agreement and CMIA requirements.

An interest liability exists when either the State utilizes its own funds for federal program purposes prior to Federal funds being transferred to a State account, or when Federal funds reside in a State account prior to being spent for Federal program purposes. Federal regulations require that the State calculate the Federal and State interest liabilities for each Federal assistance program included in the Treasury/State agreement, and maintain records supporting these interest calculations for audit purposes. The state's interest liability is reported to the federal government on the Annual Report. Although the report was filed in accordance with federal regulations, in a timely manner with the payment for interest due, our review disclosed various inconsistencies in the report data used to compile interest liabilities for the major programs.

- ❑ One major program tested in fiscal year 2004 noted a significant positive balance which was present for approximately one month. This program was not included in the CMIA agreement and therefore an interest liability on the excess funds was not calculated. See Finding 2004-87.
- ❑ Average daily balance calculations from state accounting system data did not accurately reflect certain major program balances. For example based on the calculations derived from report data, the Temporary Assistance for Needy Families (TANF) program appeared to have a significant positive average daily cash balance for fiscal year 2004. Based on this information an interest liability was calculated and remitted to the federal government. However, as part of the individual major program audit we determined there was a significant timing lag that existed from when Treasury posted receipt

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

---

vouchers for drawdowns versus when the program expenditures were posted to the state accounting system. This created the appearance of significant amounts of excess cash when none actually existed.

We also noted that for several major programs the fiscal year 2004 Treasury/State agreement reflected inappropriate funding techniques. For example the estimated check clearance technique is listed as the basis for drawing federal funds for payments to local education agencies under the Title I and Special Education programs while the payments are actually made via wire transfer or ACH. These payments would qualify for actual clearance thereby allowing simultaneous draws of cash to coincide with the payment. Federal regulations require that the State notify the Federal Department of the Treasury if a Federal assistance program undergoes operational changes that may affect clearance activity. We note that these techniques have been updated in the State fiscal 2005 Treasury/State agreement.

Questioned Costs: None

#### RECOMMENDATIONS

- 2004-29b      Strengthen procedures to ensure that all interest liability calculations are performed and based on correct program information as required by Federal regulations.
- 2004-29c      Continue to review the basis for requesting Federal funds (i.e., funding techniques) for applicable Federal assistance programs, and modify the Treasury/State agreement to more accurately match funding techniques to current practices.

### **Finding 2004-30**

VARIOUS PROGRAMS – refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

#### MANAGEMENT OF EQUIPMENT ACQUIRED WITH FEDERAL FUNDS

As described in Finding 2004-6 (Section II – Financial Statement Findings), accounting controls were not adequate during fiscal 2004 to ensure that the acquisition and disposal of capital assets was accurately recorded within the accounting system. Additionally, insufficient inventories were performed to ensure the completeness of furniture and equipment, computer systems and building improvements in the initial recording of capital assets acquired in previous fiscal years.

Because of the weaknesses in controls over capital assets, we were unable to test the State's compliance with the equipment management requirement. In most instances, individual

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

---

departments or agencies vested with responsibility for administering federal programs also lacked controls to ensure compliance with these requirements.

Questioned Costs: None

**Finding 2004-31**

FOOD DONATION – CFDA 10.550

Administered by: Department of Corrections – State Warehouse

CHILD NUTRITION CLUSTER:

School Breakfast Program – CFDA 10.553

National School Lunch Program – CFDA 10.555

Summer Food Service Program for Children– CFDA 10.559

Administered by: Rhode Island Department of Education (RIDE)

INVENTORY OF DONATED FOOD COMMODITIES

Under the Food Distribution Grant (CFDA # 10.550), the USDA makes agricultural commodities available for use in the operation of all Child Nutrition Programs except the Special Milk Program for Children. The State's Warehouse, operated by the Department of Corrections, is responsible for receiving, storing, and distributing these commodities. We found that inventory record keeping and controls over the receipt and distribution of food commodities should be improved.

Warehouse personnel maintain perpetual inventory records based upon goods received, shipped, or damaged. The inventory records listed 50 items that were eligible for use by the Child Nutrition Cluster of federal programs. At June 30, 2004, the inventory balances of 23 items were adjusted to agree with the physical inventory counts. The adjustments ranged from 1 to 154 cases and included both increases and decreases to the recorded balances.

On October 29, 2004 we counted the quantity on hand for ten of the items. In seven instances, our counts did not agree with the Department's inventory records. Our variances ranged from an overstatement of 80 cases and an understatement of 1 case in the inventory records.

Using the Department's reports on commodities shipped out and orders received, we also "rolled forward" the June 30, 2004 balances to October 29, 2004. We noted variances ranging from 1 to 361 cases.

We also noted several variances while testing the records for five commodities for one month. Starting with the beginning balances recorded in the inventory records, we added purchases and subtracted distributions and damages to arrive at ending inventory balances. We

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

---

found three variances between our calculated inventory balances and the recorded balances, ranging from 1 to 326 cases. The large variance could have been caused by a mix-up with the same type of commodity under a different program. When comparing shipments to the schools versus orders placed by the schools, we had four variances, ranging from 14 to 118 cases. The Department believes that the variances could be due to a timing difference, whereby the schools' orders were not posted by the end of the month, but the shipments out to the schools were posted.

The Department maintains a file for damaged cases and out of date cases that cannot be used (losses); however, the forms are not always completed properly. Signatures and dates are sometimes missing.

Questioned Costs: None

#### RECOMMENDATION

2004-31      Improve controls over the receipt and distribution of donated food commodities by ensuring that all required forms are completed and recorded in the inventory records when goods are received, shipped, or damaged.

### **Finding 2004-32**

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN – CFDA – 10.557

Administered by: Rhode Island Department of Health

#### ALLOWABLE EXPENDITURES

In 2001, the Department of Health entered into a multi-year contract with a consultant to design and implement health communication/media campaigns. The services are charged to the various programs administered by the Department based on project codes. Each project is linked to a specific program. The vendor invoices list the hours spent on each project. In April 2004, the Department transferred \$59,559 in consultant charges from two other federal programs to the WIC program for services provided from April 2003 through September 2003. In addition to the amount transferred, WIC had already been charged \$12,359 for the same period of time. The Department could not provide us with documentation that clearly distinguished these additional charges as relating specifically to the WIC program although it was clear that the vendor did provide substantial services to the WIC program.

OMB Circular A-87 requires costs to be necessary and reasonable for the program and that charges be adequately documented. Charges should remain within the proper state fiscal year for financial statement reporting purposes.

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

---

Questioned Costs: \$59,559

RECOMMENDATION

2004–32      Maintain adequate supporting documentation for charges transferred between programs and transfer charges among programs within the proper state fiscal year.

**Finding 2004-33**

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN – CFDA – 10.557

Administered by: Rhode Island Department of Health

ALLOWABLE COSTS/COST PRINCIPLES – PAYROLL CHARGES

Eight employees charged some of their time to the WIC program during fiscal 2004. Budgeted allocation rates were established for each employee within the State’s payroll system. For each pay period, the personnel costs were charged to the WIC program based on the budgeted allocation rates. Federal regulations, OMB Circular A-87, allow budgeted allocations, but the budgeted amounts must be compared to actual at least quarterly and adjustments must be made if differences of more than ten percent are found. Otherwise, the adjustment may be recorded annually. The adjustments for the WIC program from budget to actual were not performed timely and some were not performed at all. In addition, the adjustments were not always supported by time and effort records.

Some of the adjustments for time allocation in fiscal 2004 were not transferred until 2005. The timesheets used by the Department do not require the employee to indicate the time spent on individual programs. Often, the employee will indicate the number of hours worked as “regular” even when the employee’s salary is allocated to more than one program. We calculated questioned costs as those charges transferred out of program accounts for four employees after June 30, 2004. That amount is partially offset by the transfer in of charges for two employees after June 30, 2004. By May 2005, the proper amounts were charged to the WIC program for these employees prior to the grant closeout. In addition to the six employees previously discussed, we could not determine questioned costs for two other employees because a budget to actual comparison was never performed by the Department.

In addition to accurate timekeeping needed to charge the correct federal program, timekeeping records are needed to classify payroll charges to the proper WIC cost category for federal expenditure reporting. Based on a management evaluation recently performed by the Food and Nutrition Service (FNS) regional office, the USDA reported that the state has the

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

---

option to implement periodic time reporting. However, the methodology used must be approved by the FNS and adequately support the charges to the four cost categories: breastfeeding promotion and support, nutrition education, client services and program management.

Questioned Costs: \$22,007

RECOMMENDATIONS

- |          |  |
|----------|--|
| 2004–33a | Institute new timekeeping records to indicate the program worked and cost category within the program for reporting purposes.                |
| 2004–33b | Compare budgeted salary allocations to actual at least quarterly as required by OMB A-87 or obtain FNS approval for periodic time reporting. |
| 2004–33c | Adjust budgeted time to actual within the proper state fiscal year.  |

**Finding 2004-34**

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND  
CHILDREN – CFDA – 10.557

Administered by: Rhode Island Department of Health

SPECIAL TESTS AND PROVISIONS – HIGH RISK VENDORS

According to federal regulation 7 CFR 246.12(j)(3), the State agency “must identify high risk vendors at least once a year using criteria developed by FNS and/or other statistically based criteria developed by the State agency....”. All State agency-developed criteria must be approved by FNS.” Further, the state is required to “conduct compliance investigations on a minimum of five percent of the vendors authorized as of October 1 of each year. A state agency must conduct compliance investigations on its high-risk vendors up to the 5 percent minimum. If more than five percent of the State agency's vendors are identified as high-risk, the State agency must prioritize such vendors so as to perform compliance investigations of those determined to have the greatest potential for program noncompliance and/or loss of funds.”

For fiscal 2004, the WIC/vendor unit staff developed the list of high-risk vendors for compliance investigations through meetings and discussions in which data was analyzed and complaints reviewed. Over five percent of the vendors were investigated in fiscal 2004. Several violations were reported which resulted in warning letters and disqualifications from the program. Although the actual investigations were documented, the process for identifying and selecting the high-risk vendors for review was not documented. Therefore, we could not

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

---

determine whether all high-risk vendors were identified and prioritized so that those determined to have the greatest potential for program noncompliance were investigated.

Questioned Costs: None

RECOMMENDATION

2004-34 Document the process of establishing high-risk vendors to ensure it is done in compliance with FNS regulations.

**Finding 2004-35**

ECONOMIC ADJUSTMENT ASSISTANCE – CFDA 11.307  
Administered by: Rhode Island Economic Development Corporation

REPORTING

During our audit of compliance, we noted several instances in which the data included in the Semi-Annual RLF Report did not agree to underlying supporting documentation. Although the person independent of the person preparing the reports who was responsible to perform a detail review of each report signed and dated each report to document his review, the errors were not detected. Consequently, information provided to the grantor agency about the federal program was not correct.

Questioned Costs: None

**Finding 2004-36**

ECONOMIC ADJUSTMENT ASSISTANCE – CFDA 11.307  
Administered by: Rhode Island Economic Development Corporation

CASH MANAGEMENT

The U.S. Department of Commerce has determined and notified the Corporation that the Corporation has excess cash as defined under the program guidelines. As such, the U.S. Department of Commerce has instructed the Corporation to deposit such excess cash into a separate interest-bearing bank account (Sequestered Funds) and remit all interest earned on such Sequestered Funds to the U.S. Treasury. Additionally, no disbursements of Sequestered Funds are permissible unless all other capital on hand is exhausted and the Corporation obtains written approval from the Economic Development Administration. All Sequestered Funds remaining as of March 31, 2005 must be remitted to the U.S. Treasury.



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

---

The Corporation has appealed this decision with the U.S. Department of Commerce and has not obtained a resolution to the matter.

Questioned Costs: None

**Finding 2004-37**

SECTION 8 HOUSING CHOICE VOUCHERS – CFDA 14.871  
Administered by: Rhode Island Housing and Mortgage Finance Corporation

ELIGIBILITY

The U.S. Department of Housing and Urban Development, in accordance with OMB Circular A-133, requires the Corporation to verify documentation provided by a potential participant as part of an initial application process, and to verify documentation provided by an existing participant as part of a recertification process, relating to income for a period that is not in excess of 90 days from the date of certification or recertification. In two of twelve selected participants tested, we noted that the Corporation used prior year income information in the initial application or recertification process rather than using income information within a 90 day period of the date of application or recertification.

Questioned Costs: None

RECOMMENDATION

2004-37      The Corporation should obtain and verify income information that is not in excess of a period of 90 days from the date of certification or recertification. If a potential or existing participant does not provide the required income information, the Corporation should not approve the potential participant's application or recertify an existing participant.

**Finding 2004-38**

UNEMPLOYMENT INSURANCE – CFDA 17.225  
Administered by the Rhode Island Department of Labor and Training (DLT)

REPORTING

The ETA 227 (Overpayment Detection and Collection Activities) report provides information regarding overpayment detection and recovery activities for the Unemployment

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

---

Insurance (UI) program and the Unemployment Compensation for Federal Employees (UCFE) and Ex-Military Servicemen (UCX). Data are provided for the establishment of overpayments, recoveries of overpayments, criminal and civil actions involving overpayments obtained fraudulently, and an aging schedule of outstanding benefit overpayment accounts.

Our review noted a lack of documented supervisory review and approval prior to submission of the ETA 227 to the USDOL. Reported statistical data for criminal cases are received verbally by the LMI Unit from the DLT Fraud Unit. This increases the likelihood that errors can occur during input into the federal system, and emphasizes the need for supervisory review.

The Fraud Unit has agreed to transmit this information electronically to the LMI Unit beginning with the report for the quarter ending March 31, 2005.

Questioned Costs: None

RECOMMENDATION

2004-38      Improve controls to ensure the accuracy and completeness of the ETA 227 report by documenting supervisory review and approval prior to submission to the federal government.

**Finding 2004-39**

**WORK INCENTIVE ACT CLUSTER:**

WIA Adult Program – CFDA 17.258

WIA Youth Activities – CFDA 17.259

WIA Dislocated Workers – CFDA 17.260

ELIGIBILITY

In order to determine the completeness of the WIA population, we obtained the client names from supporting documentation of payments selected during the testing for allowable costs/cost principles. We then traced these client names to the list provided to us. Our testing of WIA client files revealed two clients who received services but were not included in the universe.

We then selected the names of 5 vendors who had contracts in fiscal 2004. We examined the supporting documentation for the contract payments and traced the client names to our list. We found an additional client not included in the database. DLT did not detect these omissions due to a failure to verify a client's inclusion in the database prior to authorization of payment.

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

---

A representative of the Greater Rhode Island office stated that two of the errors were traced to one counselor, who had previously been identified as not entering client data into the data base and has been removed from working with OJT clients. He stated the clients were eligible for services and that this was a data entry problem. He further stated that they were requesting their IT section to create reports to assist managers in identifying these situations more timely.

Questioned Costs: None

RECOMMENDATION

2004-39      Implement procedures to ensure all client eligibility data is entered into the WIA database on a timely basis.

**Finding 2004-40**

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

DAVIS-BACON ACT REQUIREMENTS

RIDOT should adhere to its internal procedures that two department representatives perform a labor compliance check at least once a month. The procedures were designed to assist in ensuring compliance with Davis-Bacon Act requirements.

Federal regulations (29 CFR 3 and 5) require that construction contracts subject to the Davis-Bacon Act contain certain contract provisions binding the contractor to applicable labor standards. These labor standard provisions include requiring contractors pay laborers and mechanics general prevailing wages and submit copies of payrolls and signed statements of compliance.

RIDOT has established various internal controls to monitor contractor compliance with Davis-Bacon requirement. These monitoring procedures, as documented in the Department's "*Procedures For Uniform Record Keeping*" (PURK) manual, require that each project's resident engineer ensure that a labor compliance check is performed at least once a month. Labor compliance checks should be prepared by two department representatives and include comparing and verifying the employee's classification hourly rate as reported with the hourly rate prescribed and the contractor's or subcontractor's payrolls for that period.

We tested 29 construction contracts active during fiscal year 2004 to determine whether the department's Davis-Bacon Act monitoring procedures were in place and operating effectively. We reviewed project files for evidence that the required labor compliance check had

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

---

been performed for all months with contractor payroll activity. Our audit disclosed the following:

- ❑ 17 of the 29 projects tested had at least one labor compliance checklist missing,
- ❑ Overall 55 of 299 total checklists were missing (18%), and
- ❑ Two representatives of the State did not sign 19 checklists and 17 checklists were not signed at all.

Questioned Costs: None

RECOMMENDATION

2004-40      Strengthen oversight of the labor compliance monitoring procedures to ensure contractor compliance with Davis Bacon Act requirements.

**Finding 2004-41**

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

APPROVAL OF LABOR ADDITIVE CHARGES

We recommended in fiscal year 2003 that RIDOT request a formal interpretation from the Federal Highway Administration (FHWA) as to whether their distribution of leave and fringe benefit costs to Federal construction projects requires Federal review and approval. RIDOT management informed that they have not requested any interpretation from the FHWA as to whether Federal approval is required, and that only informal discussions with the FHWA have occurred to date.

Employees assigned to RIDOT’s payroll clearing account charge their hours to state and Federal projects based on timesheets supporting actual hours worked. RIDOT captures the costs of medical benefits, Social Security, retirement contributions, as well as the costs for vacation time, sick time and other personnel related costs that cannot be assigned to any project (i.e., indirect costs). RIDOT refers to this pool of costs, which are not reimbursed by billing an employee’s hourly rate, as a “labor additive”. The labor additive rate is the incremental percentage added to each dollar of direct employee wages charged to a project to recapture the costs for benefit and leave time.

The labor additive rate is calculated by dividing the total cost of leave and benefits by the total of direct salaries paid. A provisional labor additive rate is calculated annually based on actual prior year expenditure and leave data. The provisional labor additive rate for fiscal year 2003 was .5648, therefore, for every dollar charged to a project, approximately 56 cents would

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

---

be added to cover the cost of benefits and leave time. However, our 2003 audit disclosed that RIDOT included 12,315 leave without pay hours in its allocable benefit cost calculation. Since RIDOT incurred no cost for these hours, the allocable benefit costs component of the provisional rate was overstated. Using an average hourly rate of \$23.34 approximately \$287,000 was inappropriately included in benefit costs. The labor additive rate adjusted for these costs would have been .5430.

Office of Management and Budget Circular A-87 Attachment E, *State and Local Indirect Cost Rate Proposals*, requires that all departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation supporting those costs. A governmental unit for which a cognizant agency has been designated must submit its indirect cost rate proposal to its cognizant agency. This requirement is also described in a Federal Highway Administration (FHWA) memorandum dated September 24, 1998, which additionally stipulates that states may include costs on Federal-aid billings after the indirect cost rate has been approved by FHWA. Circular A-87 Attachment E also requires that if overall fringe benefit rates are not approved for the governmental unit as part of the central service cost allocation plan, these rates will be reviewed, negotiated and approved for individual grantee agencies during the indirect cost negotiation process.

Our audit determined that RIDOT's methodology for calculating and documentation supporting its labor additive rate has not been submitted to either the cognizant agency (Department of Health and Human Services) or the FHWA for approval. RIDOT personnel have informed us that they do not consider their charging of the labor additive rate as either a cost allocation plan or an indirect cost rate requiring Federal approval.

Our audit disclosed that as of May 2005 RIDOT had not calculated the labor additive rate for fiscal year 2004 and continued to bill these costs to construction projects utilizing the incorrectly computed fiscal year 2003 provisional rate. Additionally, we noted that formal policies or procedures do not exist for calculating the labor additive rate and that RIDOT has no internal controls to ensure the rate is calculated correctly or checked for accuracy.

The calculation of allocable benefit costs should include only allowable charges to Federal projects and provisional rates should be adjusted annually to reflect actual costs.

Questioned Costs: Unknown

#### RECOMMENDATIONS

- |          |   |
|----------|---|
| 2004-41a | Request a formal interpretation from the Federal Highway Administration as to whether their distribution of leave and fringe benefit costs to Federal construction projects requires Federal review and approval. |
| 2004-41b | Revise the methodology for computing the labor additive rate to include only allowable costs to Federal projects.   |

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

---

2004-41c      Adjust charges to Federal projects based on a provisional labor additive rate to actual on an annual basis.

**Finding 2004-42**

FEDERAL TRANSIT – FORMULA GRANTS - CFDA 20.507  
Administered by: Rhode Island Department of Transportation

REPORTING REQUIREMENTS

Each year, RIDOT must establish a goal that reflects the dollar value of work to be awarded to disadvantaged businesses. RIDOT's Office of Business and Community Resources formulates this goal and must report its progress through the submission of semi-annual reports based upon a recordkeeping system (49 CFR section 26.11). RIDOT requires contractors to use the Computerized Highway Affirmative Action Management Program (CHAMP) to report the required payroll information.

RIDOT did not submit its Disadvantaged Business Enterprise (DBE) Program reports for the periods April 1, 2003 to September 30, 2003 and October 1, 2003 to March 31, 2004. The DBE reports, if submitted, would have indicated that no FTA contracts were awarded during the reporting periods.

Questioned Costs: None

RECOMMENDATION

2004-42      Prepare and submit DBE reports as required by program regulations.

**Finding 2004-43**

FREIGHT RAIL IMPROVEMENT PROJECT – CFDA – NONE  
Administered by: Rhode Island Department of Transportation (RIDOT)

REPORTING REQUIREMENTS

The Freight Rail Improvement Project is administered in accordance with a grant agreement between the Rhode Island Department of Transportation (RIDOT) and the Federal Railroad Administration (FRA). This agreement requires submission of the following: Quarterly Progress Reports, Quarterly Financial Status Reports, and Quarterly Federal Cash Transactions Reports.

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

---

In fiscal 2003, federal financial and progress reports had not been prepared and submitted timely. During our 2004 audit, we again determined that quarterly reports were again not submitted during the year and that reports covering the entire year were submitted on October 22, 2004.

We determined that the expenditures reported on the financial status report materially agreed to the State's accounting records; however, the cash transactions report under-reported receipts by \$878,438 due to the posting of 2004 receipts transactions after the report date. RIDOT submitted the minutes of the monthly meetings of the Project's Design and Construction Group rather than the required progress reports.

RIDOT's current procedures do not provide for a supervisory review of the required reports. The individual responsible for preparing the reports submits them directly to FRA, without review. RIDOT should require supervisory review of financial and progress reports to ensure these reports are accurate and submitted timely.

Questioned Costs: None

RECOMMENDATIONS

- |          |   |
|----------|---|
| 2004-43a | Prepare and submit quarterly reports as required by the Grant Agreement. Reconcile amounts reported to the State's accounting system. |
| 2004-43b | Require reports to be reviewed by supervisory personnel prior to submission.  |

**Finding 2004-44**

CAPITALIZATION GRANTS FOR DRINKING WATER STATE REVOLVING FUNDS –  
CFDA 66.468

Administered by: Rhode Island Clean Water Finance Agency

BINDING COMMITMENTS

From July 1, 2003 to March 31, 2004, the required level of binding commitments based on the payments received by the Agency was \$36,962,260. However, the actual commitments during that same period were \$28,539,250. The Agency was aware of this binding commitment deficiency and has worked with the Environmental Protection Agency in order to become compliant. On March 31, 2004, the Agency became compliant when it provided financing to a borrower, resulting in the Agency's actual commitments exceeding its required level by

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

---

\$33,451,990. In addition, on June 30, 2004, the Agency's actual commitments exceeded its binding commitment level by \$27,590,202.

Prior to March 31, 2004, Rhode Island Clean Water Finance Agency had not been able to execute loans in the amount needed to maintain compliance with the binding commitment requirement. A major borrower was delayed in obtaining its financing.

A major borrower delayed its financing.

Population and Items Tested: The Rhode Island Payment Schedule and Binding Commitments Requirements worksheet was tested for the period from July 1, 2003 to June 30, 2004.

The finding does not warrant further action. On March 31, 2004, the Agency became compliant and continues to be in compliance with the binding commitment requirement.

Questioned Costs: None

**Finding 2004-45**

CAPITALIZATION GRANTS FOR DRINKING WATER STATE REVOLVING FUND –  
CFDA 66.468  
Administered by: Rhode Island Clean Water Finance Agency

REPORTING

The Federal Cash Transaction Report (SF272) for the period January 1, 2004 to June 30, 2004 reported an incorrect of ACH withdrawals in the amount of \$224,159. Two ACH withdrawals were inadvertently omitted when the report was prepared.

Due to the clerical error, the ACH withdrawals on the Federal Cash Transaction Report (SF272) for the period from January 1, 2004 to June 30, 2004, were understated.

A clerical error was made during preparation of the reports.

Population and Items Tested: All Federal Cash Transaction Reports (12) and all Financial Status Reports (7) were selected for audit. Two of the Federal Cash Transaction Reports contained a clerical error in the amount reported for ACH withdrawals, which totaled \$224,159. The remaining (17) reports tested did not contain any errors.

Questioned Costs: None



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

---

RECOMMENDATION

2004-45      A corrected Form SF272 should be filed with the Environmental Protection Agency.

**Finding 2004-46**

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

    Special Education – Grants to States – CFDA 84.027

    Special Education – Preschool Grants – CFDA 84.173

IMPROVING TEACHER QUALITY STATE GRANTS – CFDA 84.367

Administered by: Rhode Island Department of Education (RIDE)

SUBRECIPIENT CASH MANAGEMENT

RIDE does not have adequate procedures in place to ensure subrecipients do not have federal cash on hand in excess of their immediate needs. Cash requests by subrecipients are generally processed once a month and funds are generally advanced based on forecasts prepared by the subrecipient for the month. We found that this policy results in RIDE advancing funds to local educational agencies beyond their immediate needs.

The *Common Rule* {34 CFR 80.21(c) and 80.37 (a)(4)} requires grantees such as RIDE to monitor drawdowns by their subrecipients to ensure that they conform substantially to the same standards of timing and amount as apply to the grantee. Those standards require minimizing the time elapsing between the transfer to funds from the U.S. Treasury and the disbursement by grantees and subrecipients.

We believe that RIDE can best ensure compliance with federal requirements regarding cash management by requiring all subrecipients to request federal funds on a reimbursement basis.

Questioned Costs: None

RECOMMENDATION

2004-46      Require all subrecipients to request federal grant funds on a reimbursement basis.

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

---

**Finding 2004-47**

SPECIAL EDUCATION CLUSTER:

Special Education—Grants to States—CFDA 84.027

Special Education—Preschool Grants—CFDA 84.173

Administered by: Rhode Island Department of Education (RIDE)

REPORTING

Census information is submitted by LEAs to RIDE as of December 1 of each year. This information is compiled by RIDE and used as the basis for the federally required report entitled “*Number of Children Residing in Rhode Island Receiving Special Education Services*”. At times, adjustments to the census are needed when children are listed as attending school in more than one district (e.g., when children move from one district to another during a school year). When an LEA is aware that a child has moved during the year, an ‘end date’ is included in its report.

Our audit found that sufficient documentation does not exist to support changes made by RIDE to census information submitted by LEAs. Currently, RIDE prepares a report identifying children listed in more than one school district without an end date. This could indicate that the child is counted by more than one school district in its census. RIDE then awaits a response from the LEA, indicating concurrence with the changes, or further modifications. Some responses are incomplete; in some instances, no response is received (if no response is received, the student is removed from the census of the LEA).

When school districts indicate changes should be made to their census, an addition or deduction is handwritten on the form. This method increases the difficulty of verifying changes because other notes are also included on the sheets, and supporting documentation does not clearly support changes to the census.

We believe RIDE should implement a formal system to accurately track changes to the census, including supervisory review and approval.

Questioned Costs: None

RECOMMENDATION

2004-47      Establish a formal system of tracking changes to the census, including supervisory review and approval.

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

---

**Finding 2004-48**

FEDERAL PERKINS LOAN PROGRAM - FEDERAL CAPITAL CONTRIBUTIONS –  
CFDA 84.038

Administered by: University of Rhode Island

PROMISSORY NOTES

The promissory note is a legally binding document that is evidence of a borrower's indebtedness to a school. A student must sign this note before he or she can receive any Perkins Loan funds.

Out of 13 students selected for disbursement testwork, we noted two students whose promissory notes were signed after the first disbursement.

Questioned Costs: None

RECOMMENDATION

2004-48      Policies should be reviewed and refined to ensure all documentation is completed prior to disbursement of federal funds.

**Finding 2004-49**

STUDENT FINANCIAL ASSISTANCE CLUSTER:

Federal Perkins Loan Program - Federal Capital Contributions – CFDA 84.038

Federal Direct Student Loans – CFDA 84.268

Administered by: University of Rhode Island

DISBURSEMENT NOTIFICATION

If an institution credits a student's account with Federal Direct Loan (FDL) funds or Federal Perkins Loan Program funds, the institution must notify the student of the date and amount of the disbursement and the student's right to cancel all or a portion of that loan. The institution must send the notice to the student, either in writing or electronically, no earlier than 30 days before and no later than 30 days after the date the institution credits the student's account. If a school notifies a borrower electronically, it must request that the borrower confirm the receipt of the notice. If a student or parent wishes to cancel all or a portion of the loan, the school must honor the request if the request is received no later than:

- 14 days after the date the school sends the notice, or

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

---

- the first day of the payment period, if the school sends the notice more than 14 days before the first day of the payment period.

Questioned Costs: None

RECOMMENDATION

2004–49      We suggest that the University implement procedures to notify the student of the receipt of their FDL, or Federal Perkins Loan funds and their right to cancel, whether written or electronically.

**Finding 2004-50**

STUDENT FINANCIAL ASSISTANCE CLUSTER:

Federal Pell Grant Program – CFDA 84.063

Federal Direct Student Loans – CFDA 84.268

Administered by: University of Rhode Island

ORIGINATION RECORDS

A school must submit an origination record for every Pell and Direct Loan recipient. The origination record establishes the student’s eligibility and the amount of Pell and Direct Loan the student can receive for the award year. A disbursement record should be submitted no later than 30 days after the disbursement is made. A school is required to report disbursements within 30 days of making payment.

Out of the 30 students selected for both Pell and Direct Loan disbursement reporting, we noted four students receiving Pell and two students receiving Direct Loan whose disbursements were not transmitted to the Department of Education within the required 30 days.

Questioned Costs: None

RECOMMENDATION

2004–50      The University should review its procedures to ensure disbursement records are transmitted to the Department of Education within the required 30 days.

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

---

**Finding 2004-51**

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

TRANSMISSION OF STUDENT PAYMENT DATA

Institutions must report student payment data within 30 calendar days after the school makes a payment or becomes aware of the need to make an adjustment to previously reported student payment data or expected student payment data.

We noted that 19 out of 30 students in our sample that received Federal Pell Grants were not transmitted to the Department of Education within the 30-day timeframe.

Questioned Costs: None

RECOMMENDATION

2004-51      We recommend that the College strengthen its procedures to ensure students receiving Federal Pell Grants are transmitted to the Department of Education within the required 30-day timeframe.

**Finding 2004-52**

FEDERAL DIRECT STUDENT LOANS – CFDA 84.268  
Administered by: University of Rhode Island

STUDENT EXIT INTERVIEWS

If a student ceases enrollment without performing an exit interview and has received a Federal Direct Loan, the financial aid administrator must confirm that the student has completed on-line counseling, or mailed exit counseling material to the borrower at his or her last known address. The material must be mailed within 30 days after learning that the borrower has left school or failed to participate in an exit counseling session.

We noted 10 out of 30 students that received Federal Direct Loan and ceased enrollment that did not have evidence that an exit conference was performed or mailed.

We also noted that the exit interview for one student was not performed within the required 30-day timeframe.

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

---

Questioned Costs: None

RECOMMENDATION

2004-52      We recommend that the University strengthen its procedures to ensure that a signed exit interview form or confirmation that on-line counseling was performed be received from all borrowers to be in compliance with the federal requirements regarding exit interviews.

**Finding 2004-53**

CENTERS FOR DISEASE CONTROL AND PREVENTION - INVESTIGATIONS AND  
TECHNICAL ASSISTANCE—CFDA 93.283  
Administered by: Department of Health (DOH)

SUSPENSION AND DEBARMENT

The Department of Health utilizes various service providers and contractors for the operation of Centers for Disease Control (CDC) grant programs. Federal regulations prohibit states from contracting with or making subawards under covered transactions to suspended or debarred parties. Covered transactions include procurement contracts for goods and services equal to or exceeding \$100,000 and all non-procurement transactions (e.g., subawards to subrecipients). Contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organizations and its principals are not suspended or debarred.

The Department of Health contracted for goods and services under various Centers for Disease Control grant programs. We found that thirteen contracts with service providers did not contain certifications that the providers were not suspended or debarred from participating in the CDC grant programs. Program expenditures under these contracts totaled approximately \$3.26 million during fiscal 2004.

In August 2004, the Department of Health amended its standard contract provisions for goods and services under Centers for Disease Control grant programs to include required certifications concerning suspension and debarment.

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

Questioned Costs: None

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

---

**Finding 2004-54**

CENTERS FOR DISEASE CONTROL AND PREVENTION - INVESTIGATIONS AND  
TECHNICAL ASSISTANCE—CFDA 93.283

Administered by: Department of Health (DOH)

PAYROLL CERTIFICATION

Federal regulations require that charges for salaries and wages for employees who are expected to work solely on a single Federal award or cost objective will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications are to be prepared at least semi-annually and should be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

During fiscal 2004, the Department of Health did not require employees who worked solely on a single Federal award or cost objective, or their supervisors, to sign certifications to that effect for the period covered by the certification.

Questioned Costs: None

RECOMMENDATION

2004-54      Implement procedures to ensure that employees who work solely on a single Federal award or cost objective, or their supervisors, sign the required certifications on at least a semi-annual basis.

**Finding 2004-55**

CENTERS FOR DISEASE CONTROL AND PREVENTION INVESTIGATIONS AND  
TECHNICAL ASSISTANCE—CFDA 93.283

Administered by: Department of Health (DOH)

REPORTING

For each Bio-terrorism grant in the Centers for Disease Control program, DOH must complete a Financial Status Report (FSR-269) and submit it to the Department of Health and Human Services, Centers for Disease Control. DOH completes these reports at the end of the budget period for each grant. CDC requires these reports to be submitted by 90 days after the end of the applicable budget period.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

---

We found that DOH was significantly late in submitting certain FSR-269 reports for the fiscal 2004 budget period. Two reports were submitted three months late, two were four months late, and one was five months late. DOH needs to implement policies and procedures to ensure that Financial Status Reports are submitted to the federal grantor on a timely basis, as required.

Questioned Costs: None

#### RECOMMENDATION

2004-55      Implement procedures to ensure that Financial Status Reports (FSR-269) are submitted to the federal grantor on a timely basis, as required.

### **Finding 2004-56**

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558  
MEDICAL ASSISTANCE PROGRAM – CFDA 93.778  
Administered by: Department of Human Services (DHS)

#### INCOME ELIGIBILITY AND VERIFICATION SYSTEM

The Department of Human Services participates in the Income Eligibility and Verification System (IEVS) as required by Section 1137 of the Social Security Act as amended. Through this system, DHS coordinates data exchanges with other Federally assisted benefit programs and utilizes the income and benefit information to determine individuals' eligibility for assistance and the amount of assistance.

The Department of Human Services conducts data interfaces with the Internal Revenue Service, the Social Security Administration and the Department of Labor and Training (the State Wage Information Collection Agency) to verify information about recipients of Federally assisted programs, including the Temporary Assistance for Needy Families (TANF) program. Federal regulation (45 CFR 205.56) requires that the State agency review and compare the information obtained from data exchanges against information contained in recipients' case records to determine whether it affects the recipients' eligibility or the amount of assistance. The Department's INRHODES computer system receives the information from the data exchanges and automatically includes the data in the applicable case record. Caseworkers are then electronically prompted about the receipt of new data and are required to investigate and resolve any discrepancies.

The objective of our testing approach was to assess whether the Department was considering the information resulting from the required IEVS data matches in determining eligibility for TANF and the amounts of benefits. Specifically, we understand that case workers are prompted electronically through the Department's INRHODES computer system when new



## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

---

information resulting from the IEVS data matches is posted in the case record. To allow the Department time to implement corrective action pertaining to our prior year IEVS finding, our testing involved randomly selecting 40 TANF cases from the last two quarters of state fiscal year 2004 where IEVS data had been electronically posted to a case record. For each case we assessed whether the IEVS data had been properly considered in the eligibility and benefit determination process.

We obtained a file from the Department's INRHODES system of all interface matches during state fiscal year 2004. We compared this file to another file which contained all TANF benefit payments made in state fiscal year 2004. The comparison was done to identify which data matches involved cases which were TANF eligible during the month of the discrepancy. We randomly selected for testing 40 cases with interface matches that were also TANF eligible during the month of the interface discrepancy.

We identified the following exceptions during our testing:

- ❑ Sixteen (16) cases with discrepancies resulting from data matches were not investigated or resolved. Based on our evaluation of electronic case file data, five (5) discrepancies could have been easily resolved by the caseworker and would not appear to have impacted eligibility or the household's benefit level. Eleven (11) cases with discrepancies appear to impact eligibility or the household's benefit level.
- ❑ Thirteen (13) cases where discrepancies were "cleared" by the caseworker by electronically entering an action code (e.g., no discrepancy exists), however, no documentation or comments to the electronic case file were present supporting this determination. Based on our evaluation, these discrepancies appear to impact the household's eligibility or benefit level. Since the data match was "cleared", no modifications to the household's case record were initiated.

Failure to promptly investigate and resolve IEVS interface data weakens the Department's controls over the determination of eligibility and benefit levels for the TANF program. Management acknowledged that, due to various factors, IEVS interface discrepancies are not always resolved promptly.

Questioned Costs: None

#### RECOMMENDATIONS

- |          |  |
|----------|--|
| 2004-56a | Strengthen control procedures to ensure that discrepancies resulting from data matches are promptly resolved and utilized to determine recipient eligibility and the amount of assistance. |
|----------|--|

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

---

2004-56b      Maintain documentation supporting the resolution of data match discrepancies. Initiate modifications when discrepancies impact eligibility and/or amount of benefit levels.

**Finding 2004-57**

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558

Administered by: Department of Human Services (DHS)

SPECIAL REPORTING

The Department's internal control procedures require further strengthening to ensure the reliability of data reported on federal report form ACF-204 (*Annual Report including the Annual Report on State Maintenance-of-Effort (MOE) Programs – OMB No. 0970-0199*). This report is submitted on an annual basis to the Administration for Children and Families, a component of the U.S. Department of Health and Human Services and contains information on the TANF program and the State Maintenance of Effort program(s) for that year.

Although there was improvement since our prior audit, we continued to find various reporting deficiencies, which included inaccurate or incomplete information reported and discrepancies between amounts reported and supporting documents or other federal reports. All information included in the federal report was not adequately reconciled to other sources to ensure its validity and completeness. This included inadequate detailed supporting documentation for certain estimates and amounts used to determine the total number of families served as reported in the ACF-204.

For example, \$2.4 million in Department of Children, Youth and Families' Child Care Program state MOE expenditures were mistakenly included in the amount reported for the Emergency Assistance Program state MOE expenditures. This classification error and failure to separately report these Department of Children, Youth and Families' Child Care Program state MOE costs could have been prevented by review of report information and comparison to supporting documentation and to other federal reports containing corresponding information. We also noted instances where the number of families served was mistakenly reported as a total count for the fiscal year when it actually represented the average monthly total for the fiscal year. In addition, the department attempted to improve the basis for some estimates used in determining the number of families served, however, we noted that the reported amounts are still sometimes inadequately supported and include the number of participants rather than the number of families, as required. In a few cases the number of families served inappropriately included information from outside the reporting period and/or was not based on a full year of data for the fiscal year reported.

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

---

Supervisory review and approval procedures for the report should be further strengthened to ensure that all necessary information is included in the report and the information is accurate, within the proper reporting period and is supported by appropriate calculations and reasonable estimates. All calculations and estimates should be completely documented and reconciled to other appropriate sources.

Questioned Costs: None

**RECOMMENDATIONS**

- |          |  |
|----------|--|
| 2004-57a | Strengthen supervisory review and approval procedures to ensure that all necessary information is included in the report and the information is accurate, within the proper reporting period and is supported by accurate calculations and reasonable estimates. |
| 2004-57b | Maintain adequate detailed supporting documentation for all information reported.  |
| 2004-57c | Correct the fiscal year 2003 ACF-204 report and resubmit it to the Federal Government.   |

**Finding 2004-58**

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558  
CCDF CLUSTER:

Child Care and Development Block Grant – CFDA 93.575

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

Administered by: Department of Human Services (DHS)

**REPORTING – FEDERAL CASH TRANSACTIONS REPORT**

The Federal Payment Management System (PMS), operated by the Division of Payment Management (DPM), serves as a fiscal intermediary between recipients of federal funds and the federal awarding agencies for cash management purposes. The PMS reporting system utilizes quarterly status reports that are furnished to recipients with active PMS accounts to monitor recipients' accountability for funds received through the PMS.

The Federal Cash Transactions Report (PSC 272-A), the most comprehensive of the quarterly reports, indicates award identification numbers and award authorizations, as well as prior cumulative disbursements reported against individual awards. Recipients use the PSC 272-A form to report actual cash disbursements back to the DPM.

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

---

Department personnel generally utilize the financial status report applicable to each specific Federal program as the primary source of expenditure data (i.e., net cumulative disbursements) required for completing the PSC 272-A.

We compared cumulative disbursement totals as reported on the PSC 272-A to expenditures reported on the Temporary Assistance for Needy Families (TANF) ACF-196 Financial Report and the Child Care and Development Fund ACF-696 Financial Report (ACF-696) and noted the following variances.

Temporary Assistance for Needy Families

<u>Quarter Ended</u>	<u>Variance</u>	
December 31, 2003	\$1,943,313	over reported expenditures
June 30, 2004	\$ 794,186	under reported expenditures

Child Care Cluster

<u>Quarter Ended</u>	<u>Variance</u>	
March 31, 2004	\$1,253,235	over reported 2004 expenditures
June 30, 2004	\$ 388,078	over reported 2004 expenditures

Department personnel informed us that estimates of cumulative expenditures were used to prepare the PSC 272-A report for each of the quarters with variances noted above.

In addition, we noted that expenditures per the PSC 272-A report also are not always supported by information in the state accounting system due to timing differences. For example, for the period October 1, 2003 to June 2004 expenditures recorded in the state accounting system were approximately \$8.1 million more than reported on the TANF) ACF-196 Financial Reports for the same period. A similar variance in the opposite direction was noted in the succeeding quarter

Questioned Costs: None

RECOMMENDATION

2004-58      Strengthen internal procedures to ensure that cumulative disbursement totals as reported on the quarterly Federal Cash Transaction Report are supported by federal reports and the state accounting system.

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

---

**Finding 2004-59**

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558

CCDF CLUSTER:

Child Care and Development Block Grant – CFDA 93.575

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

Administered by: Department of Human Services (DHS)

SUSPENSION AND DEBARMENT

Federal regulations prohibit non-federal entities from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principles are suspended or debarred. When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

- ❑ The Department does not have procedures in place to obtain suspension and debarment certificates for real property rental contracts. Since rental agreements are subject to approval by the State Properties Committee, wording to accomplish federal suspension and debarment objectives should be incorporated into standard agreements.
- ❑ Under the Child Care Cluster program, the Department did not have a contract or a suspension and debarment certificate on file for one of the child care vendors used during state fiscal year 2004. This child care vendor was paid for an average of approximately 114 children, costing the State approximately \$658,940.

The Department should strengthen its control procedures to ensure that all contracts are maintained on file and that the required suspension and debarment verifications are performed for all contracts, including rental agreements.

Questioned Costs: None

RECOMMENDATION

2004-59      Strengthen internal controls to ensure that copies of all contracts are maintained and suspension and debarment verifications are performed for all contracts.

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

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**Finding 2004-60**

CHILD SUPPORT ENFORCEMENT – CFDA 93.563

Administered by: Department of Administration – Child Support Enforcement (CSE)

CHILD SUPPORT COLLECTIONS AND DISTRIBUTIONS

CSE does not reconcile child support collections and disbursements recorded in its computer system (INRHODES) with amounts recorded in the State accounting system. This is an important control over program receipts and disbursements that approximate \$72 million annually. Accountability for child support collections is also important because these collections affect awards from the federal government, which reduce the State share of program costs.

At June 30, 2004, the balance of undistributed collections reported by the CSE computer system exceeded the amounts reported in the State accounting system by \$1,039,498. Variances also existed in the amounts reported for total collections and total distributions. All the detail collections and distributions are first processed through the CSE computer system and the summary information is subsequently posted to the State accounting system. Reports are not available from the CSE system that include all collections and distributions so that routine reconciliations could be performed between the amounts reported by the two systems. The difference could not be explained at the time of our audit.

As previously reported in our audit reports for fiscal years 1992 through 2003, CSE should report all child support collections and distributions in its accounting system and reconcile these amounts with those recorded in the State accounting system. This would provide further assurances that these collections and distributions are properly controlled and reported.

In order to perform these reconciliations, modifications are necessary to the reports provided by the Department's computer system. Certain changes in programming were previously implemented; however, further programming changes may be required to ensure all receipts and disbursements processed by the computer system are included on summary reports produced by the system. Any remaining differences between receipts, disbursements and undistributed balances reported by the two systems should be investigated and resolved on a timely basis.

Questioned Costs: None

RECOMMENDATIONS

2004-60a      Accumulate all child support collections and distributions in the department computer system and reconcile to the amounts recorded in the State accounting system.

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

---

2004-60b      Investigate and resolve the difference regarding child support collections pending distribution reported by the CSE and State accounting systems.

**Finding 2004-61**

CHILD SUPPORT ENFORCEMENT – CFDA 93.563

Administered by: Department of Administration – Child Support Enforcement (CSE)

REPORTING – FEDERAL CASH TRANSACTIONS REPORT

The Federal payment management system (PMS), operated by the Division of Payment Management (DPM), serves as a fiscal intermediary between recipients of federal funds and the federal awarding agencies for cash management purposes. The DPM reporting system utilizes quarterly status reports that are furnished to recipients with active accounts to monitor recipients' accountability for funds received through the DPM.

On a quarterly basis, the DPM generates the PSC-272 report (formerly PMS-272), Federal Cash Transaction Report, and the applicable supporting schedules A through G. Although certain data on the report is provided by DPM, CSE is still responsible for verifying that the amounts reported agree with their own records. CSE completes the required sections of the PSC-272 and submits the report to the DPM, but they are not verifying that the DPM supplied data agrees with the department's records. The cash on hand at the end of the quarter should be reconciled to CSE's actual federal cash balance reported in its accounting records. Several audit adjustments were posted to the State's accounting system in fiscal 2004 due to errors or omissions. However, a variance still remains between the federal report and the State accounting system. CSE needs to reconcile the two amounts in order to determine if the federal report is in error or the state's accounting system requires further adjustments.

Questioned Costs: None

RECOMMENDATION

2004-61      Reconcile the cash balance reported on the PSC-272 report with the State accounting system.

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

---

**Finding 2004-62**

CHILD SUPPORT ENFORCEMENT – CFDA 93.563

Administered by: Department of Administration – Child Support Enforcement (CSE)

SECURING AND ENFORCING MEDICAL SUPPORT OBLIGATIONS

CSE is required by 45 CFR 303.31 to verify that the noncustodial parent has obtained health insurance coverage for minor children in response to a court order. If coverage is not obtained, CSE is required to enforce the medical support order, unless health insurance was not available to the noncustodial parent at a reasonable cost. CSE is also required to inform the state Medicaid agency whenever a new or modified medical support order is issued and medical coverage information is obtained. The state Medicaid agency receives notification of new or modified medical support orders only when such information is entered into the medical insurance panel.

We tested a random sample of 25 cases in which medical support had been ordered by the court, and it had been determined that health insurance was available to the noncustodial parent at a reasonable cost. In 9 of the 25 cases tested, we found that no information had been entered into the medical insurance panel of CSE's INRHODES computer system. Some attempts were made to enforce these 9 medical support orders; however, enforcement efforts did not include court action. Consequently, medical coverage for the children included in these cases was provided by Medicaid since no other medical coverage information was available to the State Medicaid agency.

Control procedures are not adequate to ensure that medical support, once ordered by the court, is enforced. Controls should be enhanced to ensure that appropriate follow-up action is initiated to obtain specific medical coverage information from the absent parent and that the information is recorded within the computer system. When necessary, appropriate action should be taken by CSE to enforce the medical support orders.

Questioned Costs: None

RECOMMENDATIONS

- |          |  |
|----------|--|
| 2004-62a | Enhance control procedures to ensure that medical coverage information is recorded within the CSE INRHODES computer system on a timely basis when medical support is ordered by the court. |
| 2004-62b | Initiate appropriate enforcement action for medical support orders.  |



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

---

**Finding 2004-63**

CHILD SUPPORT ENFORCEMENT – CFDA 93.563

Administered by: Department of Administration – Child Support Enforcement (CSE)

PAYROLL

Total salary and fringe benefit costs of one employee of the Department of Human Services (DHS) were charged to the CSE program until the employee terminated state service in fiscal 2004. CSE management was not aware that the employee's wages were allocated to the CSE program nor were they familiar with the employee or her duties.

According to DHS, the employee worked on the INRHODES helpline dedicated for CSE questions. Accordingly, her personnel costs were programmed on the State's payroll system to allocate 100 percent of the charges from her primary DHS account to the CSE account. The allocation percentage has not been revisited since it was first established. CSE was not aware of the allocated personnel costs because the detail information provided to each agency on the payroll register does not detail allocated costs from another account. CSE should compare the payroll charges reported on the biweekly payroll register to the expenditures posted to the accounting system. Any differences could be an indicator of unauthorized charges.

According to OMB Circular A-87, "where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee". A semi-annual certification was not completed for this employee.

Questioned Costs: \$27,726

RECOMMENDATIONS

- |          |  |
|----------|--|
| 2004-63a | Obtain semi-annual certifications for all employees who charge 100 percent of their time to the CSE program.   |
| 2004-63b | Compare total charges reported on the biweekly payroll registers to the payroll costs posted to the State accounting system and investigate any discrepancies. |

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

---

**Finding 2004-64**

LOW-INCOME HOME ENERGY ASSISTANCE –CFDA 93.568  
Administered by the Department of Administration – State Energy Office (SEO)

QUESTIONED COST-PAYROLL COSTS

The distributions of salary and fringe benefit costs to the Low Income Home Energy Assistance program (LIHEAP) were not supported by personnel activity reports or equivalent documentation. Management indicated that the distributions were based on their knowledge of each individual's duties and estimates of the time spent on the LIHEAP program functions. However, management was unable to provide any adequately documented and objective basis for the distribution percentages used to allocate approximately \$585,000 in employee salary and fringe benefit costs to the program.

In addition, we noted some inconsistencies relating to certain salary and fringe benefit distributions as follows:

- 100% of three employee's salaries were charged to the LIHEAP program even though their duties appear to involve work that is partially financed with state funds.
- Approximately 90% of one employee's salary and fringe benefit costs were charged to the LIHEAP program during the fiscal year; however, the employee's job description indicates that 55% of the employee's time is actually spent on various programs including the LIHEAP program and the remaining 45% of the employee's time is spent on various administrative duties.
- No portion of another employee's salary and fringe benefit costs were charged to the LIHEAP program, even though this individual's duties do include work relating to LIHEAP program functions.
- The SEO could not properly identify all individuals charging time to the LIHEAP program during fiscal 2004.

We believe management should require the use time sheets or random moment time-studies as a consistent and objective basis for distributions of salary and fringe benefit costs to the Low Income Home Energy Assistance program.

Questioned Costs: \$585,000

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

---

RECOMMENDATION

2004-64      Allocate employee salaries and fringe benefits costs to the appropriate activities based on routine time sheets or random moment time-studies.

**Finding 2004-65**

LOW-INCOME HOME ENERGY ASSISTANCE –CFDA 93.568  
Administered by the Department of Administration – State Energy Office (SEO)

SUBRECIPIENT MONITORING

Audit Reports

The State Energy Office (SEO) should improve procedures to ensure subrecipients comply with OMB Circular A-133 subrecipient audit report requirements.

OMB Circular A-133 requires pass-through entities to perform various subrecipient monitoring activities, which includes, but is not limited to responsibility for: (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period, (2) issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions and (4) evaluating the impact of subrecipient activities on the pass-through entities ability to comply with applicable Federal regulations.

The SEO is responsible for monitoring subrecipient activities to provide reasonable assurance that subrecipients of the LIHEAP program are administering federal awards in compliance with applicable federal requirements. Final audit reports for the years ended June 30, 2002 and June 30, 2003 were not received timely for the largest subrecipient which receives on average approximately 28% of the LIHEAP funds paid to subrecipients. The final audit report for the year ended June 30, 2002 was 25 months late and the final audit report for the year ended June 30, 2003 was 14 months late. The lateness of the final audit reports impacted the SEO ability to evaluate the impact of this subrecipient's activities on the State's overall compliance with applicable federal regulations for either fiscal year.

The SEO should enforce the OMB Circular A-133 subrecipient audit report requirements including use of sanctions when appropriate and necessary.

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section III – Federal Award Findings and Questioned Costs

---

### Contracts With Subrecipients

OMB Circular A-133 requires pass-through entities to identify to subrecipients certain federal award information at the time the award is made. The required information includes, but is not limited to, the name of the federal agency, CFDA number, CFDA title and applicable compliance requirements.

The standard language for subrecipient contracts used by the State Energy Office does not identify the name of the federal agency, CFDA number, CFDA title and all applicable compliance requirements. These subrecipient contracts should be amended to include all necessary federal award information and applicable compliance requirements.

Questioned Costs: None

### RECOMMENDATIONS

- |          |   |
|----------|---|
| 2004-65a | Improve procedures to enforce subrecipient's compliance with OMB Circular A-133 subrecipient audit report requirements.       |
| 2004-65b | Amend contracts with subrecipients to include all necessary federal award information and applicable compliance requirements. |

### **Finding 2004-66**

LOW-INCOME HOME ENERGY ASSISTANCE –CFDA 93.568  
Administered by the Department of Administration – State Energy Office (SEO)

### EARMARKING

Federal regulations require that no more than 15 percent of the greater of the funds allotted or the funds available to the grantee for a federal fiscal year may be used for low-cost residential weatherization or energy-related home repairs. The SEO needs to improve its monitoring controls to ensure compliance with the LIHEAP 15 percent weatherization earmarking requirement. Due to accounting inadequacies, the SEO was not able to satisfactorily demonstrate its compliance with this requirement. However, based on estimates, it appears they materially complied with this earmarking requirement during fiscal 2004.

Questioned Costs: Unknown

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

---

RECOMMENDATION

2004-66      Improve monitoring controls to ensure compliance with the LIHEAP weatherization earmarking requirement.

**Finding 2004-67**

LOW-INCOME HOME ENERGY ASSISTANCE –CFDA 93.568  
Administered by the Department of Administration – State Energy Office (SEO)

SUBRECIPIENT CASH MANAGEMENT

The State Energy Office should continue strengthening procedures to ensure that payments to its LIHEAP program subrecipients are limited to their immediate cash needs, as required by federal regulations.

The State Energy Office uses various non-profit agencies to carry out LIHEAP program activities designed to assist low-income individuals with home energy costs. These non-profit agencies submit weekly LIHEAP program funds reports to the State Energy Office. These reports identify the balance of program funds agencies have on hand each week. The State Energy Office uses these reports to monitor agency cash balances to determine if agencies require additional program funds.

Although there has been further improvement in fiscal 2004, our review of the program funds reports indicates that the State Energy Office is not always sufficiently restricting subrecipient cash balances enough when determining the need for program fund distributions. We identified some non-profit agencies that had excessive cash balances at various points during the year. For instance, one agency had from approximately \$123,000 to \$341,000 in excess funds on four occasions between December 2003 and January 2004. Another agency had excess funds from approximately \$175,000 to \$244,000 on five occasions between December 2003 and February 2004.

We also found that some subrecipients did not always submit the reports each week as required and a few never submitted reports after they received their final payments from the SEO for fiscal 2004. The SEO did not consistently follow-up and require submission of the missing reports. The SEO cannot adequately monitor cash balances if it does not consistently enforce established reporting requirements.

The SEO requires subrecipients to submit a separate monthly report to identify cash balances relating to weatherization expenditures. However, the information in these reports includes state and federal funded receipts and expenditures combined. Federal LIHEAP program cash balances for weatherization cannot be adequately monitored by the SEO, because the

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

---

reports do not separately identify the federally funded LIHEAP portion of the receipts, expenditures and cash balances.

In addition, we noted that a couple subrecipients returned a total of \$54,955 in unutilized program funds from prior years. Although other prior year funds returned to the SEO were properly repaid to the federal government, the SEO did not consult with the federal government to determine if they should repay the \$54,955 or adjust a future award for the amount. We believe the SEO should contact the federal government for guidance regarding how to properly handle these returned prior year funds.

The State Energy Office should continue to strengthen its procedures to ensure that it properly monitors subrecipient cash balances and distributes program funds in amounts designed to cover only the immediate cash needs of LIHEAP program subrecipients.

Questioned Costs: None

#### RECOMMENDATIONS

- |          |  |
|----------|--|
| 2004-67a | Restrict subrecipient funding to their immediate cash needs.   |
| 2004-67b | Enforce subrecipient compliance with established reporting requirements consistently.  |
| 2004-67c | Revise the subrecipient monthly weatherization reports to require separate identification of the federally funded LIHEAP portion for all information reported. |
| 2004-67d | Consult with the Federal government for guidance regarding how to properly handle the \$54,955 of prior year funds returned by subrecipients.                  |

### **Finding 2004-68**

#### CCDF CLUSTER:

Child Care and Development Block Grant – CFDA 93.575

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

Administered by: Department of Human Services (DHS)

#### CHILD CARE CASE FILE DOCUMENTATION AND ELIGIBILITY

The Department provides services to families in an approved employment plan of the State's Family Independence Program and to children of low-income families whose gross

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

---

income is within established eligibility limits. Department personnel from the child care office or Family Independence Program (FIP) Office accepts applications and approve payments for child care services. Families seeking eligibility for the Child Care Assistance Program (CCAP) must submit a signed FIP request for services or CCAP application form, along with the documentation required to verify eligibility and the need for services. The Department's administrative rules require that the agency representative consider and verify the combined total of earned and unearned income, including child support in determining eligibility.

We tested the case files of 45 children receiving child care services to determine whether the proper eligibility determinations were made, and whether payments were calculated in accordance with program requirements, including obtaining any required documentation and performing required verifications. We noted the following issues concerning the child care eligibility determination process:

- ❑ Three instances where the required hardcopy documentation (e.g. application, income documentation, etc.) could not be located. In one of these cases, based on a review of wage information obtained from the employer subsequent to the eligibility determination, it appears the wages recorded in the InRhodes system were inaccurate for the period relating to the missing documentation. The erroneous wage information did not impact the provider's payment or the parent's copayment.
- ❑ Seven instances where the earned income amount (wages) utilized in the child care eligibility calculation varied from the hard copy income documentation contained in the case file. One of the seven differences resulted in an incorrect income level, which impacted the provider's payment and the parent's copayment. Another of the seven differences also yielded an incorrect income level, which caused an ineligible case to erroneously appear eligible for child care assistance.
- ❑ One instance where the unearned income from child support, utilized in the child care eligibility calculation, differed from the data reflected in the eligibility system's Child Support Enforcement Module.

Since child care workers did not comply with established procedures, provider payments and the required copayment amounts were incorrectly calculated in certain instances and some payments to a provider were mistakenly made on behalf of an ineligible child. Internal controls should be strengthened to ensure that caseworkers comply with established procedures.

Questioned Costs: unknown

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

---

RECOMMENDATION

- 2004-68      Strengthen internal controls to ensure adherence to internal procedures requiring agency personnel obtain and properly utilize required documentation to update electronic case file records prior to approving child care eligibility and determining payment amounts.

**Finding 2004-69**

FOSTER CARE – TITLE IV-E-CFDA 93.658

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

ELIGIBILITY

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

- ❑ The foster family home or child-care institution in which the child resides must be fully licensed {42 USC 671(a)(10) and 672(c)}.
- ❑ The child must meet the eligibility requirements of the former Aid to Families with Dependent Children program (i.e., meet the State-established standard of need as of July 16, 1996) {42 USC 672 (a)}.

DCYF’s eligibility determination procedures should be enhanced to ensure only costs for Foster Care Title IV-E eligible children are reimbursed through the program.

DCYF performed an internal review of cases claimed during the period from October 1, 2003 to March 31, 2004, and determined that 141 cases were not eligible for federal financial participation (FFP). As a result, it made a decreasing adjustment for \$179,929 (FFP) on the Title IV-E 1 claim for the quarter ending March 31, 2004.

The federal Department of Health and Human Services (HHS) subsequently conducted a “primary eligibility review” that “encompassed a sample of all cases open during the period October 1, 2003 through March 31, 2004”. It determined that 79 of the 80 cases in its sample were eligible for federal financial participation (one case was not eligible “because of not being fully licensed for the entire period under review”). As a result, HHS considered DCYF to be in “substantial compliance with the Title IV-E eligibility requirements”.



## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

---

HHS also directed DCYF to return the federal share of all (including periods prior to October 1, 2003) unallowable maintenance and related administrative costs for the 141 cases it found ineligible. DCYF made a decreasing adjustment on its September 30, 2004 Title IV-E 1 claim to comply with this directive. The amount relating to the fiscal year ending June 30, 2004 was \$121,953 (which we consider a questioned cost for this audit period).

HHS additionally recommended that DCYF analyze the reasons why it found it necessary to conclude that 141 cases were ineligible for FFP. It also reported that “any deficiencies found in the eligibility determination and claiming processes should be addressed through system changes and/or training of fiscal, information system, or eligibility staffs”. HHS further suggested that DCYF “put in place a quality assurance system to self-monitor the accuracy of both processes”.

As part of our Single Audit for the fiscal year ended June 30, 2004, we selected a sample of 25 day care payments and tested them for applicable eligibility requirements. The federal share of these costs totaled \$424,668 in fiscal year 2004, and the universe of payments in our sample was \$1,780. We found one payment that was not eligible for federal funding because it was made on behalf of a child that did not meet all of the eligibility requirements. Specifically, this child did not meet the eligibility requirements of the former Aid to Families with Dependent Children program. The federal share of this unallowable cost totaled \$84.

During fiscal 2004, DCYF charged the Foster Care program for day care costs for both Foster Care program eligible and Adoption Assistance Program eligible children. This had been reported as a finding for fiscal 2003 and was subsequently adjusted for fiscal 2003; however, a similar adjustment was not made for fiscal 2004 costs. DCYF did not receive excess federal funding in fiscal 2004 because the federal reimbursement rate for these costs is the same for both programs. The amount overcharged in fiscal 2004 to the Foster Care Program (and undercharged to Adoption Assistance Program) is \$698,143 (federal share). Additionally, DCYF made a retroactive positive claim for fiscal 2004 on the federal report for the quarter ended March 31, 2005 in the amount of \$173,990 relating to previously unclaimed day care costs for foster care eligible children. The net Foster Care overclaim (related to day-care) for quarters ending in state fiscal year 2004 is \$524,153.

Questioned Costs: \$646,190

#### RECOMMENDATION

2004-69	Enhance the quality assurance system as it relates to Title IV-E eligibility requirements. Adjust federal reports to reimburse the federal government for the remaining unallowable maintenance costs not yet returned to the federal government.
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Section III – Federal Award Findings and Questioned Costs

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**Finding 2004-70**

FOSTER CARE – TITLE IV-E-CFDA 93.658

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

FEDERAL REPORTING

The federal report (IVE-1) for the quarter ended September 2003 contained an error which overstated the federal share of claimed costs by \$596,432. The error was caused by transposing an incorrect number from the Department's cost allocation system to the federal report. The overclaim needs to be included as negative prior quarter adjustment on the next submitted quarterly report.

Questioned Costs: \$596,432

RECOMMENDATION

2004-70      Adjust the overclaim on a subsequent federal expenditure report.

**Finding 2004-71**

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558

CCDF CLUSTER:

    Child Care and Development Block Grant – CFDA 93.575

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

STATE CHILDREN'S INSURANCE PROGRAM – CFDA 93.767

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778

Administered by: Department of Human Services (DHS)

CHILD SUPPORT ENFORCEMENT – CFDA 93.563

Administered by: Department of Administration – Child Support Enforcement

AUTOMATED DATA PROCESSING (ADP) RISK ANALYSIS AND SYSTEM SECURITY REVIEW

Federal regulations (45 CFR section 95.621) mandates that States are responsible for the security of all ADP operational systems involved in the administration of HHS programs. State agencies are required to determine appropriate ADP security requirements based on recognized industry standards governing security of federal ADP systems and information processing.

DHS utilizes two primary systems, INRHODES and the Medicaid Management Information System (MMIS), to administer HHS federal programs. Benefits payments disbursed

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

---

through these two systems during fiscal year 2004 totaled over \$1.6 billion. These systems interface due to the interrelated aspects of the federal programs. For example, Medicaid eligibility is determined within INRHODES and then transmitted to the MMIS where Medicaid claims are paid. DHS currently employs separate risk assessments and security review processes over these systems. Neither security plan currently employed by DHS appears to address all of the security concerns outlined by recognized industry standards governing security of federal ADP systems and information processing. Also, past reviews conducted by DHS would document certain system controls but include no verification of their operation or effectiveness. Examples where the existence and effectiveness of key system controls were not tested included controls relating to system access, application software development and changes, service continuity, and incident response capability.

During fiscal year 2004, the U.S. Department of Health and Human Services (DHHS), Office of Inspector General (OIG), Office of Audit Services conducted a review of general controls for Rhode Island's MMIS. Their review concluded that general controls for the MMIS need improvement, citing weaknesses relating to entity-wide security program planning and management, access controls, application software development and change controls, segregation of duties, and service continuity. DHS needs to address these aspects of information system security to safeguard the operations of the MMIS and other information systems vital to the operation of the Medicaid program.

DHS should consider implementing a single comprehensive system security review plan to assess and manage the risks of both systems as well as other ADP issues impacting the administration of HHS programs. This comprehensive security plan should include accepted industry standards in sufficient detail to assist the designated security officer in identifying security deficiencies. In addition, DHS should also evaluate the overall qualifications of the appointed review team to ensure that they possess the skills and experience necessary to continually assess and manage the security risks noted through the review process.

45 CFR Section 95.621 requires State agencies to review the ADP system security of installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. DHS failed to perform a biennial review on the MMIS during fiscal year 2004. In addition, the review conducted on the INRHODES system was not sufficiently conducted in accordance with Federal regulations.

Federal regulations also require states to establish and maintain a program for conducting periodic risk analyses to ensure that appropriate safeguards are incorporated into new and existing systems. State agencies also must perform risk analyses whenever significant system changes occur. DHS does not have a process in place to update and reassess risk assessments when significant system changes occur. Further, policies and procedures to identify and address security risks related to system changes have also not been implemented by DHS.

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

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Questioned Costs: None

RECOMMENDATIONS

- 2004-71a      Develop a comprehensive ADP risk analysis and system security review process to ensure a coordinated approach to identifying and addressing security risks related to information systems used to administer federal programs.
- 2004-71b      Implement procedures to ensure that risk assessments are conducted for significant system changes that could affect overall information system security.
- 2004-71c      Utilize recognized industry standards (i.e., Federal Information Systems Controls Audit Manual (FISCAM), National Institute of Standards and Technology (NIST)) governing security of Federal ADP systems and information processing to aid in the development of the department's policies and procedures relating to system security.
- 2004- 71d      Address all information system security weaknesses cited in the DHHS OIG's review of general controls for the MMIS.
- 2004- 71e      Conduct biennial reviews of all installations involved in the administration of HHS programs including a complete evaluation of physical and data security operating procedures.

**Finding 2004-72**

STATE CHILDREN'S INSURANCE PROGRAM – CFDA 93.767  
Administered by: Department of Human Services (DHS)

ELIGIBILITY

The basic objective of the State Children's Health Insurance Program (SCHIP) as authorized by Title XXI of the Social Security Act is to initiate or expand health insurance programs for low-income, uninsured children. States are afforded flexibility in the implementation of programs to meet this objective. In Rhode Island, the State has obtained waivers from the federal government that allow reimbursement of medical insurance coverage provided to certain individuals previously under the Medicaid program at the enhanced SCHIP federal financial participation rate.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

---

Eligibility for both the Medicaid and the SCHIP programs is determined through the Department's INRHODES computer system, however, specific SCHIP eligibility criteria has not been programmed into that system. Instead, all individuals first become Medicaid eligible. The Department's procedures to identify and claim amounts eligible under SCHIP consist primarily of disbursing capitation or fee-for-service payments initially as Medicaid eligible expenditures and then, using queries against the Medicaid Management Information System (MMIS), reclassifying certain amounts based on eligibility characteristics. The queries isolate individuals meeting the SCHIP eligibility criteria and then accumulate expenditures (both fee-for-service and capitation payments) for the defined time period.

The Department uses queries rather than programming its systems to identify SCHIP eligible individuals because of existing system design constraints, continual changes regarding eligibility for SCHIP, and federal limits on funding for the SCHIP program. Controls over eligibility could be improved by subjecting the results of the queries used to accumulate SCHIP eligible individuals and related program costs to a quality control process to ensure individuals meet program eligibility and allowable cost criteria.

The State, as outlined in its SCHIP State plan, has required that information about the existence of health insurance from other sources be considered in determining eligibility for SCHIP. This information may not be fully considered as intended in the SCHIP State Plan because of the manner in which eligibility is determined.

Medicaid eligibility criteria within the INRHODES computer system inquires about the existence of other health insurance coverage primarily for third party liability purposes -- the existence of other health insurance coverage is recorded for cost avoidance purposes but does not automatically deny eligibility. SCHIP eligibility criteria require a more thorough examination of the applicant's access to health insurance coverage at a certain cost and consideration of whether the applicant denied or canceled coverage within the recent period preceding application. While the application for SCHIP collects information related to other insurance, the INRHODES system is not programmed to fully consider these unique SCHIP eligibility characteristics. Individuals that may not be SCHIP eligible because of other insurance related issues would still be considered Medicaid eligible.

DHS structures its queries designed to accumulate costs for SCHIP eligible children by excluding those with verified existence of other medical coverage. This does not fully meet the eligibility criteria outlined in the State's SCHIP plan.

Further, the terms and conditions of the program that were applicable during fiscal 2004 included the provision that parents covered as part of the demonstration population be uninsured. In designing queries to accumulate costs to be charged to the SCHIP program, there was no evidence that this criterion was considered for demonstration parents. Our analysis of the population of 155,970 monthly capitation payments (totaling in excess of \$29 million) claimed for the SCHIP Demonstration population revealed that 21,006 or 13.5% of these payments totaling \$4,160,120 (federal share - \$2,875,059) were for parents that had verified third party

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

---

liability coverage (as recorded in the MMIS) during the month of capitation. In addition, 13,531 fee-for-service claims totaling \$456,386 (federal share - \$315,408) were also charged to SCHIP for periods in which third party coverage was indicated. During fiscal year 2004, DHS only claimed 75.8% of the above total costs of \$4,616,506 on federal reports due to SCHIP funding limitations (75.8% of the \$3,190,467 (federal share amounts) reported above totals federal questioned costs of \$2,418,374). Although these payments do not appear to meet stated criteria allowable for enhanced SCHIP reimbursement (FY 2004 average FFP = 69.11%), these costs would be eligible for reimbursement through the Medical Assistance Program (FFP = 58.98%), resulting in net federal questioned costs of \$354,480.

During our audit, we tested capitation and fee-for-service claims identified by ad-hoc queries and charged to the SCHIP program. Our testing resulted in the following findings and questioned costs related to the program:

- ❑ DHHS's Center for Medicare and Medicaid Services allowed the State to claim SCHIP reimbursement for previously unused SCHIP allotments for years 1998-2001. CMS communicated to the State that they could seek reimbursement for an unused SCHIP allotment in the amount of \$485,095 to the extent that the State had individuals qualifying for Medical Assistance that had not attained age 19 and whose family income exceeded 150 percent of the federal poverty line. During our audit, we examined the population supporting the State's additional claiming and found that some of the children under age 8, included in the supporting population, related to households under the 150% FPL requirement. The State claimed enhanced reimbursement (in addition to amounts already claimed through Medical Assistance) of \$166,650 (federal share) in excess of actual claims for eligible children allowed by federal guidelines. This amount has been adjusted in the State's financial statements.
- ❑ In addition, our testing noted 2 fee-for-service claims that were charged to the program for individuals who did not meet SCHIP program eligibility requirements. The individuals were charged to SCHIP due to incorrect eligibility codes that were determined manually by DHS eligibility technicians. See Finding 2004-74 for reportable condition relating to manually determined eligibility segments. One of the claims above was also determined to be ineligible for Medical Assistance resulting in questioned costs for both claims totaling \$20,874 (federal share - \$14,449) with net federal questioned costs after reimbursement of one of the claims through the Medical Assistance Program totaling \$7,983.
- ❑ DHS was unable to provide documentation to support amounts claimed for SCHIP in 9 out of the 12 months during the fiscal year. Differences resulted because the department did not maintain supporting documentation at the time in which the ad-hoc queries were completed and tried to subsequently reproduce these populations when the supporting documentation was requested during our audit. Although we were ultimately able to determine that the State had sufficient SCHIP eligible claims

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

---

during fiscal 2004 to support the amounts claimed, DHS should more thoroughly document the specific claims identified as SCHIP eligible and provide an adequate audit trail for SCHIP expenditures.

These exceptions further illustrate the department's need to begin subjecting SCHIP claiming resulting from ad-hoc queries to a quality control process similar to the process in place over all Medicaid claims. Such a process should provide additional control over the SCHIP eligibility process by evaluating eligibility based on the specific income and insurance criteria mandated for the program instead of relying solely on an individual's coding characteristics within the MMIS.

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

Questioned Costs: \$2,432,823 – SCHIP Program (net questioned costs after reflecting costs eligible for Medicaid reimbursement is \$362,463)

#### RECOMMENDATIONS

- 2004-72a Subject the results of queries used to accumulate eligible SCHIP program costs to a quality control process to ensure eligibility and allowable cost program criteria are met.
- 2004-72b Credit federal reports for expenditures that do not comply with the terms and conditions of the SCHIP program.
- 2004-72c Implement procedures to fully consider the existence or availability of other insurance when determining eligibility for SCHIP.
- 2004-72d Maintain adequate supporting documentation for all capitation and fee-for service claims identified as SCHIP eligible through ad-hoc queries.

#### **Finding 2004-73**

STATE CHILDREN'S INSURANCE PROGRAM – CFDA 93.767  
Administered by: Department of Human Services (DHS)

#### COST RECOVERIES - PROGRAM PARTICIPANT COST SHARING COLLECTIONS

Some SCHIP eligible individuals participate in a managed care cost-sharing component of the State's Medicaid program. The State pays a monthly capitation amount to a managed care

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

---

provider and then seeks reimbursement from the individuals for their “co-pay” amount. “Co-pay” collections reduce federal program expenditures and claims.

The Department bills family units for applicable co-pay amounts based upon family income and other program criteria. Data is not currently available to apply collection of co-pay amounts to Medicaid (CFDA 93.778) or SCHIP (CFDA 93.767) based upon the program that was charged for the capitation amount. Instead all collection of co-pay amounts is applied to the Medicaid program.

Consequently, the federal share of program expenditures for the Medicaid program is understated and the federal share of SCHIP expenditures is overstated. The under/overstatement between the two programs is not offset because of the difference in federal financial participation rates (58.98% for Medicaid vs. 69.22% for SCHIP). Cost sharing collections in fiscal 2004 totaled \$3.3 million (for approximately 1,900 individuals), however, the Department cannot determine the amount that should be applied to each program.

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

Questioned Costs: None

RECOMMENDATION

2004-73      Implement procedures to allow crediting the appropriate federal program for the collection of co-pay amounts under the State’s RIte Care Cost Share program.

**Finding 2004-74**

STATE CHILDREN’S INSURANCE PROGRAM – CFDA 93.767

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778

Administered by: Department of Human Services (DHS)

MANUALLY DETERMINED ELIGIBILITY SEGMENTS

DHS’s INRHODES system currently defaults eligibility coverage to the date of application and requires manual intervention to establish eligibility retroactively for individuals determined to be eligible in prior periods. Certain situations exist within the Medical Assistance program that require eligibility technicians to create segments (called ISLA determinations) within the INRHODES System to retroactively date an individual’s eligibility. These situations mostly include the addition of newborns to Medicaid cases and the dating of eligibility for undocumented immigrants requiring emergency medical services back to the date of their



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

---

hospitalization. These segments ultimately require supervisor approval prior to being activated within the INRHODES System.

During our audits of the Medical Assistance and SCHIP programs, we noted 2 cases where manually determined eligibility segments resulted in assigned aid categories that did not agree with that individual's specific characteristics (income, citizenship, etc.). An incorrect aid category assignment within the INRHODES System, when translated to the MMIS, can result in the following incorrect claim payments:

- ❑ Payment for a wider scope of medical services than an individual may be entitled to,
- ❑ Denial of payment for a medical service that an individual may be entitled to,
- ❑ Incorrect capitation amounts for managed care coverage,
- ❑ Claims being charged to SCHIP for individuals ineligible for that program.

While the incorrect aid category assignment did not have an impact on the Medical Assistance Program, these cases did result in the claiming of SCHIP enhanced reimbursement for individuals that did not meet SCHIP eligibility requirements (related questioned costs already quantified as part of finding 2004-72). In these cases, the incorrect assignment of aid categories within the INRHODES system ultimately resulted in claims for these individuals being selected by ad-hoc queries utilized by DHS to identify eligible SCHIP expenditures.

Due to DHS's reliance on the INRHODES system to directly determine Medicaid eligibility and, in some cases, SCHIP eligibility based on the system's initial aid category coding, it is crucial that adequate controls be in place over any manual override of the eligibility determination process.

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

Questioned Costs: None

RECOMMENDATION

2004-74      Improve controls and policies relating to manually determined eligibility segments within INRHODES to ensure that correct aid category codes are assigned to medical benefit recipients within the Medical Assistance and SCHIP programs.

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

---

**Finding 2004-75**

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

CONTROLS OVER HOMEMAKER SERVICE BILLINGS

Payments to homemaker service providers are processed through the State's Medicaid Management Information System (MMIS) for both Medicaid and non-Medicaid sources of funding. Approximately \$1.5 million was charged to the Social Services Block Grant program and \$23 million (state and federal share) was charged to the Medicaid program. We found that controls over these expenditures could be improved to ensure that (1) payments are only for authorized individuals, (2) amounts billed do not exceed the level and duration of service authorized, and (3) amounts are correctly allocated to the appropriate funding source based upon eligibility criteria for the respective programs.

Department personnel complete an HS-3 *Authorization of Homemaker / Home Health Aide Services Adult Day Care* for each client. The form indicates general client information, the funding source to be used when billing, as well as the authorization period and hours authorized. DHS forwards a copy of the HS-3 authorization form to the homemaker service providers, however, this form is not provided to the fiscal agent processing billings for payment. Consequently the fiscal agent cannot match the authorized amount or period of service to billed amounts.

For Medicaid eligible individuals, an electronic case record is established within the Department's INRHODES computer system. The case record indicates funding source code, hours authorized and authorization period for homemaker services. Although the INRHODES computer system electronically transmits certain information to the MMIS on a daily basis, this information is not transmitted. Case records have not been established for individuals receiving homemaker services under the SSBG program.

Vendors are responsible for billing under the proper funding code based upon information contained on the HS-3 *Authorization of Homemaker / Home Health Aide Services Adult Day Care*. Since information within the MMIS is incomplete regarding eligibility for all individuals receiving homemaker services, controls are not adequate to ensure that all payments for homemaker services are authorized and charged to the appropriate funding source. During fiscal 2004, the department processed an expenditure adjustment transferring approximately \$639,607 from the SSBG to Title XIX (Medical Assistance) to correct erroneous funding source codes indicated by the homemaker service vendors.

Questioned Costs: None

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

---

RECOMMENDATION

2004-75      Strengthen procedures to ensure that vendor billings for homemaker services are verified as to authorized recipient, funding source, authorization period and authorized hours prior to payment.

**Finding 2004-76**

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

TIMELY IDENTIFICATION OF CLAIMS PAID ON BEHALF OF INELIGIBLE INDIVIDUALS

DHS utilizes an integrated computer system (INRHODES) as the official database used to determine and track eligibility for Medicaid. Transactions affecting eligibility are transmitted daily from INRHODES to update the MMIS recipient subsystem. As designed, Medicaid eligibility data from INRHODES should be replicated in the MMIS. In a limited number of instances, differences occur between the two databases. These differences can be summarized into three categories:

- ❑ Cases active in INRHODES, but inactive in the MMIS;
- ❑ Cases active in the MMIS, but closed in INRHODES; and
- ❑ Other differences, such as personal data, recipient income, category codes, etc.

A monthly variance report identifying the differences between the two systems is generated by the MMIS, and forwarded to DHS for review. DHS is responsible for making the appropriate corrections to ensure the accuracy and reliability of the two systems. Variances occur in about 1,000 cases each month. DHS is now researching and making corrections on a relatively timely basis. However, when investigation of the case indicates that a case should have been considered ineligible, DHS is not quantifying, on a timely basis, the amount of claims paid on behalf of the ineligible individual.

For calendar year 2003, 129 cases were deemed ineligible. Claims paid during the periods of ineligibility totaled \$24,883 (federal share - \$14,375). DHS did not credit the federal government for these costs during fiscal 2004. An additional 130 cases have been determined to be ineligible for calendar 2004; however, quantification of claims paid for these cases during the period of ineligibility has not been made.

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

---

DHS believes that these eligibility variances will continue to occur due to the design of both INRHODES and the MMIS and further, any solution to completely eliminate these variances would require substantial and costly redesign of either or both systems. Accordingly, DHS's investigation of eligibility variances must be performed timely to minimize the likelihood and effect of payments made on behalf of ineligible individuals. Additionally, a complete resolution of eligibility variances must include determination of claims paid for ineligible individuals. Documentation should be maintained to support the investigation of cases determined to be ineligible and any quantification of claims paid during the period of ineligibility.

Questioned Costs: \$14,375

RECOMMENDATION

2004-76      Determine, on a timely basis, the amount of claims paid on behalf of ineligible individuals and reimburse the federal government for its share.

**Finding 2004-77**

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

FISCAL AGENT OVERSIGHT

DHS is highly dependent on its fiscal agent's extensive and complex computer system (MMIS), which includes controls for processing payments on behalf of eligible Medicaid beneficiaries as well as controls over disbursing state and federal funds. Oversight of these operations by DHS is essential to ensure that the fiscal agent complies with program regulations, and controls are functioning as designed. This is critically important considering the authority delegated to and dollar value of disbursements processed by the fiscal agent.

We have recommended in prior audit reports that DHS improve its oversight by monitoring the internal control procedures and financial activities employed by the fiscal agent. Monitoring is necessary to ensure that effective controls are in place over program disbursements, and that financial data is being accurately reported for presentation in the State's financial statements and federal reports. Financial monitoring procedures have not been fully developed, and responsibility for financial monitoring has not been centralized or well coordinated. DHS may need additional resources to fully accomplish these objectives.

We noted the following matters:

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

---

- *DHS should ensure that the fiscal agent has adequate internal control policies and procedures in place to pay claims in accordance with program regulations and to control cash disbursements made on behalf of the State.* The internal control structure through which the fiscal agent processes Medicaid claims is totally separate and distinct from the State’s accounting system and related control procedures used to disburse other state expenditures. We recommended previously that DHS or its fiscal agent obtain an annual examination of its internal control policies and procedures by independent certified public accountants attesting to the adequacy of the design and operation of key internal controls utilized by the fiscal agent. This type of examination is referred to as a “SAS 70” review. DHS has recently signed a new contract effective for fiscal 2006 with its fiscal agent that includes an annual “SAS 70” audit requirement.
  
- *DHS has not developed procedures to effectively monitor the financial activities of the fiscal agent.* For example, DHS has not implemented sufficient procedures to verify MMIS financial data used to record program activity and prepare federal reports. Additionally, procedures are not in place to ensure all prescription drug rebates are billed and collected, provider accounts receivable balances are accurately reported, and third party liabilities have been identified and collected. Most importantly, the fiscal agent performs incompatible functions of billing, recording, and receiving drug rebates, third party liability collections, and provider refunds. DHS performs no oversight procedures to ensure receipt of all collections by its fiscal agent.

Questioned Costs: None

#### RECOMMENDATIONS

- 2004-77a      Obtain an annual examination (“SAS 70” review) performed by independent certified public accountants of the fiscal agent’s internal control policies and procedures.
  
- 2004-77b      Improve financial oversight of the fiscal agent by enhancing procedures to (1) verify information from the MMIS used to record program activity and prepare federal reports, (2) monitor the billing and collection of drug rebates and (3) ensure third party liabilities are identified and collected.

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

---

**Finding 2004-78**

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

THIRD PARTY LIABILITY IDENTIFICATION

Federal regulation (42 CFR 433.138) requires the State to maintain an action plan for pursuing third party liability (TPL) claims. States must develop procedures for determining the legal liability of third parties to pay for Medicaid services and integrate these procedures within the MMIS. Medicaid must exhaust third party resources prior to payment. When a third party liability is established after payment, reimbursement should be sought.

Although DHS performs certain TPL related functions, the fiscal agent is primarily responsible for the TPL process, including verifying recipients' TPL information, maintaining the systems used to identify TPL-related claims, and collecting from insurance carriers.

TPL information originates from the Department's INRHODES computer system and is then electronically communicated to the MMIS. The fiscal agent must verify this TPL data before it becomes effective. When the TPL information is verified, the MMIS generates a third party billing for claims paid during the time period when other third party insurance was effective. If the insurance is verified at the time the claim is submitted, the MMIS has a cost avoidance mechanism in place to deny payment of the claim.

During fiscal 2004, recovery from third party insurers was not attempted for claims totaling approximately \$3 million (federal share - \$1,745,484) because the time limit for submission of claims had expired. Claims totaling \$297,238 (federal share - \$175,578) were submitted for reimbursement but were subsequently denied mostly due to untimely filing.

In addition, attempted Medicare recoveries approximating \$2 million were also denied due to exhausted benefits for related Medicaid recipients. The amount of denials related to the untimely identification of Medicare coverage is unable to be determined by the fiscal agent.

DHS's inability to recover for TPL was caused mostly by failure to identify TPL information on a timely basis during fiscal 2004 and in prior years. During fiscal 2004, DHS hired a contractor to begin matching Medicaid recipient data with third party private insurance data in an effort to identify medical coverage more effectively. While these data matches have increased the amount of third party insurance coverage identified by the fiscal agent, it is too soon to evaluate if these matches are resulting in improvements in cost avoidance and third party recovery amounts.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

---

Due to the amount of authority delegated to the fiscal agent with respect to TPL identification and collection, DHS should improve its monitoring of the fiscal agent's procedures, and all data (billings and collections) generated by those procedures.

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

Questioned Costs: \$1,921,062

#### RECOMMENDATIONS

- |          |   |
|----------|---|
| 2004-78a | Review existing procedures to ensure that third party liabilities are identified on a timely basis. |
| 2004-78b | Reimburse the federal government for its share of uncollected third party liability recoveries.     |

### **Finding 2004-79**

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

#### CONTROLS OVER PROGRAM EXPENDITURES

##### Benefit Type Expenditures

Medical Assistance program expenditures, other than administrative costs, are primarily processed through the Medicaid Management Information System (MMIS). The MMIS is designed to provide the basic controls over eligibility, types of services allowed and payment rates as well as enhanced controls to prevent duplicate payments, identify unusual patterns of utilization of services, and identify and collect third party liabilities.

During fiscal 2004, program expenditures (federal and state share) in excess of \$85 million were processed by systems independent of the MMIS. These consist primarily of Home and Community Based Waiver services processed by the Department of Mental Health Retardation and Hospitals (MHRH), Medicare Part A & B premium payments, and transitional payments to community health centers.

Other independent systems have not been designed to contain all the control procedures of the MMIS. Further, the potential for duplicate payment of the same claim exists – a claim could be submitted and paid from both the MMIS and the independent accounting system.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

---

Processing all program expenditures through a unified system substantially enhances controls over programs administered by agencies outside the Department of Human Services. The Department of Human Services continues to move towards processing all Medicaid claims expenditures through the MMIS and has reduced the volume and dollar amount of expenditures processed independent of the MMIS from prior years.

The Department of Children, Youth and Families (DCYF) utilizes the MMIS in a limited manner to “process” claims. Disbursements to providers are still made independent of the MMIS. After payment, DCYF’s computer system sorts Medicaid eligible claims for transmission to the MMIS. The MMIS performs limited edits on the claims and records the claims information within its database. Because many of DCYF’s provider payments are allocated to multiple funding sources and other unique payment arrangements are utilized, the department believes it cannot use the MMIS to pay its providers. This current payment and claims processing structure enhances controls over eligibility and limits the potential for duplicate payment, however, all the enhanced control features of the MMIS are not applied to these claims.

During our audit, we noted that an adjustment was processed which utilized the incorrect reimbursement percentage to allocate expenditures to the program for one month’s capitation expense for foster children with special healthcare needs. Federal questioned costs totaled \$1,376 for this instance.

Payment to all providers should be based on actual claims submitted and processed through the MMIS.

#### Rate Setting – State Operated Facilities

We found that there is no oversight of the rate setting process for state operated facilities (hospital and group homes) by DHS. There is review of the rate setting process for the Eleanor Slater Hospital (a state operated hospital) by the federal Medicare intermediary since the same rate is used to charge the Medicare program when patients qualify for coverage. While federal regulations are not specific as to rate setting for state operated facilities, the memorandum of understanding (MOU) (interagency agreement) between the Department of Human Services (State Medicaid Agency) and the Department of Mental Health, Retardation and Hospitals (operator of the hospital and group homes) should specify the process to be followed, documentation to be maintained, and the approval process required.

#### Administrative Expenditures

Six separate departments of the State administer elements of the Medicaid cluster of programs. We noted inadequate controls to ensure compliance with program requirements for administrative expenditures incurred by departments other than the Department of Human Services. This occurs because there are no centralized controls in place, across departmental lines, to ensure that administrative expenditures comply with program requirements. While all



## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

---

administrative expenditures are disbursed through the State's centralized accounting system, controls to ensure compliance with federal program requirements are employed at the department level. Each department designs its own procedures and controls to meet federal program requirements. Expenditures charged to the Medicaid program by other departments are not reviewed or approved by DHS -- the single state Medicaid agency.

The Department of Human Services enters into a memorandum of understanding (MOU) with each state department that administers aspects of the Medicaid program. The MOU details specific program services to be provided under the Medicaid program. We believe the portions of the MOU which concern administrative costs reimbursable under the Medicaid program should be enhanced by requiring annual budgets which (1) detail personnel costs to be reimbursed under the program and (2) describe the allocation methodology when less than 100% of an individual's effort is devoted to the program. These annual budgets should be provided to and reviewed by DHS as the single state Medicaid agency. Additionally, purchases of goods and services over \$25,000 which will be reimbursed with Medicaid administration funds should require approval of DHS prior to expenditure.

In instances where MOUs are in place, DHS is not adequately monitoring other agencies' compliance with agreement terms and conditions. During our testing of administrative expenditures charged by other State agencies, we noted the following:

- ❑ \$8,361 (federal share) of administrative claiming was charged by the Department of Elderly Affairs (DEA) for certain indirect costs not specifically authorized in the department's interagency agreement with DHS.
- ❑ The Department of Mental Health, Retardation, and Hospitals (MHRH) allocated certain indirect costs at enhanced rates instead of the allowable 50% federal reimbursement percentage (federal share - \$869).

In addition, our review of administrative expenditures charged by other State agencies noted several examples where amounts charged to the Medicaid program did not clearly demonstrate the required State matches. Although we were able to verify the existence of the required State match for these expenditures, agencies are not complying with requirements stipulated in interagency agreements with DHS. Interagency agreements require that expenditures are recorded into approved federal and state accounts at the time expenditures are incurred. Compliance by other State agencies is necessary to ensure that administrative expenditures are charged in accordance with federal regulations.

#### Indirect Cost Allocation

As part of our audit of DHS's department-wide cost allocation system, we noted an unallowable cost in the amount of \$4,023 (federal share) relating to unallowable legal services allocated to the Medicaid program and reported on federal reports during fiscal year 2004.

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

---

Questioned Costs: \$14,629

RECOMMENDATIONS

- |          |   |
|----------|---|
| 2004-79a | Improve controls by requiring all benefit-type program expenditures to be processed through the MMIS.   |
| 2004-79b | Implement oversight procedures for the determination of per-diem rates established for state operated facilities.   |
| 2004-79c | Implement control procedures to ensure the allowability of administrative expenditures charged to the Medicaid program by other departments.                                      |
| 2004-79d | Implement monitoring procedures to ensure that other State agencies are complying with MOU and/or interagency agreements that mandate their allowable Medicaid claiming activity. |
| 2004-79e | Reimburse the federal government for its share of questioned costs identified.  |

**Finding 2004-80**

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

SUSPENSION AND DEBARMENT

DHS utilizes various service providers and contractors for the operation of the Medical Assistance Program. Federal regulations prohibit States from contracting with or making subawards under covered transactions to suspended or debarred parties. Covered transactions include procurement contracts for goods or services equal to or exceeding \$100,000 and all non-procurement transactions (e.g., subawards to subrecipients). Contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred.

The State's fiscal agent has been attempting to obtain revised provider agreements, which included required certifications that the organization and its principals are not suspended or debarred from participating in the Medical Assistance Program, since November 2000. During our testing of claims paid in fiscal 2004, we still found 12 out of 102 providers tested did not have updated provider agreements in place that contained the required suspension and debarment certifications.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

---

The Department of Mental Health, Retardation and Hospitals, the Department of Health, and the Department of Elderly Affairs contracted with various vendors for Medicaid eligible services in excess of \$100,000 during fiscal year 2004. We found instances in each department where contracts with vendors in excess of \$100,000 did not contain certifications that the vendor was not suspended or debarred from participating in the Medicaid program.

The Department of Human Services should ensure that all contracts for the provision of Medicaid eligible services contain required certifications concerning suspension and debarment including contracts entered into by other departments. These requirements should be included in the memoranda of understanding that the Department of Human Services has with each state department which participates in the Medicaid program.

As part of our audit, we updated the status of findings resulting from a Program Integrity audit conducted by the Centers for Medicare and Medicaid Services (CMS) during fiscal year 2003. CMS found that the department's provider agreement addendum requiring providers to certify that they have not been debarred or suspended from participating in the Medical Assistance Program did not fully comply with 42 CFR 455.106. The department had not addressed this issue as of the time of our audit.

Questioned Costs: None

#### RECOMMENDATIONS

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|----------|---|
| 2004-80a | Review and strengthen procedures to ensure current agreements containing the required suspension and debarment certifications are in place for all providers.                   |
| 2004-80b | Implement procedures to ensure that individuals/entities participating in the Medical Assistance Program have not been excluded from participation by any federal organization. |
| 2004-80c | Revise Addendum I to the department's standard provider agreement to fully comply with 42 CFR 455.106.  |

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

---

**Finding 2004-81**

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

PROGRAM OVERPAYMENTS

Federal regulation 42 CFR 433.20 requires the State to refund the federal share of overpayments that are subject to recovery to CMS through a credit on its Quarterly Statement of Expenditures (Form CMS-64). The federal share of overpayments subject to recovery must be credited on the Form CMS-64 report submitted for the quarter in which the 60-day period following the discovery is made regardless of whether or not the overpayment has been recovered by the State.

The State operates its Rite Share program to provide health insurance through employers for Medicaid eligible individuals and families as a cost effective alternative to its Rite Care program. Rite Share involves paying the employee share of health insurance coverage directly to the employer or in many cases, the employee. During our audit, we noted several instances where individuals left employment and terminated their health coverage but still continued to receive payments from DHS for their coverage. A review of a sample of receivable balances at June 30, 2004 resulting from employment terminations noted seven instances where individuals enrolled in the program received \$11,517 (federal share) for health insurance premiums when they no longer had active medical coverage. These amounts represent overpayments to Medicaid recipients that should have been credited back to CMS.

Federal regulation 42 CFR 433.40 requires the State to credit the Medical Assistance Program for provider payment checks which remain outstanding more than 180 days but did not credit the federal government for its share. DHS has a process to identify checks outstanding more than 180 days but did not credit the federal government for its share in a timely manner. At June 30, 2004, the total amount of provider checks outstanding more than 180 days was \$1,572 (federal share).

Questioned Costs: \$13,089

RECOMMENDATIONS

- |          |  |
|----------|--|
| 2004-81a | Reimburse the federal government for program overpayments within 60 days of their discovery.               |
| 2004-81b | Credit the federal government in a timely manner for all provider payments outstanding more than 180 days. |

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

---

**Finding 2004-82**

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

FEDERAL REPORTING

Controls should be improved over the preparation of the quarterly reporting of Medicaid expenditures on Form CMS-64 report. We found that the process to accumulate information needed to prepare the report is complex and requires extensive manual effort. Most of the information regarding claims paid is provided through the MMIS operated by the State's fiscal agent, however, other data must be derived from the State accounting system. Further, a complete reconciliation is not performed between amounts reported on the CMS-64 and Medicaid program expenditures reported in the State's accounting system, most notably administrative expenditures.

Although the reconciliation and reporting of program expenditures has improved, the overall process could be streamlined by better aligning the account structure within the State's accounting system with the categories of expenditure data generated by the MMIS and required for preparation for the CMS-64. Better alignment of accounts and coding would facilitate preparation of the CMS-64 as well as the reconciliation of data reported by the fiscal agent which ultimately is recorded in the State's accounting system.

DHS currently reports administrative expenditures claimed by other State agencies (DEA, DOH, MHRH, DCYF) based on cost certifications filed by these departments or transactions recorded in the State Accounting System. For certain administrative expenditure categories, DHS imputes State matches for federal expenditures certified by other State agencies to derive total costs reported on the CMS-64. As previously recommended in Finding 2004-79, DHS should require other State agencies charging expenditures to the Medicaid program to record transactions into designated State and Federal accounts. This should allow DHS to completely reconcile administrative expenditures reported in the State Accounting System with those reported on Form CMS-64.

No review process is in place to ensure consistent and accurate reporting of program expenditures on the CMS-64.

DHS is also required to complete Form PMS-272 Report for the Medical Assistance Program. The main function of the PMS-272 is to detail both administrative and program grants authorized for the program and actual expenditures reported on the CMS-64 for the program. We noted two instances during fiscal year 2004 where DHS reported cumulative disbursements on Form PMS-272 that exceeded actual expenditures to date for the fiscal year due to the use of incorrect expenditure data.

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

---

Questioned Costs: None

RECOMMENDATIONS

- |          |   |
|----------|---|
| 2004-82a | Align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS. |
| 2004-82b | Completely reconcile administrative expenditures reported on the CMS-64 with those reported in the State's accounting system.       |
| 2004-82c | Report cumulative disbursements on the PMS-272 based on actual expenditures in accordance with report guidelines.                   |

**Finding 2004-83**

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

HOSPITAL SETTLEMENTS

DHS requires inpatient hospital providers to file cost settlement reports within one year from the end of the hospital's fiscal year. DHS uses these settlement reports to determine amounts owed to or from participating hospitals. During fiscal year 2004, our review of hospital settlement information noted one hospital that had submitted overdue settlement reports during fiscal year 2003 for fiscal years 1995 through 2001. Calculated settlements by DHS resulted in amounts due from the hospital of \$3.1 million for the periods submitted. DHS recovered \$351,561 from the provider during fiscal year 2004, representing the undisputed portion of the settlement amount.

The hospital provider is currently disputing the remainder of the settlement amount. DHS should resolve this settlement with the provider in a timely manner to ensure the timely credit of these amounts to the federal government.

We also noted another hospital that has not filed its required settlement reports with the department since 1996. The department is estimating this hospital's liability to the State at approximately \$40,000 per year.

Questioned Costs: None

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

---

RECOMMENDATION

2004-83      Recover identified hospital settlements from providers in a timely manner and credit the federal government for their share within 60 days.

**Finding 2004-84**

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

LOCAL EDUCATION AGENCIES

School-based health services reimbursable under the Medicaid program are provided by local education agencies (LEAs) to students with special needs pursuant to an Individualized Education Plan (IEP). Services are provided in the school setting or another site in the community and include speech therapy, physical therapy, occupational therapy, audiological services, behavior management, counseling, and other medical services.

As part of our audit of the Medicaid program, we updated the status of a report on school-based medical services issued by the Office of Inspector General (OIG) from the Department of Health and Human Services conducted during fiscal 2003. The OIG reported the following audit findings relating to Medicaid claiming by LEAs:

- ❑ Sufficient documentation was not always maintained to ensure that services prescribed in the student's IEPs were delivered,
- ❑ Claims were submitted for students on days they were indicated as absent from school,
- ❑ Inconsistencies existed between IEPs and medical services performed, and
- ❑ Medicaid was sometimes incorrectly billed, either for an ineligible student or for medical services that were unallowable based on billing regulations.

The OIG ultimately concluded that ineligible claims were reimbursed and privacy information was disseminated because DHS's oversight and monitoring of school-based services was less than adequate. Medicaid program guidance was not always disseminated, and/or adequately explained. DHS did not monitor or review the LEA's degree of compliance with federal and state regulations applicable to LEA's participation in the Medicaid school-based program.

During May 2004, DHS implemented a guidebook for LEAs to clarify the roles and responsibilities of the various school personnel involved in the direct services reimbursement program. As of June 30, 2004, DHS had not implemented the other report recommendations and tentative disallowances totaling \$672,135 (as determined by OIG Audit) still remain unresolved.

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

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Questioned Costs: None

RECOMMENDATION

2004-84      Enhance oversight and monitoring procedures related to school-based medical services to address the findings in the report issued by the DHHS.

**Finding 2004-85**

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

RITE SHARE

As previously stated, the State operates its Rite Share program to provide health insurance through employers for Medicaid eligible individuals and families as a cost effective alternative to its Rite Care program. Rite Share involves paying the employee share of health insurance coverage directly to the employer or in many cases, the employee.

As part of the Rite Share enrollment process, DHS accumulates necessary health insurance information to determine the cost effectiveness of the coverage provided by the employer. Such information includes the benefits covered by the plan, the cost of the plan, the employee's share, employee co-payments, etc. DHS does not obtain any documentation from the health insurance plan as verification of coverage. Verification is only made with the employer.

Once enrolled, DHS does not currently have any means of verifying that Medicaid recipients maintain their employment and ultimately their health insurance coverage. This represents a significant control weakness considering that DHS, in many cases, pays premiums directly to Medicaid recipients.

During our audit, we noted seven cases where individuals were paid directly for health insurance coverage after they had terminated their employment and benefits. In all cases, the recipient did not return the premiums to DHS. As previously reported in Finding 2004-81, premium overpayments related to these cases totaled \$11,517.

In addition to paying premiums to these individuals, DHS also subsequently retroactively dated their insurance coverage termination date in the MMIS to the date the individual terminated their employment. This resulted in the State paying all fee for service claims submitted on behalf of these individuals in addition to paying the premiums for their employer coverage. Total fee-for-service claims paid for the periods when these individuals should have had employer coverage totaled \$53,448. Had timely identification of employment termination



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

---

been made and these individuals were re-enrolled in Rite Care, DHS would have incurred approximate capitation expenditures of \$21,495 only. DHS's untimely identification of terminated health coverage resulted in unnecessary costs of approximately \$31,953 (federal share = \$18,795)

DHS should improve controls to monitor the employment and sustained health insurance coverage of Rite Share participants to prevent overpayments and unnecessary benefit liabilities from being incurred by the Medicaid program.

Questioned Costs: \$18,795

RECOMMENDATION

2004-85      Improve controls to ensure that Rite Share participants enroll and sustain valid health insurance coverage to prevent program overpayments.

**Finding 2004-86**

BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE –  
CFDA 93.959

Administered by: Department of Mental Health, Retardation and Hospitals – Substance Abuse  
Unit

SUBRECIPIENT MONITORING

Grant awards and contracts

Grants to subrecipients may be funded with a combination of federal block grant funds and state funds appropriated for similar substance abuse prevention and treatment purposes. At the time of the award, the Substance Abuse Unit (SAU) does not identify the portion of the total grant that is funded from federal sources. Delineating the amount of federal block grant funds awarded at the time of the award is important so that the agency can plan to comply with all applicable federal requirements including the Single Audit provisions of OMB Circular A-133. Subsequently, at fiscal year end, the SAU informs the subrecipients of the total grant award amount that is from federal funds.

MB Circular A-133 requires that the pass-through entity (Division of Substance Abuse (DSA) – MHRH) is responsible for identifying to the subrecipient at the time of the award the federal award information namely the CFDA title and number, award name, name of the Federal agency and all applicable compliance requirements. In response to previous audit recommendations, the SAU enhanced its grant documentation to meet some of the OMB Circular A-133 requirements, however, the federal awarding agency and the amount of federal funds is

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

---

not specified. We also noted that not all prohibited uses were identified in the contracts (e.g., enforcement of state laws regarding the sale of tobacco to individuals under the age of 18, and inherently religious activities).

Additionally, in reviewing subrecipient contracts for the period July 1, 2003 to June 30, 2004, we noted that many contracts were not finalized until late in the year. For example, ten contracts we reviewed were not finalized until March 2004 and one contract was not finalized until June 2004.

#### Monitoring Procedures

The Substance Abuse Unit (SAU) is responsible for monitoring subrecipient activities to provide reasonable assurance that each subrecipient administers Federal awards in compliance with Federal requirements.

OMB Circular A-133 states that monitoring activities shall be performed by the pass-through entity for federal awards it makes and should include *During-the-Award Monitoring* procedures designed to provide reasonable assurance that subrecipients used federal funds for authorized purposes, complied with laws, regulations and contract provisions and grant agreements and achieved applicable performance goals. This requires SAU to complete adequate monitoring activities of all treatment facilities on a federal fiscal year basis.

Although it has been SAU's past practice to perform on-site treatment program reviews to cover all subrecipients each year, we found that no treatment programs were subjected to formal on-site program reviews during fiscal year 2004. Treatment programs represented the majority of funds passed through to subrecipients. Some on-site monitoring was performed of prevention program subrecipient activities. The SAU indicated that they met the monitoring requirements through alternative procedures, however, in our opinion, the alternative procedures performed by SAU were not sufficient in scope to provide reasonable assurance that subrecipients administered federal awards in compliance with applicable federal requirements.

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

Questioned Costs: None

#### RECOMMENDATIONS

2004-86a      Identify the amount and source of federal funds included in each grant award to subrecipients at the time of the award and identify all prohibited activities.

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

---

- 2004-86b      Finalize all contracts by the beginning of the fiscal year in which the services will be provided.
- 2004-86c      Perform adequate monitoring of all subrecipients to provide reasonable assurance that subrecipients used federal funds for authorized purposes, complied with laws, regulations and contract provisions and grant agreements and achieved applicable performance goals.

**Finding 2004-87**

STATE DOMESTIC PREPAREDNESS EQUIPMENT SUPPORT PROGRAM – CFDA 97.004  
Administered by: Rhode Island Emergency Management Agency (EMA)

CASH MANAGEMENT

As described in Finding 2004-29, the State did not have adequate controls to ensure compliance with federal cash management requirements in drawing cash for federal programs.

Federal regulations require that the RI Emergency Management Agency (EMA) minimize the time elapsing between the transfer of funds from the US Treasury and their disbursement, generally considered to be no more than a three-day supply of cash on hand. Our audit revealed that the EMA did not comply with this requirement.

We noted that the EMA drew \$11.3 million of federal cash in November 2003, principally to reimburse program expenditures totaling \$8.5 million. The lack of internal controls over Federal drawdowns resulted in the EMA drawing \$2.8 million of Federal funds in excess of their immediate cash needs. The \$2.8 million Federal cash balance remained on hand for approximately one month before being disbursed for Federal program expenditures.

Questioned Costs: None

RECOMMENDATION

- 2004-87      Limit drawdowns of federal cash to immediate needs.

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

---

**Finding 2004-88**

STATE DOMESTIC PREPAREDNESS EQUIPMENT SUPPORT PROGRAM – CFDA 97.004  
Administered by: Rhode Island Emergency Management Agency (EMA)

SUBRECIPIENT CASH MANAGEMENT

The EMA did not have adequate controls in place to limit federal cash disbursed to subrecipients to their immediate needs. The EMA, as a pass-through entity, must monitor cash drawdowns by subrecipients to assure that subrecipients conform substantially to the same standards of timing and amount as apply to the EMA (i.e., minimizing the time elapsing between the transfer of funds to subrecipients and their disbursement).

Our audit found that the EMA did not require subrecipients to formally request federal cash. Instead, the EMA advanced each subrecipient the entire amount of the subrecipient's grant award upon approval of the award, primarily in October 2003. While the EMA required that subrecipients submit quarterly fiscal reports reflecting expenditures, cumulative expenditures and balance of available funding, the EMA did not utilize these reports as a basis for payments to subrecipients or to request reimbursement of excessive advances.

We analyzed subrecipient fiscal reports for approximately \$8.4 million of the \$11.2 million paid to subrecipients during fiscal 2004 and noted significant amounts of federal cash on hand at the end of each quarter. The following table, *Unexpended Subrecipient Funding by Quarter*, illustrates the portion of the \$8.4 million in grant payments we analyzed that remained unexpended at the close of each quarter.

*Unexpended Subrecipient Funding by Quarter*

	<u>Unexpended Funds</u>	<u>Percentage of \$8.4 million</u>
Quarter Ended December 31, 2003	\$7,215,326	85.7%
Quarter Ended March 31, 2004	\$5,737,271	67.9%
Quarter Ended June 30, 2004	\$3,678,426	44.0%

The EMA should establish subrecipient cash management controls and procedures to more effectively monitor its subrecipients' cash positions and limit payments to immediate cash needs.

Questioned Costs: None

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

---

RECOMMENDATION

2004-88      Establish subrecipient cash management procedures to provide reasonable assurance that subrecipient payments are limited to the entities' immediate cash needs.

**Finding 2004-89**

STATE DOMESTIC PREPAREDNESS EQUIPMENT SUPPORT PROGRAM – CFDA 97.004  
Administered by: Rhode Island Emergency Management Agency (EMA)

SUBRECIPIENT MONITORING

Office of Management and Budget Circular A-133 requires pass-through entities to (1) monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements, (2) ensure that subrecipients expending \$500,000 or more in federal awards have met applicable audit requirements, (3) ensure that appropriate corrective action is taken on findings, and (4) require that subrecipients permit the pass-through entity and auditors access to records and financial statements to ensure compliance with the Circular.

The EMA utilizes multiple subrecipients to administer the State Domestic Preparedness Equipment Support Program. Awards range from under \$100,000 to more than \$1 million and totaled approximately \$11.2 million. In addition, the EMA purchased certain specialized equipment which it also passed-through to various subrecipients.

Our audit found that during the fiscal year ended June 30, 2004, the EMA required that each subrecipient submit a quarterly fiscal report and a quarterly progress report. The EMA subjected these reports to a desk review in order to determine that cash was being expended and progress was being made. EMA staff also conducted 12 on site visits to review equipment inventory and ensure that equipment was being used as intended. However, these procedures alone do not constitute an adequate monitoring process designed to ensure that federal awards to subrecipients were used for authorized purposes in compliance with laws, regulations, and the provisions of contracts and grant agreements. Specifically, we found the following weaknesses in EMA controls and procedures over subrecipient monitoring:

- The EMA did not have any subrecipient monitoring policies and procedures (e.g., annual monitoring plan), which considered various risk factors such as the relative size and complexity of awards to subrecipients or the cost-effectiveness of various monitoring procedures or identified the scope, frequency, and timeliness of monitoring activities.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

---

- While the EMA included an audit requirement in the conditions / assurances attached to each subrecipient grant award, the EMA did not receive, or request that subrecipients submit copies of, independent audit reports and related management letters. Accordingly, the EMA could not determine: (a) whether such audits were performed, and if so, whether any noncompliance was identified with respect to the subrecipient's EMA award, (b) whether there were any instances of continued inability or unwillingness of a subrecipient to have the required audits, or (c) the effects of any subrecipient noncompliance, if any, on EMA's records.
- The EMA's audit requirement language contained in its *General Grant Conditions / Assurances* document does not reflect current audit requirements (i.e., subrecipients that expend \$500,000 or more in awards are required to have a single or program-specific audit in accordance with OMB Circular A-133).

The EMA should strengthen subrecipient monitoring procedures to ensure that that federal awards to subrecipients were used for authorized purposes in compliance with laws, regulations, and the provisions of contracts and grant agreements.

Questioned Costs: None

#### RECOMMENDATIONS

- |          |   |
|----------|---|
| 2004-89a | Establish appropriate policies and procedures to monitor subrecipients utilizing site visits, audits or other means as considered appropriate.  |
| 2004-89b | Revise the <i>General Grant Conditions / Assurances</i> to reflect the appropriate audit requirements and requiring subrecipients submit audit reports.   |
| 2004-89c | Obtain and review subrecipient audit reports, as applicable, ensuring that appropriate corrective action is taken on findings cited in the audit, and determining the effects of noncompliance, if any, on the EMA's records. |

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

---

**Finding 2004-90**

STATE DOMESTIC PREPAREDNESS EQUIPMENT SUPPORT PROGRAM – CFDA 97.004  
Administered by: Rhode Island Emergency Management Agency (EMA)

FINANCIAL STATUS REPORTS

Federal regulations for the State Domestic Preparedness Equipment Support Program require that the EMA submit a quarterly Financial Status Report (SF 269A) for each grant award. The EMA must report quarterly and cumulative program outlays, obligations and federal funds authorized for each award utilizing the SF 269A.

Quarterly Financial Status Reports submitted for the fiscal year ended June 30, 2004 were materially misstated. Controls were not in place to ensure that information was complete and accurately reported in accordance with the applicable federal reporting instructions.

We found that Financial Status Reports were not supported by the state accounting system and that significant variances existed between reported and actual program expenditures. For example, as illustrated in the *Comparison of Expenditures* table below the EMA's September 30, 2003 SF 269A reports, for federal fiscal year 2003 awards, reflected combined expenditures totaling \$11.5 million. However, actual expenditures recorded in the State accounting system for the same period for these two grants was \$15,324.

**State Accounting System Compared to Financial Status Reports  
Federal Fiscal Year 2003 Awards**

Quarter Ended	Quarterly Expenditures			Cumulative Expenditures		
	State Accounting System	Financial Status Reports	Reports Over (Under) Accounting System	State Accounting System	Financial Status Reports	Reports Over (Under) Accounting System
9/30/03	\$ 15,324	\$11,510,185	\$ 11,494,861	\$ 15,324	\$11,510,185	\$11,494,861
12/31/03	\$10,849,112	\$ 305,822	(\$10,543,290)	\$10,864,436	\$11,816,007	\$ 951,571
3/31/04	\$ 712,206	\$ 218,361	(\$ 493,845)	\$11,576,642	\$12,034,368	\$ 457,726
6/30/04	<u>\$ 707,660</u>	<u>\$ 1,042,583</u>	<u>\$ 334,923</u>	<u>\$12,284,302</u>	<u>\$13,076,951</u>	<u>\$ 792,649</u>
Total	<u>\$12,284,302</u>	<u>\$13,076,951</u>	<u>\$ 792,649</u>	<u>\$12,284,302</u>	<u>\$13,076,951</u>	<u>\$ 792,649</u>

In addition, the EMA did not have documentation adequately supporting nine other financial status reports submitted during state fiscal year 2004.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

---

We noted the following weaknesses in EMA's controls over federal financial reporting which require improvement:

- reported federal grant expenditures are not reconciled to the State accounting system which would ensure that reported expenditures are accurate, complete, and supported by State accounting records,
- financial status reports were not prepared in accordance with applicable written reporting instructions (e.g. obligations were reported as expenditures, even though the expenditures did not occur until a subsequent period), and
- supervisory review of reports and supporting documentation was not required prior to submission to the federal government.

Questioned Costs: None

#### RECOMMENDATIONS

- |          |   |
|----------|---|
| 2004-90a | Prepare reports in accordance with applicable federal reporting instructions.                                     |
| 2004-90b | Reconcile reported federal expenditures to the state accounting system.   |
| 2004-90c | Retain adequate documentation supporting reported data.   |
| 2004-90d | Require supervisory review of reports and supporting documentation prior to submission to the federal government. |

### **Finding 2004-91**

STATE DOMESTIC PREPAREDNESS EQUIPMENT SUPPORT PROGRAM – CFDA 97.004  
Administered by: Rhode Island Emergency Management Agency (EMA)

#### ACCOUNTING CONTROLS OVER EQUIPMENT

The EMA does not maintain perpetual inventory records of equipment purchased with grant funds for use by the State or for equipment purchased and passed-through to subrecipients. The format of current equipment records as described below precluded us from determining whether the EMA complied with the State's policies and procedures for management and disposition of equipment.



## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section III – Federal Award Findings and Questioned Costs

---

The EMA uses grant funding to purchase domestic preparedness equipment which can be classified into three main categories, 1) to be used directly by the EMA, 2) to be passed-through to subrecipients and other state agencies, and 3) to be held in inventory by the EMA until needed by subrecipients.

State procedures require that each agency, when acquiring a capital asset, submit a *Capital Asset Acquisition Report* (form SFA-12) to the Office of Accounts and Control. Data reported on the Form SFA-12 is used to record fixed asset transactions in the State's database (Fixed Asset Control and Tracking System). EMA personnel informed us that only equipment purchases intended to be used directly by the EMA are reported under this procedure. EMA also indicated that fixed asset reporting responsibilities for equipment purchased for other state agencies vests with that agency, and that equipment held in inventory for ultimate use by subrecipients does not require reporting.

The EMA provided listings of equipment that were approved for purchase as part of the grant application process. However, these records do not adequately reflect equipment purchased with grant funding since these listings may be modified during the grant period and do not identify actual purchases or the purchase price of the acquisition. Conversely, equipment purchases reflected in the state accounting records do not identify whether the assets were passed-through to a subrecipient or another state agency, or are currently held in inventory by the EMA for future use.

Since the equipment listings approved for purchase provided by the EMA did not reflect actual equipment purchases recorded within the state's accounting system, we were unable to determine whether EMA complied with the State's policies and procedures for reporting fixed asset acquisitions for inclusion in the State's Fixed Assets Control and Tracking System (FACTS). EMA personnel informed us that the required data, including the current titleholder, exists for all equipment purchases, and that comprehensive equipment inventory records could be generated.

Questioned Costs: None

#### RECOMMENDATION

2004-91      Establish and maintain equipment inventory records identifying all equipment purchased and recorded in State accounting records, and whether the equipment is State-owned, passed-through to another entity including another State agency, or held in inventory for future use by subrecipients.

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

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**Finding 2004-92**

RESEARCH AND DEVELOPMENT CLUSTER:

CFDA - Various

Administered by: University of Rhode Island

SUBRECIPIENT MONITORING

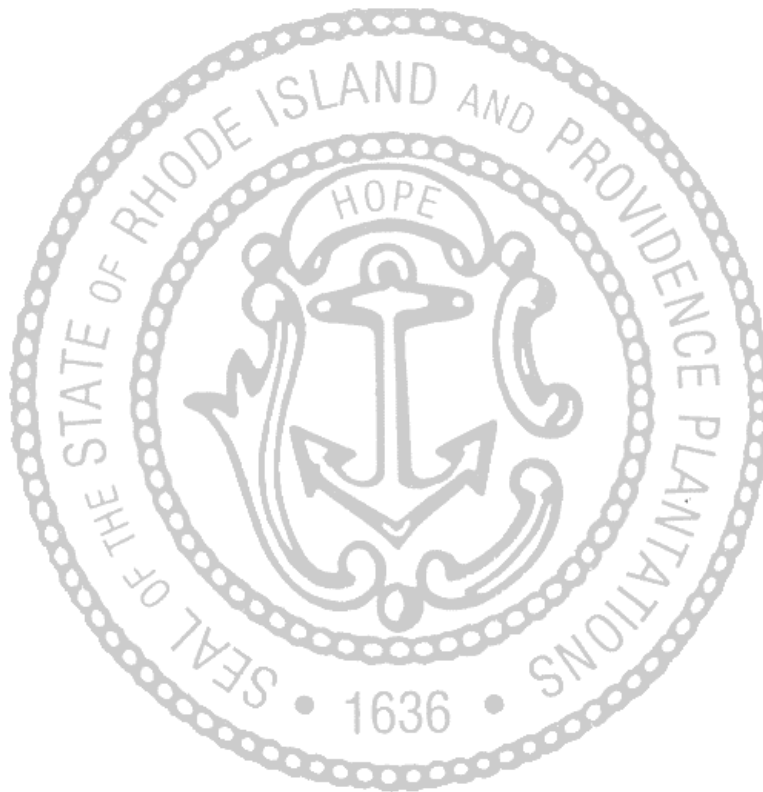
OMB Circular A-133 requires a pass through entity to monitor the sub-recipient's activity to provide reasonable assurance that the subrecipient administers federal awards in compliance with requirements. One of these monitoring responsibilities is to ensure subrecipient audits were completed.

Questioned Costs: None

RECOMMENDATION

2004-92      The University should review its current policies and procedures to ensure all aspects of monitoring subrecipient activity is performed in a timely manner.

## Corrective Action Plan



Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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**Finding 2004-1**

***Corrective Action:***

2004-1(a)

The Department of Administration has developed a multi year strategy for the continued implementation of the Oracle Application Suite. (See Exhibits below for more details) The schedule includes completing the conversion from BuySpeed to Oracle packages and conversion from our existing budget system into Oracle Enterprise Budgeting and Planning in FY 06.



## Table of Contents

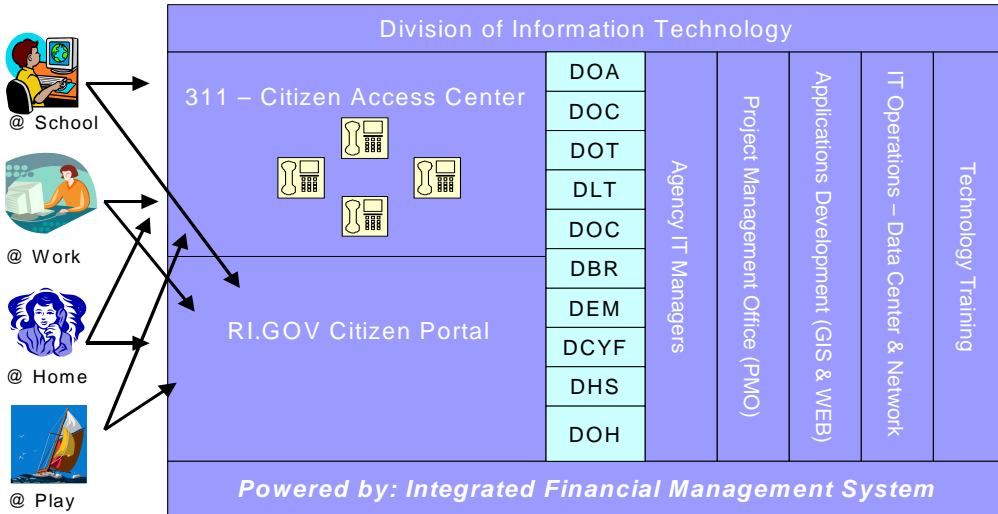
- State of Rhode Island Technology Vision
- Integrated Financial Management System
- Project Schedule
- Project Organization
- Estimated Budget Required
- Benefits to Proceeding

# Corrective Action Plan Findings Included in 2004 Single Audit Report



## State of Rhode Island - Technology Vision - 2010

*"Rhode Island citizens should be provided with easy access to government services whether on the phone or on the web"*

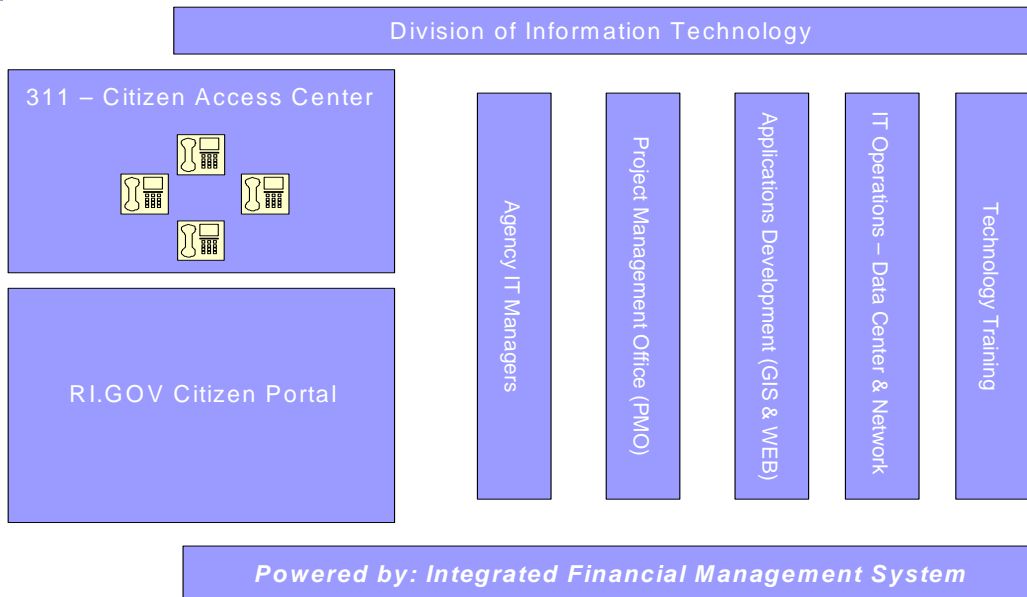


Date: 5/9/2005 9:35 AM

Page: 3



## What's Needed to Implement Vision



Date: 5/9/2005 9:35 AM

Page: 4

# Corrective Action Plan Findings Included in 2004 Single Audit Report



## Integrated Financial Management System – Time to Move

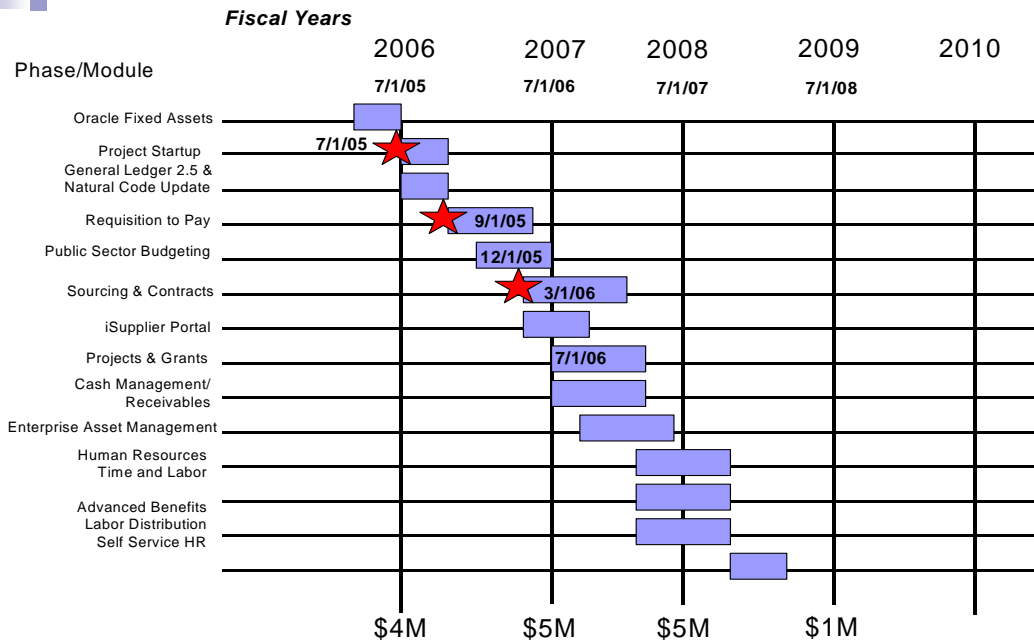
- Director Najarian has made this project my number one priority
- Formed a strategy team to decide next steps
  - Team consists of :
    - Jerry Williams, Deputy Director of Department of Administration
    - Brian Stern, Executive Director of Purchasing,
    - Tom Hogg, CFO, Rhode Island Housing Authority
    - Tracy Emerton Williams, Chief Information Officer
- Goal: To develop a sound project approach at a reasonable investment

Date:5/9/2005 9:35 AM

Page: 5



## Integrated Financial Management System – High Level Project Approach



Date:5/9/2005 9:35 AM

Page: 6

# Corrective Action Plan

## Findings Included in 2004 Single Audit Report



### Project Assumptions Made

- Project start of 9/1/05
- Full time project management office
- Aggressive use of state staffing during all phases
- Major purchase of licenses in FY '06
- Does not include operational costs of system once installed
- Includes estimates for temporary help to back fill project participants
- Implementation scope includes:
  - Payables, Receivables, Cash Management, Purchasing, iProcurement, Grants Management, Project Costing/Billing, Public Sector Budgeting, Property Management, Enterprise Asset Management (includes Fleet Maintenance), iSupplier Portal, Human Resources, Time and Labor, Advanced Benefits, Labor Distribution, Self Service HR
- Implementation scope does not include:
  - Integrated Tax System, Payroll

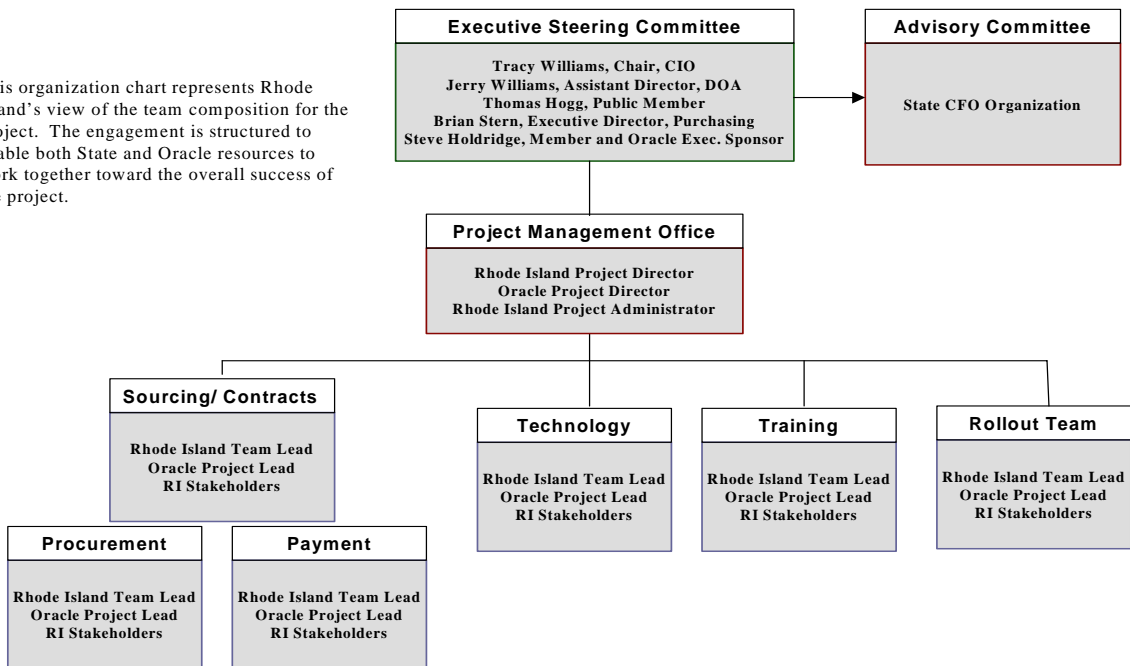
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Page: 7



### Project Team Organization

This organization chart represents Rhode Island's view of the team composition for the project. The engagement is structured to enable both State and Oracle resources to work together toward the overall success of the project.



Date:5/9/2005 9:35 AM

Page: 8

# Corrective Action Plan

## Findings Included in 2004 Single Audit Report

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### ***Benefits of Implementing a Statewide System***

- The current system is highly fragmented. The hub of a new system – the general ledger - was installed several years ago, but no other new systems have been interfaced to it. An example of the fragmentation...the general ledger, the purchasing system and the budget system all run separately and have their own charts of accounts, which have to mapped to each other every day.
- The Auditor General is responsible for reviewing the capacity of the State's financial systems in respect to their ability to provide financial reports that are timely and readily auditable. The AG's most recent annual report on systems and controls listed 8 areas of needed attention and improvement, which would be directly addressed by this initiative.
- The purchasing function will be enhanced and economies associated with more sophisticated methods of sourcing of needed goods and services will be obtained. There should be some significant savings associated with this effort.
- One of the main subsystems used by all departments and agencies throughout Rhode Island is the purchasing module. The one now used is no longer being supported by the vendor who sponsors it.
- The State has received a grade of "D" in the magazine *Governing* in the Information Technology category. The quote: "The current system is so old that it is not capable of answering the kinds of questions that people ask."
- Bond rating agencies look at the timeliness of annual reports as part of their review of financial sophistication when assigning ratings. In a recent rating assessment, the difficulty of producing annual reports in a timely fashion was specifically mentioned as a negative
- Early estimates of savings realized are estimated at \$10M over the implementation of the system from productivity improvements, operational efficiencies, overhead savings, improved revenue collections.

Date:5/9/2005 9:35 AM

Page: 9

#### 2004-1(b)

Analysis of general ledger account balances will begin during fiscal year 2006. Also, reconciliation of general ledger account balances will be coordinated with state agencies.

#### 2004-1(c)

Subsidiary accounting systems will be converted to use RISAIL accounts by June 30, 2006.

#### 2004-1(d)

New and improved controls over classifying and recording expenditures at the fund level will be implemented by June 30, 2006.



Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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2004-1(e)

New reports will be developed and reviewed by Office of Accounts and Control staff to improve transaction classification by June 30, 2006.

Anticipated Completion Date: June 30, 2006

Contact persons: Jerome Williams, Executive Director (Recommendation (a)).  
Department of Administration  
(401) 222-2280

Tracy Williams (Recommendations (a) and (c)).  
Chief Information Officer  
(401) 222-4444

Lawrence C. Franklin, Jr. (Recommendations (b), (c), (d) and (e)).  
State Controller  
(401) 222-6731

**Finding 2004-2**

***Corrective Action:***

2004-2(a)

New and standardized review processes will be implemented during fiscal year 2006 to improve controls over transactions recorded in RISAIL. New Associate Controller position will be tasked with updating policy and procedure manuals.

2004-2(b)

Additional exception reports and analysis will be implemented during fiscal year 2006 to overcome RISAIL system limitations. Implementation of the Purchasing and Accounts Payable modules of the Oracle suite of financial applications will be completed by June 30, 2006, eliminating this issue.

2004-2(c)

Data integrity controls over check payment files will be implemented during fiscal year 2006. The implementation of Oracle Accounts Payable will also negate the need to transfer electronic payment files via diskette.

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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2004-2(d)

New and standardized review processes will be implemented during fiscal year 2006 to improve controls over transactions recorded. New Associate Controller position will be tasked with updating policy and procedures manuals.

Anticipated Completion Date: June 30, 2006

Contact persons: Tracy Williams (Recommendations (a), (b) and (c)).  
Chief Information Officer  
(401) 222-4444

Lawrence C. Franklin, Jr. (All recommendations).  
State Controller  
(401) 222-6731

**Finding 2004-3**

*Corrective Action:*

2004-3(a)

Beginning in fiscal year 2005 interfund receivable and payable balances were settled monthly and then settled twice during June in anticipation of fiscal year-end closing. Modifications will be made in Oracle general ledger module in FY 2006 to minimize level of interfund receivable and payable balances.

2004-3(b)

Beginning in fiscal year 2005 interfund receivable and payable balances were settled monthly and then settled twice during June in anticipation of fiscal year-end closing.

2004-3(c)

The Office of Accounts and Control is exploring if additional functionality within the RISAIL system can be implemented to insure accurate interfund receivables and payables balances. Also, beginning in fiscal year 2005 detail transactions were posted to the general ledger; a change from summary postings in past years.

Anticipated Completion Date: June 30, 2006 (Recommendations (a) and (c)).  
June 30, 2005 (Recommendation (b)).

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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Contact persons: Tracy Williams (Recommendation (a)).  
Chief Information Officer  
(401) 222-4444

Lawrence C. Franklin, Jr. (All recommendations).  
State Controller  
(401) 222-6731

**Finding 2004-4**

***Corrective Action:***

2004-4(a)

The timeliness of bank reconciliations continued to improve during fiscal 2005. Reconciliations for June 30, 2005 will be completed timely and within the expected timeline for preparation of the State's CAFR.

2004-4(b)

The Treasurer's Office will explore the possibility of electronic matching of transactions for reconciliation purposes in 2006.

2004-4(c)

In fiscal 2005, the TDI A and TDI B accounts were merged with the TDI Reserve bank account.

Anticipated Completion Date: June 30, 2006

Contact person: Catherine King Avila,  
Deputy General Treasurer for Administration  
(401) 222-2287

**Finding 2004-5**

***Corrective Action:***

In fiscal year 2005 work was completed to import daily investment activity directly into the general ledger from the Treasury system.

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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Treasury has long been advocating the shift to an integrated financial system from the current stand-alone systems.

Anticipated Completion Date: June 30, 2005

Contact persons: Catherine King Avila,  
Deputy General Treasurer for Administration  
(401) 222-2287

Lawrence C. Franklin, Jr.  
State Controller  
(401) 222-6731

**Finding 2004-6**

***Corrective Action:***

New Oracle fixed asset module is in use for all new capital asset acquisitions in July 2005. Improved controls and procedures to insure adequate accounting and physical control over land, buildings and equipment will be implemented during fiscal year 2006. (Existing land and building assets will be loaded in Oracle by August 31, 2005. Existing assets of remaining asset categories will be loaded by January 1, 2006.)

Anticipated Completion Date: June 30, 2006

Contact person: Lawrence C. Franklin, Jr.  
State Controller  
(401) 222-6731

**Finding 2004-7**

***Corrective Action:***

As part of the implementation of the Oracle integrated financial system, the state will utilize the "DBC" debt service accounting system currently used by Treasury.

Anticipated Completion Date: June 30, 2006

Contact persons: Tracy Williams  
Chief Information Officer  
(401) 222-4444

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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Lawrence C. Franklin, Jr.  
State Controller  
(401) 222-6731

**Finding 2004-8**

*Corrective Action:*

New data integrity and quality assurance review processes will be implemented during fiscal year 2006 to improve controls over transactions recorded in RISAIL or amounts reported in the CAFR.

Anticipated Completion Date: June 30, 2006

Contact person: Lawrence C. Franklin, Jr.  
State Controller  
(401) 222-6731

**Finding 2004-9**

*Corrective Action:*

2004-9(a)

A team of staff members is being established within the Office of Accounts and Control to address administration of federal grants. This will be utilized until the Oracle grants management module is implemented.

Anticipated Completion Date: June 30, 2006

2004-9(b)

A complete review was completed of existing CFDA references during fiscal year 2005. New procedures have been implemented to insure that all federal revenue and expenditures are properly linked in RISAIL.

Anticipated Completion Date: June 30, 2005

Contact person: Lawrence C. Franklin, Jr.  
State Controller  
(401) 222-6731

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

**Finding 2004-10**

***Corrective Action:***

A team from the Office of Accounts and Control and the Division of Information Technology is being established to assess interim measures until implementation of the Oracle Accounts Payable module is complete.

Anticipated Completion Date: June 30, 2006

Contact persons: Tracy Williams  
Chief Information Officer  
(401) 222-4444

Lawrence C. Franklin, Jr.  
State Controller  
(401) 222-6731

**Finding 2004-11**

***Corrective Action:***

The compensated absence liability for employees not included in the State payroll accounting system has been requested from the records of those agencies beginning at fiscal year end June 30, 2005.

Anticipated Completion Date: June 30, 2005

Contact person: Lawrence C. Franklin, Jr.  
State Controller  
(401) 222-6731

**Finding 2004-12**

***Corrective Action:***

2004-12(a)

This will be managed by a new Accounting staff member to be hired during fiscal year 2006.

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

2004-12(b)

Upon hiring of Accounting staff member for reconciliation, new accounts will be established to segregate current activity from old variances relating to prior fiscal years and ease reconciliation process.

2004-12(c)

Separate liability accounts for future settlements will be established to separate them from the routine payroll-related liability accounts.

Anticipated Completion Date: June 30, 2006 (Recommendations (a) and (b)).  
September 1, 2005 (Recommendation (c)).

Contact person: Lawrence C. Franklin, Jr.  
State Controller  
(401) 222-6731

**Finding 2004-13**

***Corrective Action:***

2004-13(a)

We have segregated these duties and will do so further if necessary with the concurrence of the Auditor General's staff.

2004-13(b)

Implementation of future file formats transmitted from the State's bank will include an encryption strategy to prevent manipulation of tax payment data. Someone has to be able to change the file if it comes in incorrectly. The bank, however, maintains one original copy that the Auditor General could download and confirm at a later date.

2004-13(c)

Reassignment of these responsibilities will be implemented. The only thing that we edit is the credit file and it is formatting corrections only; e.g. file comes in 12-345678900. We remove the dash, e.g. 12345678900. Otherwise the entire file will not upload. The Data Center could download a duplicate file from the bank and keep it so the Auditor General could compare the original with any edited file that we had made. However, as

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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stated above, the Auditor General could download an original from the bank at a later date at anytime for confirmation purposes.

Contact persons: R. Gary Clark, (All recommendations).  
Tax Administrator  
(401) 222-3050

Tracy Williams (Recommendation (c)).  
Chief Information Officer  
(401) 222-4444

**Finding 2004-14**

***Corrective Action:***

Implementation of the Oracle accounts payable module by June 30, 2006 will eliminate this issue.

Anticipated Completion Date: June 30, 2006

Contact person: Lawrence C. Franklin, Jr.  
State Controller  
(401) 222-6731

**Finding 2004-15**

***Corrective Action:***

2004-15(a)

Division of Information Technology is currently scheduled to upgrade the VSE side of the mainframe to the most current release. This will provide additional security authentication capability in compliance with this recommendation.

The network security controls currently in place limit access to the desktops and the mainframe terminal simulation program. The network will not accept multiple bad logins. The username is blocked after six tries. The system will reset itself after a certain time period (30 minutes). The request by the Auditor General staff regarding self-set passwords is already in place. The first time the user logs in, they are required to set a password of at least 5 characters. Alpha, numeric and special characters are all allowed. The five-character requirement is a parameter that can be changed to 8 if required. The password must also be unique and cannot be reused for a cycle of ten changes. We agree



Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

to set the desktops to lock after a period of inactivity thereby requiring the use of a username and password to re-access the computer.

Reprogramming the mainframe systems to operate under MVS rather than the current VSE operating system is estimated to take the staff of eight programmers, including the program manager, over 7000 programmer hours (6 months). It cannot be accomplished in phases because the systems are tied together by batch inventory and statistics. It will need to be implemented as a whole. RACF should be considered another level of security above the current in-house system and not a replacement. The current system provides a more granular level of security based up the users' function within the Division than would be provided by RACF. For example, a chief would have more/different access than support personnel.

2004-15(b)

The Division of Information Technology (DoIT) is in the process of implementing a "service desk" model using IBM Clear Case. Taxation is scheduled to pilot this program. The service desk will attach "tickets" to each programming/change requested by the agency, allowing tracking of both the request and the time necessary to fulfill the request. It is targeted to go into production in early September. Planning is also underway to adopt a version control model to track each program changed, by whom, and when it was completed.

Contact person: R. Gary Clark, (All recommendations)  
Tax Administrator  
(401) 222-3050

Tracy Williams (Recommendation (a))  
Chief Information Officer  
(401) 222-4444

**Finding 2004-16**

***Corrective Action:***

2004-16(a)

Division of Information Technology will assign a team to implement this capability using current available technology.

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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2004-16(b)

Division of Information Technology will assign a team to implement this capability using current available technology.

2004-16(c)

Division of Information Technology is currently implementing a service desk application that utilized the ITIL change control metrics. The applications development staff will be required to utilize this procedure.

Anticipated Completion Date: June 30, 2006

Contact person: Tracy Williams  
Chief Information Officer  
(401) 222-4444

**Finding 2004-17**

***Corrective Action:***

The Division of Information Technology has received a Homeland Security grant on Continued Operations Planning. The startup of this project has commenced and we anticipate completion by June 2006. In addition to this planning, the operations group currently utilizes an Incident Response Procedure that is documented and has been utilized in the past for disaster recovery.

Anticipated Completion Date: June 30, 2006

Contact person: Tracy Williams  
Chief Information Officer  
(401) 222-4444

**Finding 2004-18**

***Corrective Action:***

2004-18(a)

The Division of Information Technology maintains a document titled "IT Security Policy, Management Controls, Technical Controls, and Security Controls". A copy is attached to our report.

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

2004-18(b)

A request to hire a Chief Security Officer to comply with HIPAA regulations is in progress.

Anticipated Completion Date: July 1, 2005 (Recommendation (a)).  
December 31, 2005 (Recommendation (b)).

Contact person: Tracy Williams  
Chief Information Officer  
(401) 222-4444

**Finding 2004-19**

***Corrective Action:***

As you know, the RISAIL state accounting system is not designed to meet the needs and requirements of the Department of Transportation (DOT). Therefore, I have made the implementation of Oracle Financials my highest priority. Specifically, this Department is committed to implementing the following integrated modules during September 2005: General Ledger, Accounts Receivable, Accounts Payable, Inventory, Purchasing and Timecards. In addition to centralizing all financial transactions to the financial management division, the engineering and bid process software packages will be linked to the financial system. This will allow us to strengthen the internal controls over transactional flow and to also standardize the data and business practices of the Department.

As of October 1, 2005, DOT will no longer rely upon RISAIL and Buyspeed to track our multiple year encumbrance balances. Oracle has been designed to handle multi-year encumbrances. We have reconciled all encumbrance balances to date and are beginning the process of converting this data to the new system.

We anticipate using the method suggested by you during our meeting last month to calculate the accruals for Accounts Payable and related Federal Receivables. This improved method of gathering data should address the audit findings relative to Accounts Payable and Federal Receivable.

Third Party Receivables were reconciled and invoiced to the contracted parties during June 2005. The Department recognized the weaknesses in the internal control over this area during February 2005. Consequently, this Receivable will be tracked in the new Oracle system effective July 2005.

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

The Department has been reducing the cumulative earned but unbilled amount for the past eight fiscal years. Since Congress has not signed the new Transportation bill, we are limited to the authorization amounts given with each extension. Therefore, there has been a slight increase in EBUB from FY 2003 to FY 2004. The Department anticipates EBUB to increase again for FY 2005, to approximately \$13 million due to the lack of a signed Transportation bill from Congress.

RIDOT does not control the regularity of operating transfers and bond fund transfers, however, we agree with the assessment and will provide information to the Budget Office when requested. We are currently working with the Department of Administration to develop a procedure to report expenditures by funding source to properly match and more accurately time the transfers.

The Department did prepare a carry forward schedule of fund balance, which details the balance by source of funding i.e.: gas tax, general obligation bond, restricted bond and federal grants. This schedule was not requested during our audit.

The following address your recommendations and the Department's plan of action.

2004-19(a)

The Department coordinated with the Auditor General to better understand the documentation and procedures necessary to address this recommendation. It is the Department's intent to implement all auditor suggestions, and provide a more complete and accurate accrual for fiscal close 2005.

2004-19(b)

The Department has significantly reduced the amount of time from payment of a voucher to reimbursement from the federal government. This will be improved further with the implementation of the new financial management system. The new system will request reimbursement from FHWA, in compliance with the Cash Management Improvement Act automatically after a vendor check is processed.

2004-19(c)

Third Party Receivables have been reconciled and invoiced as of June 2005. We are aggressively pursuing payment.

2004-19(d)

The Department concurs with the assessment and will provide information to the Budget Office when requested.

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

2004-19(e)

The Department has prepared a carry forward schedule of fund balance.

2004-19(f)

The Department concurs and necessary changes have been submitted. CFDA numbers are included in several documents and better coordination between the internal systems, the state accounting system, and the state budget system is needed to ensure compliance.

2004-19(g)

All encumbrance balances are reconciled to date. This data will be converted to the new financial system, which handles multi-year encumbrances.

2004-19(h)

The Department will be implementing specific integrated modules as part of the Oracle financial system (as described in the previous narrative) during September 2005.

Contact person: Dorothy Pascale, Chief Financial Officer  
Department of Transportation  
(401) 222-6590 ext. 4535

**Finding 2004-20**

***Corrective Action:***

Existing control procedures to identify and record accrual transactions at year-end have been revised at June 30, 2005. Procedures have been revised or added as deemed necessary to improve them.

Anticipated Completion Date: June 30, 2005

Contact person: Lawrence C. Franklin, Jr.  
State Controller  
(401) 222-6731

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

**Finding 2004-21**

*Corrective Action:*

2004-21(a)

Controls to ensure compliance with 7% cost recovery provisions for restricted receipt accounts have been improved during fiscal year 2005.

2004-21(b)

The Office of Accounts and Control and the Budget Office identified those accounts not intended to be included under indirect cost recovery mandates and sought specific statutory exemptions for them during the last session of the General Assembly.

Anticipated Completion Date: June 30, 2005

Contact person: Lawrence C. Franklin, Jr.  
State Controller  
(401) 222-6731

**Finding 2004-22**

*Corrective Action:*

The Lottery has implemented the recommendation by (1) making the necessary changes to the gaming systems which allow us to effectively monitor and ensure the security/integrity of the gaming systems, (2) the Lottery has delegated the responsibilities of information security to a dedicated resource within the lottery to ensure compliance with the information system security plan, and (3) the Lottery has implemented daily, weekly, semi-annual, and annual monitoring procedures which are designed to ensure compliance with the Lottery's information security program. As new technology is introduced into the Lottery and software changes are made to the Lottery's gaming systems this on-going monitoring will be effective in ensuring that the necessary changes are made to the Lottery's policies and procedures which will as a result strengthen the overall information security program.

Subsequent to June 30, 2004, the Lottery contracted with a vendor to conduct a comprehensive IT security assessment of Lottery operations including the operations of the Lottery's gaming system provider. The assessment was conducted in two phases – phase 1 was completed in the fall of 2004 and phase 2 was completed in the spring of

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

2005. The Lottery is in the process of implementing the security enhancements recommended by the vendor conducting the IT security assessment.

Contact person: Gerald S. Aubin  
Rhode Island Lottery  
401-463-6500

**Finding 2004-23**

***Corrective Action:***

ERSRI will review current system access and provide training and additional access where required to allow timely reconciliation of all ERSRI bank accounts to the general ledger. In addition, ERSRI will reexamine its cash receipt depositing process with bank account reconciliation staff to streamline the procedure.

Contact person: Frank Karpinski, Executive Director  
Employees' Retirement System of RI  
(401) 222-2203

**Finding 2004-24**

***Corrective Action:***

ERSRI designed the ANCHOR system with a focus of enhancing and expediting member and employer services. Members' ability to perform on-line benefit estimates and employer on-line contribution reporting are specific examples of these efforts. These capabilities were based on recommendations from employer and member focus groups. Not unusual to large system projects, completion of the system implementation was ERSRI's focus during fiscal year 2004. With implementation complete, ERSRI has formulated a work-group to evaluate the system to ensure processes line up with financial reporting objectives.

Prior to preparation of fiscal year 2005 financial statements, ERSRI will develop and codify a closing process including sample journal entries, data sources for the journal entries, and responsibility for initiating and approving closing entries.

The arrival of ANCHOR technology signaled both enhanced accounting capabilities and increased accounting responsibilities, as many accounting tasks performed by the Office of the State Controller were brought in-house. There was no immediate corresponding increase in staffing to meet these demands. Early in FY 2004, management sought support for additional FTE's to expand the accounting division. In response, the General

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

Assembly approved 3 additional FTE's, while a vacant FTE in Treasury's policy division was also transferred to ERS' accounting division.

It was also recognized that the division of labor did not complement the new computer system. A project sub-committee was formed in early FY 2004 to identify the appropriate separation of accounting, benefit, and hybrid functions; realign staff accordingly; rewrite job specifications to follow the line of business, including those duties new to the accounting division; and reassign management responsibilities to better reflect the division of accounting and benefit processes.

Anticipated Completion Date: June 30, 2005

Contact person: Frank Karpinski, Executive Director  
Employees' Retirement System of RI  
(401) 222-2203

**Finding 2004-25**

***Corrective Action:***

ERSRI acknowledges reconciliation is a critical control feature, hence the required feature in the original system specifications. As mentioned, ERSRI, working with its system consultant, continues to pursue implementation of system reconciliation. ERSRI is reviewing the current validity of the consultant's findings and recommendations with the addition of the final phase of system implementation occurring during fiscal year 2004.

Presently, ERSRI has determined certain recommendations require modification to overall system reconciliation. In addition, recent staff realignment to the accounting department will provide for a daily high level system reconciliation to begin while analysis of detailed reconciliation is developed and implemented.

Contact person: Frank Karpinski, Executive Director  
Employees' Retirement System of RI  
(401) 222-2203

**Finding 2004-26**

***Corrective Action:***

A system enhancement to allow for correction of data entry errors is scheduled for implementation by fiscal 2005 year end. ERSRI will review and implement controls to



Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

mitigate entry errors. ERSRI has made staffing modifications to enhance controls and will continue to implement training as needed.

Contact person: Frank Karpinski, Executive Director  
Employees' Retirement System of RI  
(401) 222-2203

**Finding 2004-27**

*Corrective Action:*

See Corrective Action Plan for finding 2004-77.

**Finding 2004-28**

*Corrective Action:*

See Corrective Action Plan for finding 2004-71.

**Finding 2004-29**

*Corrective Action:*

2004-29(a)

A team will be established within the Office of Accounts and Control to address the administration of federal grants.

2004-29(b)

A more formal process will be established between the Office of Accounts and Control and state agencies that administer programs covered by the Treasury/State agreement to review data upon which interest calculations are based.

2004-29(c)

A more formal process will be established between the Office of Accounts and Control and state agencies that administer programs covered by the Treasury/State agreement to review and update funding techniques.

Anticipated Completion Date: June 30, 2006

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

Contact person: Lawrence C. Franklin, Jr.  
State Controller  
(401) 222-6731

**Finding 2004-30**

***Corrective Action:***

See Corrective Action Plan for finding 2004-6.

**Finding 2004-31**

***Corrective Action:***

Response: *Concur*

1. In order to help eliminate inventory discrepancies for the USDA commodities, the staff of the Central Distribution Center will check the lifecycle of commodities in two areas.

a. The first part will consist of a random check of orders that have been placed for pick-up by the user agencies. This process will help reduce any over/short distribution of commodities. Also, commodity codes will be more closely scrutinized for distribution to provide that they go to the program for which they are intended. Implementation date for this is September 1, 2005

b. The second phase of the process will again provide for random checks of commodities through the flow of the paper work. The intent is to follow the progress of a commodity on a timed basis such as two (2) or four (4) week intervals where the inventory will be checked to compare the computer count against the physical count. If, at that time, the counts are not compatible then the audit process will not be as difficult due to the compressed time frame. This phase is targeted to be implemented by October 1, 2005

2. The current strategy for the relocation of the Rhode Island Training School to a new facility includes shifting of responsibility of inventorying of daily food commodities requirements from the Training School to the Central Distribution Center. DCYF and DOA have both agreed in concept to a portion of the capital funds for the relocation - \$150,000 - to be used to procure a web-based inventory tracking system for the CDC. RIDOC, in cooperation with DOA's Division of Information Technology, has obtained

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

the services of Stonewall Solutions, Inc., which company has conducted a needs-analysis for the first phase of this project. The analysis will be presented for review by the Training School and will then be sent for further review by DoIT. Phase I of this project is to create an inventory management system so that the consumers of the CDC and the CDC can have an up-to-date inventory system that will be of benefit for all users. Reviews of the needs analysis and project plans are expected to be completed by the end of August 2005, and completion of phase I is expected to take six months. Allowing for testing, our target date for implementation of phase I is April 30, 2006.

Contact person: Terrence E. McNamara  
Administrator of Physical Resources  
401-462-4023  
[Terrence.McNamara@doc.ri.gov](mailto:Terrence.McNamara@doc.ri.gov).

**Finding 2004-32**

***Corrective Action:***

WIC accepts the need to maintain supporting documentation for charges to the Program. Charge backs will be within the associated state fiscal year, as well as within the federal fiscal year.

As noted, the vendor did provide substantial service to the WIC Program. While the supporting documentation of charges does require improvement, the charges reflect and are appropriate to the work accomplished on WIC's behalf. Their efforts were not charged back to the WIC program until the WIC FFY closeout process, but their work was significant and on behalf of the WIC Program (based on the products and output documented).

Contact person: Becky Bessette, Chief, WIC Program  
(401) 222-4604

**Finding 2004-33**

***Corrective Action:***

Several division employees work in multiple programs. They are instructed to denote the hours worked in WIC vs. other programs but some failed to do so consistently. WIC accepts the need to maintain supporting documentation for charges to the Program. In addition, charge backs will be within the associated state fiscal year, as well as within the federal fiscal year.

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

Note that WIC is setting up systems to comply with USDA guidelines that will require additional reporting of WIC program activities, leading to further staff time reporting.

While the supporting documentation and timing of charges do require improvement, the charges reflect and are appropriate to the work accomplished on WIC's behalf. The work was performed for WIC and these are WIC eligible costs.

2004-33(a)

Accepted. WIC developed and instituted a policy developed in 2003 to ensure that WIC staff time was assigned to appropriate cost categories. Staff will be retrained in this procedure.

2004-33(b)

Accepted. The Office of Budget and Finance in Management Services implemented this policy beginning March 2005. With the addition of new WIC staff to assist in this process, adjustments of salary for WIC employees will take place shortly after the quarter being reviewed. Everyone working for the WIC program has been informed of the need to properly indicate hours worked for WIC and other programs

2004-33(c)

Accepted. It should be noted that the adjustments for charges specified in the findings related to prior fiscal years, nor prior grant years. These are caused by the federal grant year of September 30 being later than the state fiscal year being reviewed. This has always existed and we will make greater efforts to process adjustments and charges within the proper periods.

Contact person:       Becky Bessette, Chief, WIC Program  
                                  (401) 222-4604

**Finding 2004-34**

***Corrective Action:***

Accepted. The new WIC MIS, currently being deployed, includes an analysis and ranking of WIC vendors based on pre-determined high-risk criteria. This ranking, when combined with the sanction points assigned during routine monitoring visits, will establish high-risk vendors. Prior to this, similar criteria were used to identify high-risk

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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vendors, but the final selection process to determine who would be investigated was not well documented.

Contact person: Becky Bessette, Chief, WIC Program  
(401) 222-4604

**Finding 2004-35**

***Corrective Action:***

Staff will correct data found which did not agree with supporting documentation. The EDA report for the semi-annual period ending 3/31/05 will reflect these corrections.

Contact Person: Philomena J. Teixeira, Financial Program Manager  
Rhode Island Economic Development Corporation  
(401) 222-2601

**Finding 2004-36**

***Corrective Action:***

Staff has submitted an appeal to EDA dated 3/31/04 to which a response has not been obtained as of 6/30/04. Once EDA's decision is made as to SBLFC's appeal request staff will submit required reporting.

Contact Person: Philomena J. Teixeira, Financial Program Manager  
Rhode Island Economic Development Corporation  
(401) 222-2601

**Finding 2004-37**

***Corrective Action:***

As background, in accordance with federal regulation CFR 982.516 and the Corporation's administrative policies, the Corporation will verify information through the four methods of verification acceptable to HUD in the following order: third party writer, third party verbal, review of documents and certification or self declaration. The Corporation did employ one of these sources for certification, but it was dated more than the maximum 90 days.

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

The Corporation recognizes the importance of quality assurance and adhering to federal regulations with regard to the Section 8 Housing Choice Voucher Program. Although the Corporation's current quality control test meets HUD's required standards, the Corporation plans to add a supervisory position by January 1, 2005, which will focus on additional document review and regulatory compliance for the voucher program.

Contact Person: Carlos Hernandez, Housing Voucher Program Manager  
Rhode Island Housing and Mortgage Finance Corporation  
(401) 751-5566

**Finding 2004-38**

***Corrective Action:***

The Fraud Unit electronically transmitted the statistical data for criminal cases as it relates to the ETA 227 report to the LMI Unit for the quarter ended March 31, 2005. The same procedure was also used for the quarter ended June 30, 2005 and will continue for all subsequent quarters. Supervisory staff within the LMI Unit will review and approve the ETA 227 report prior to its transmittal to the federal government. The review and approval will be documented by the supervisor's signature on a paper copy of the transmittal. This corrective action was implemented for the quarter ended June 30, 2005 and will also continue for all subsequent quarterly reports, as recommended.

Contact person: Robert Langlais  
Assistant Director, Department of Labor and Training  
Telephone (401) 462-8767  
E-mail: rlanglais@dlt.state.ri.us

**Finding 2004-39**

***Corrective Action:***

Upon receipt of the initial invoice for payment, the Greater RI administrative staff will query the database for the name of the individual for whom payment is requested. A copy of the database screen will be attached to the invoice copy and included in the WIB's contractor payment file. If the client is not listed, the appropriate office manager will be notified to ensure the database is updated. In no case will the Greater RI staff authorize payment without confirmation that the database is complete. This corrective action procedure has been implemented.

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

Contact person: J. Michael Koback  
Employment and Training Administrator,  
Department of Labor and Training  
Telephone (401) 462-8714  
E-mail: mkoback@dlt.state.ri.us

**Finding 2004-40**

***Corrective Action:***

The Department intends to retrain resident engineers and record keepers to reinforce the Davis-Bacon requirements and stress the importance of the Act.

Contact person: Dorothy Pascale, Chief Financial Officer  
Department of Transportation  
(401) 222-6590 ext. 4535

**Finding 2004-41**

***Corrective Action:***

Initial guidance from the Federal Highway Administration supports our position. The Department agrees, however, to seek a formal ruling.

The Labor Additive Rate allows the Department to add the “overhead” costs (i.e. Medical Benefits, FICA, Retirement Benefits, and Paid Leave) to the Salary expenditures of the Department. All projects (state, federal and other) are charged these overhead costs through the Labor Additive Rate. The Federal Highway Administration permits the adding of the Labor Additive Rate or Overhead Factor Rate to payroll charges and the billing of said charges. The current rate being billed is .62773.

We do agree with receiving concurrence from Federal Highway Administration for any changes to the Labor Additive Rate, and in fact have submitted the FY05 Actual ('06 Provisional) to Bill Campos for review. This will be done on an annual basis. It is critical to note that any changes in the rate up or down do not require going back and charging or crediting projects as the annual change in the rate accommodates this process. Also, as was noted in the class we attended regarding A-87 Cost allocation plans, the Labor Additive process is outside the boundaries of A-87, as states are allowed to do both, one or neither.

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

Contact person: Dorothy Pascale, Chief Financial Officer  
Department of Transportation  
(401) 222-6590 ext. 4535

**Finding 2004-42**

***Corrective Action:***

There were no new programs and no activity during FY04. This program is no longer active and will be closed. The semi-annual reports will be filed regardless of activity.

Contact person: Dorothy Pascale, Chief Financial Officer  
Department of Transportation  
(401) 222-6590 ext. 4535

**Finding 2004-43**

***Corrective Action:***

The Department concurs with the finding. The final funds were drawn during the first quarter of the fiscal year 2005. The Quarterly Financial Status Report, Quarterly Cash Transaction Report and Final "Narrative" Report will be completed and filed by August 1, 2005. Since we do not anticipate future activity, the second quarter 05 report will be filed and noted as "final".

Contact person: Dorothy Pascale, Chief Financial Officer  
Department of Transportation  
(401) 222-6590 ext. 4535

**Finding 2004-44**

***Corrective Action:***

The Agency has satisfied all binding commitment requirements. No further action is required.



Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

**Finding 2004-45**

*Corrective Action:*

A revised form SF272 has been filed with the Environmental Protection Agency, no further action is required.

**Finding 2004-46**

*Corrective Action:*

The Department concurs with the recommendation and has already taken the necessary steps to achieve this goal. Effective as of June 1, 2005 for School Districts and July 1, 2005 for Community Based Organizations, the Department now requires all subrecipients to request federal grant funds on a reimbursement basis. In order to achieve this goal, we implemented a batching process with wire transfers so that subrecipients could receive their federal grant funds in time to meet payroll. We are confident this issue is now resolved.

In regards to the standards of timing between the transfer of funds from the U.S. Treasury and the disbursement by grantees and subrecipients, the Department reviewed all supporting documents from the auditors on this issue and researched it. It was found that these federal draw downs occurred in the last quarter of the state fiscal year (May and June, 2004) at which time the Department was not able to obtain an authorized red balance on the federal accounts and the revised budget numbers had not been entered into RISAIL, which caused all our federal accounts to be locked. In order to unlock the federal accounts to process the rest of the payments to subrecipients before the state fiscal closeout, we needed to draw down federal funds for the negative balance plus the amount of those subrecipient payments that were in process at 4II and 4IR status. If we did not do this, we would not have been able to make all other necessary payments to the rest of the subrecipients before the state fiscal closeout deadlines. In FY2005, the Department did obtain an appropriate authorized red balance and did not encounter this problem. We are hopeful this issue will not reoccur as long as we are able to have the appropriate authorized red balance and the revised budget numbers are entered into RISAIL in a timely fashion.

Contact person: Deborah A. Kennedy, JD  
Federal Grants Coordinator  
Department of Elementary and Secondary Education  
(401) 222-4646  
Email: [Deborah.kennedy@ride.ri.gov](mailto:Deborah.kennedy@ride.ri.gov)

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

**Finding 2004-47**

*Corrective Action:*

The Department partially agrees with the audit finding. We understand the auditors need to certify that the supporting student census documentation provided to them was reliable as stated in the federal report. In this finding, the auditor did not feel it met the reasonable test based on the information provided. Although we agree that the paper trail may not have provided all the supporting documents due to the short time frame to produce this information, we are confident that our data is reliable and accurate as reflected in the federal report and does not count the student twice. The Department has a strict process to investigate and research those instances where a student is listed in more than one school district. We contact the school district to confirm the student has transferred in when we are unable to obtain the confirmation from the school district where the student transferred out. Once this is confirmed, we remove the student from the former school district. In FY2005, RIDE developed and implemented a Student Identifier System that does not allow a student to be entered more than once into the database system. When a school district attempts to enter a student that is already identified, they receive an error message that refers them to the school district that entered the child along with contact information to call the school district to remove the student from their database count. In addition, RIDE will continue to review and test the data under the existing process for students transferring with Independent Education Plans (IEPs). RIDE will provide more information to support the census changes.

Contact person:       Deborah A. Kennedy, JD  
Federal Grants Coordinator  
Department of Elementary and Secondary Education  
(401) 222-4646  
Email: [Deborah.kennedy@ride.ri.gov](mailto:Deborah.kennedy@ride.ri.gov)

**Finding 2004-48**

*Corrective Action:*

The University concurs with the recommendation. Policies will be reviewed to ensure appropriate documentation is completed before the University disburses funds.

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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Contact person: Sharon Bell, Controller  
University of Rhode Island  
110 Carlotti Administration Building  
75 Lower College Road, Room 110  
Kingston, RI 02881  
(401) 874-2378

**Finding 2004-49**

*Corrective Action:*

The University concurs with the finding. Although the University currently directs students to review their accounts on-line enabling them to confirm disbursement dates, the University will review this policy in order to comply with Federal guidelines.

Contact person: Sharon Bell, Controller  
University of Rhode Island  
110 Carlotti Administration Building  
75 Lower College Road, Room 110  
Kingston, RI 02881  
(401) 874-2378

**Finding 2004-50**

*Corrective Action:*

The University concurs with the finding. Due to initial problems with PeopleSoft transmissions, we have reviewed our procedures and are in process of tightening controls during the transmission process.

Contact person: Sharon Bell, Controller  
University of Rhode Island  
110 Carlotti Administration Building  
75 Lower College Road, Room 110  
Kingston, RI 02881  
(401) 874-2378

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

**Finding 2004-51**

*Corrective Action:*

CCRI has changed its procedures to ensure that payment data for students receiving Federal Pell Grants will be transmitted to the Department of Education within the required 30-day timeframe.

Contact person:       Albert Sevigny, Controller  
                              Community College of Rhode Island  
                              (401) 825-2150

**Finding 2004-52**

*Corrective Action:*

The University concurs with the recommendation. The University will diligently follow the policies and procedures currently in place to conduct exit interviews. The University conducts group and individual interviews with thousands of students each year. The University also assists student access to the Direct Loan website for information concerning loan counseling and their actual indebtedness. The University's diligence in providing exit loan counseling can be noted in the cohort default rate.

The University will strengthen its procedure of recording that exit interview materials were mailed to those students who withdraw or are retroactively withdrawn administratively for medical, military, or other personal reasons.

Contact person:       Sharon Bell, Controller  
                              University of Rhode Island  
                              110 Carlotti Administration Building  
                              75 Lower College Road, Room 110  
                              Kingston, RI 02881  
                              (401) 874-2378

**Finding 2004-53**

*Corrective Action:*

Object. In August 2004, the Department complied with this finding immediately following the conclusion of the FY 2003's Single Audit Report. The contracts tested and

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

found in non-compliance were in place prior to the implementation of the contractor's suspension and debarment certification in FY 2004. Based upon discussions with the audit team, no samples subsequent to the implementation of the contractor's suspension and debarment certification were found to be in noncompliance. Therefore, the Health Department feels it is in substantial compliance with this administrative requirement.

Contact person: Bernard Lane, Jr. Administrator, Management Services  
Department of Health  
(401) 222-1001

**Finding 2004-54**

***Corrective Action:***

Accepted. The department will implement the policy under the direction of the Personnel Director, Edward D'Arezzo.

Contact person: Bernard Lane, Jr. Administrator, Management Services  
Department of Health  
(401) 222-1001

**Finding 2004-55**

***Corrective Action:***

Accepted. Performance standards have been implemented in SFY 2006 for the Grants Management Section of Management Services that will address this issue. The Grants Management Section will lead a collaborative effort with the grant's Financial Administrators and Principal Investigators to ensure compliance.

Contact person: Bernard Lane, Jr. Administrator, Management Services  
Department of Health  
(401) 222-1001

**Finding 2004-56**

***Corrective Action:***

A combination of technology improvements and reallocation of personnel resources will be used to address the deficiencies identified in the Auditor General's review. Following is a summary of those initiatives.

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

1. Review and correct the twenty-nine (29) cases found by the Auditor General's review to have discrepancies in the resolution of the IEVS data matches.
2. Assess the criteria used in InRhodes used to determine the tolerance levels to report discrepancies on cases matched in the IEVS process to ensure cases are reported correctly. This will remove any cases being reported incorrectly so that workers do not expend resources on cases not needing review. This may account for many cases that are cleared in the review process without explanation.
3. Enhance InRhodes so that verification forms are sent to all employers identified in the SWICA match process. This will insure that action is begun on all discrepancies and will support staff by automating the process of requesting verification.
4. All discrepancies identified by the Quality Control Unit in its review process will be sent to the Administrator for Field Operations besides the usual process of sending these to the supervisors.
5. Evaluate staffing patterns to direct the limited personnel resources to the task of reviewing IEVS matches.

Anticipated Completion Date: The review and correction of cases identified by the Auditor General will be completed by October 31, 2005.

The InRhodes system changes are now being assessed and work begun as soon as possible. How quickly these occur will depend on the available resources and those changes required to accomplish the Department's other responsibilities.

The changes in monitoring will begin October 1, 2005.

Contact persons: Edward P. Sneesby, Associate Director - Program Operations  
Department of Human Services  
(401) 462-2424

Tina Janik, Administrator - Field Operations.  
Department of Human Services  
(401) 462-3019

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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**Finding 2004-57**

*Corrective Action:*

2004-57(a)

This recommendation was implemented October 1, 2004 in response to the 2003 audit.

2004-57(b)

This recommendation was implemented October 1, 2004 in response to the 2003 audit.

2004-57(c)

DHS will submit a revised FFY 2003 ACF-204 report to the Federal Government.

Contact person:     Ronald Gaskin  
                          Department of Human Services  
                          (401) 462-6856

**Finding 2004-58**

*Corrective Action:*

Disbursements reported on the Federal Cash Transaction Report are required to be equal to amounts reported on the various federal expenditure reports and are reconciled to the state accounting system via the FGR-1 process. DHS agrees to tighten the documentation procedures in instances where amounts may vary between reports (for example the cash reports have a ceiling which may cause a discrepancy).

Regarding the four variances cited in the draft audit report: (1) TANF 12/31/03 \$1,943,313 over reported. Timing difference. The cash report was filed 2/11/04. At that point, we were anticipating reporting a zero balance on the expenditure report, which is generally the case. When the expenditure report was completed and filed two days later on 2/13/04, a balance of \$1,943,313 was reported. The cash report was corrected the following quarter (3/31/04). (2) TANF 6/30/04 \$794,186 under reported expenditures. Timing difference. The ACF-196 expenditure report was revised on 9/2/04 causing the variance. As with the previous example, the cash report cannot be revised and is corrected the subsequent quarter.

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

Contact person: Ronald Gaskin  
Department of Human Services  
(401) 462-6856

**Finding 2004-59**

***Corrective Action:***

The Department has been developing a system to centralize the contracting process and maintain contracts in one primary location. As part of this process, the Department has established a contract boilerplate for most agreements. Included in the boilerplate are several required certifications. The certification regarding suspension and debarment is one of the certifications. The Department has executed a contract for the childcare vendor sited in the audit. The executed contract includes the certification regarding suspension and debarment.

Although the Department has established a boilerplate for most agreements, it did not include rental agreements. The Department will require that the certification be included in any future rental agreements.

Contact person: Ronald Gaskin  
Department of Human Services  
(401) 462-6856

**Finding 2004-60**

***Corrective Action:***

OCSS concurs with this recommendation and continues to make progress towards correcting the deficiencies cited in this audit report (and in previous reports) relative to the reconciliation of child support collections and distributions that are reported by the State's InRHODES Automated Child Support Enforcement System and those reported by the State accounting system. One of the primary reasons why the two systems are not currently reconcilable is that the OCSE-34A collections report excludes Non-IVD child support collections that have not been garnished. Additionally, our computer consultant has informed us that certain adjustments also are not included on the OCSE-34A report.

We received an estimate from our computer consultant about the effort that would be required to make an enhancement to the InRHODES computer system that would result in more collections and distributions being included on the system-generated OCSE-34A report. It was concluded that a minimum of 24 billable hours would be incurred to



Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

research and program changes to the system; however, this did not include the processing time necessary to run the job, and it was also noted that additional research would be needed to ensure that all collections are listed on the OCSE-34A report.

Severe budgetary constraints have forced OCSS to prioritize programming changes to the InRHODES system, so we are currently implementing only those computer enhancements that are mandated by federal requirements. If we have sufficient additional financial resources once these required changes have been programmed, then the enhancement to the OCSE-34A report will be implemented.

Contact person: Robert Farley, Supervising Accountant  
Office of Child Support Services  
(401) 222-3872

**Finding 2004-61**

*Corrective Action:*

OCSS concurs with this recommendation. We will perform this reconciliation in future quarters and investigate any variances.

Contact person: Robert Farley, Supervising Accountant  
Office of Child Support Services  
(401) 222-3872

**Finding 2004-62**

*Corrective Action:*

We intend to join the Arkansas Medical Consortium. States provide the consortium with a file of custodial parent and non-custodial parent information, which is then matched against a medical insurance database. Whenever there is a potential match, all of the information is verified, including whether the child has coverage under the plan, and then a copy of the National Medical Notice is sent to the employer. The employer responds, the information is again verified, and then it is automatically entered on InRHODES. The consortium will also enforce the medical order on behalf of member states as an optional service. We have requested that funds be appropriated in the FY 2006 budget to join the Arkansas Medical Consortium.

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

Contact persons: Sharon Santilli, Esquire, Associate Director – Revenue Services  
(401) 222-2847

Edward Keenaghan, CSE Systems  
(401) 222-2847

**Finding 2004-63**

*Corrective Action:*

OCSS concurs with this recommendation.

We will obtain these certifications for all employers who charge 100 percent of their time to the CSE program in future quarters. Additionally, we will investigate any future discrepancies between payroll registers and the State accounting system.

Lastly, with the notable exception of one DHS employee cited in this report, we have prepared semi-annual certifications for all employees who charge 100 percent of their time to the CSE program since being informed of this requirement approximately ten years ago.

Contact person: Robert Farley, Supervising Accountant  
Office of Child Support Services  
(401) 222-3872

**Finding 2004-64**

*Corrective Action:*

The Central Business Office (CBO) within the Department of Administration has implemented a time study of employees' time allocation. Three times a year, Energy Office staff will be asked to complete a weekly time sheet indicating the hours worked on the various programs and activities within the State Energy Office (SEO) operations.

Contact persons: Matteo Guglielmetti, LIHEAP Program Manager  
(401) 462-6920  
Manual DelSanto, Central Business Office  
(401) 222-4210

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

**Finding 2004-65**

*Corrective Action:*

SEO will follow up more thoroughly on agency audits, which have not been received in a manner consistent with OMB Circular A-133. With the exception of one agency, all other funded non-profits complied with the OMB Circular.

Concerning the contracts with subrecipients the federal award information concerning the funding agency, CFDA number and CFDA title will be implemented with the federal fiscal year 2006 awards that will be effective October 1, 2005

Contact persons: Matteo Guglielmetti, LIHEAP Program Manager  
(401) 462-6920

Manual DelSanto, Central Business Office  
(401) 222-4210

**Finding 2004-66**

*Corrective Action:*

The CBO will insure compliance with the LIHEAP earmarking requirement effective with the FY 05 award. Separate ledgers will be set up to show year to date expenditures and available grant balances.

Contact persons: Matteo Guglielmetti, LIHEAP Program Manager  
(401) 462-6920

Manual DelSanto, Central Business Office  
(401) 222-4210

**Finding 2004-67**

*Corrective Action:*

In past years the State Energy Office distributed LIHEAP fuel funds to its subrecipients based on estimated need. This need was determined after analyzing weekly program and financial reports. At times this resulted in excessive cash balances at the subrecipient agencies.

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

In fiscal year 2005 a new payment procedure will be implemented. LIHEAP fuel payments made to our regulated fuel vendors (i.e. gas and electric companies) by our subrecipients will be made on a reimbursement basis. 56% of the LIHEAP fuel payments are made to a utility vendor. This procedure should greatly reduce the cash balances at our subrecipients and put us in compliance with federal regulations.

The SEO will try to have separate purchase orders established for HHS Earmarking funding and have the agencies submit a separate budget specifically identifying HHS funding.

Manual DeSanto, Supervisory Accountant in the Central Business Office will contact HHS for guidance concerning the \$54,955 of prior year receipts received by the SEO. Once payment has been made, copies of the paid voucher will be submitted to the Auditor General's Office.

Contact persons: Matteo Guglielmetti, LIHEAP Program Manager  
(401) 462-6920  
Manual DeSanto, Central Business Office  
(401) 222-4210

**Finding 2004-68**

***Corrective Action:***

In eleven (11) of the forty-five (45) cases reviewed, the Auditor General noted discrepancies. These included three (3) case in which documentation could not be located; seven (7) cases in which the information entered into InRHODES varied from the documentation; and, one (1) case in which the child support income differed from the information contained in the Child Support Enforcement function.

The first step will be to correct these cases to insure that proper documentation is maintained in the case file. The supervisor will review the case file with the appropriate worker to ensure an understanding of the correct policy and procedure.

The second step is to establish a regular Supervisory Review of selected case records to check workers' adherence to correct policy and procedure for the documentation of case records.

The third step is to assess the feasibility of establishing quality assurance reviews of Child Care Assistance Program eligibility determinations by the Quality Control Unit Director.

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

Anticipated Completion Date: October 31, 2005.

Contact person: Edward P. Sneesby, Associate Director - Program Operations  
(401) 462-2424

Tina A. Janik, Administrator - Operations  
Department of Human Services  
(401) 462-3019

**Finding 2004-69**

***Corrective Action:***

The Department accepts the audit findings and will reimburse the federal government for the unallowable maintenance costs of \$84 charged for day care expenses for fiscal year 2004 by August 31, 2005. The eligibility adjustment had been identified by the internal QC process and corrected by DCYF prior to the audit. The questioned cost of \$121,953 identified near the end of the "Eligibility" section of the report was returned to the federal government in fiscal 2005 prior to the commencement of the single state audit.

In addition, the Department wants to emphasize that it identified the day care amount to be adjusted (\$524,153) prior to commencement of the single audit and will adjust the June 30, 2005 quarterly report to correct the amount of Adoption Assistance day care costs incorrectly charged to Foster Care in fiscal 2004. Further, the correct amounts have been reported for the fourth quarter of FY 2004 as well as all of FY 2005. In addition we want to emphasize that the transfer of costs from the Title IV-E Foster Care program to the Title IV-E Adoption Assistance program has no effect on the total federal funds claimed.

As recommend by HHS / ACF, DCYF has implemented a quality assurance plan that has been in operation throughout fiscal years 2004 and 2005. It was that QA process that identified, internally, the issues in claiming exceptions that existed. The exceptions were not discovered as a result of the federal audit conducted by ACF. All exceptions have been corrected and the system has been modified and approved by HHS / ACF.

Contact person: Kevin Savage  
Department of Children, Youth and Families  
(401) 528-3629

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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**Finding 2004-70**

*Corrective Action:*

The Department accepts the Federal Reporting audit finding and will include the amount of \$596,432 as a negative prior quarter adjustment on the quarterly report to be submitted by August 31, 2005.

Contact person:       Leo DuCharme  
                                  Department of Children, Youth and Families  
                                  (401) 528-3630

**Finding 2004-71**

*Corrective Action:*

2004-71(a)

A Security Workgroup has been formed to address DHS security program issues. The Security Workgroup has representation from the Medicaid program and InRhodes. The Workgroup will develop a security program that includes policies and procedures for conducting periodic risk analysis and system security reviews. Policy and procedure development will be coordinated with EDS, the RI Medical Assistance Program fiscal agent. EDS has also hired a Security Officer who will assist the state in these coordinated efforts.

2004-71(b)

The DHS Security Workgroup has drafted risk assessment procedures and purchased a third party risk assessment tool, the WCTP Risk Analyzer. DHS has made the methodology/software available to other State Departments that interface with the MMIS.

The acquisition and use of the WCTP Risk Analyzer enables DHS, the supporting operational vendor (EDS) and related state agencies to identify the potential vulnerabilities that might affect confidentiality, integrity, and availability of confidential data; list the existing controls to mitigate the risk posed by those vulnerabilities; capture information regarding the existing controls; determine the level of residual risk, and identify other mitigation activities that could be employed to further reduce that risk.

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

2004-71(c)

The WCTP Risk Analyzer product was constructed using the methodology found in NIST SP 800-30 "Risk Management Guide for Information Technology Systems". In addition, a significant number of vulnerability items were identified using NIST SP 800-66 "An Introductory Resource Guide for Implementing the Health Insurance Portability and Accountability Act (HIPAA) Security Rule" and NIST 800-26 "Security Self-Assessment Guide for Information Technology Systems". The DHS plans to address security findings resulting from future risk assessments in accordance with industry recognized standards.

2004-71(d)

We have responded directly to the OIG and have a plan to address all of the findings cited in their report.

2004-71(e)

The Security Workgroup will create policy and procedures for conducting biennial reviews of all installations. The WCTP Risk Analyzer can be used to support iterative risk assessments. In addition procedures will require that risk assessments or security reviews be conducted:

- Whenever significant system, environmental, or operational modifications are implemented; or
- Whenever a significant security incident occurs.

Contact person: Frank Spinelli  
Department of Human Services  
(401) 462-1892

**Finding 2004-72**

***Corrective Action:***

Pursuant to 42 CFR 457.50, Rhode Island's SCHIP State Plan contains all of the information necessary to serve as a basis for Federal financial participation (FFP) in the State's SCHIP program. The initial SCHIP Plan was approved May 9, 1998, with an effective date of October 1, 1997 that allowed the State to begin capturing the enhanced Federal Medical Assistance Percentage (FMAP) available under SCHIP as of that date.

The State's initial SCHIP Plan was a *Medicaid expansion*, as opposed to a separate child health program (or a combination program). In Rhode Island, this translated to the RIte

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

---

Care program. Thus, as RItE Care has changed, so too has the SCHIP State Plan changed – including most recently with the revised SCHIP State Plan submitted February 5, 2003 and approved April 17, 2003 (with a November 1, 2002 effective date) for what is now a *combination* program (given the separate child health program for unborn children).

Parents (and relative caretakers), who are at the center of the audit report's issue, were initially covered under RItE Care as of November 1, 1998 under a Section 1931 State Plan Amendment (SPA) to the *Medicaid* State Plan. These individuals only became eligible for the enhanced SCHIP FMAP effective January 18, 2001. This was effectuated through a Section 1115 SCHIP waiver. All other elements of the SCHIP State Plan remained the same. As Section 1931 eligibles, these parents and relative caretakers could not be excluded from participation by virtue of having access to private health insurance.

Because of a number of issues, including *crowd-out* (i.e., substituting public coverage for private coverage), the State enacted Health Reform Rhode Island 2000 that included, among other provisions: (1) establishing cost-sharing requirements for certain RItE care-eligible populations and (2) requiring mandatory participation in RItE Share of eligible individuals who have access to employer-sponsored insurance (ESI). In February 2001, individuals with access to ESI were required to enroll in RItE Share. Thus, RItE Share became incorporated into SCHIP. Similarly, cost-sharing was incorporated into the SCHIP State Plan effective September 1, 2001. This is also the same date the Section 1931 eligibles *flipped* from coverage under the Medicaid State Plan (through the Section 1906 SPA) to coverage under the SCHIP State Plan through the Section 1115 SCHIP waiver. The November 2, 2000 Section 1115 SCHIP Waiver Request (approved by the Federal Government on January 18, 2001) was explicit in this regard. Similarly, the currently approved SCHIP State Plan was explicit that both RItE Share and cost-sharing were components of the plan. Therefore, the Department does not believe this to be an issue and disagrees with the audit findings and recommendations in this regard.

Due to SCHIP funding limitations there remains \$14,085,954 in SCHIP expenditures posted to the state accounting system in SFY 2004 but not reported for enhanced SCHIP match. As a result, \$9,750,298 in federal SCHIP expense is available to replace any of the questioned costs. (Payments were posted from April 2004 through June 2004)

Contact person:       Tricia Leddy  
                              Department of Human Services  
                              (401) 462-2501



Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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**Finding 2004-73**

*Corrective Action:*

The Department disagrees with this recommendation. The State's January 10, 2001 proposal for covering parents under a Section 1115 SCHIP demonstration is explicit in Sections 4.6 and 5.6 that cost-sharing will not apply to the demonstration eligible populations of parents and pregnant women, respectively. The "co-pays" are monthly family premium co-payment amounts. Absent Federal guidance, it would be inappropriate to charge a co-pay when it is explicit that the parent cannot be charged according to the terms of the State's SCHIP waiver and there may also be children who are not SCHIP-eligible in the family unit (i.e., under age 8). As there were no Questioned Costs, the Department believes this to be inconsequential given that the State expended its Federal 2004 SCHIP allotment by April 2004.

Contact person:       Tricia Leddy  
                                  Department of Human Services  
                                  (401) 462-2501

**Finding 2004-74**

*Corrective Action:*

The improved controls put into place since the FY 2003 audit findings have resulted in a 71 percent reduction in incorrect manual assignment of aid categories. Such assignment can result in claiming for enhanced Federal matching funds under SCHIP that may be more appropriately classified as Medical Assistance. As there were no Questioned Costs, the Department believes sufficient controls are in place given that the State expended its Federal 2004 SCHIP allotment by April 2004. Therefore, any aid category assignment error would not have had any appreciable effect on SCHIP claiming in 2004 as the Federal SCHIP funds allotted to the State would nonetheless have been expended without the cases identified in the Single State Audit.

Contact person:       Tricia Leddy  
                                  Department of Human Services  
                                  (401) 462-2501

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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**Finding 2004-75**

*Corrective Action:*

The Department's Center for Adult Health is in the process of modifying its claim processing system to ensure that vendor billings for homemaker services are verified as part of the HIPAA local code remediation project. These modifications will also solve the inappropriate funding source issue, as payment will be tied to program eligibility. These modifications were to be completed in 2004, but due to the complexity of the local code remediation project, the completion date is now projected to be December 2005.

In order to ensure proper payment, the Department has implemented a post payment review of homemaker claims. This system is used to capture unauthorized payments and identify inappropriate payments for expenditure adjustment. Month to month fluctuations in service needs are common, so a six-month review period is conducted. The post payment review captures excess service/payment over a more realistic period that allows for reasonable monthly fluctuations.

Contact person: Frank Spinelli  
Department of Human Services  
(401) 462-1892

**Finding 2004-76**

*Corrective Action:*

The Department's Center for Adult Health has documentation that identifies each of the individuals and the period of eligibility in question. Screen prints that identify the claims process during the period in question are copied and quantify the projected overpayments. These materials are stored in a separate location and available for review. These reviews will be performed quarterly and the federal government will be reimbursed within the 60-day period as required.

Contact person: Frank Spinelli  
Department of Human Services  
(401) 462-1892

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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**Finding 2004-77**

*Corrective Action:*

2004-77(a)

The Division of HCQFP has a new contract signed with EDS to continue as our fiscal intermediary for the operation of our MMIS, effective July 1, 2005. As identified in the RFP, the SAS 70 audit is scheduled to start in September 2005.

2004-77(b)

The Division continues to improve our oversight of the fiscal agent.

The implementation of preparing federal reports through the MMIS has been delayed and remains a goal of the Department. The drug rebate billing and collection continues to improve; however, this is dependent on the response of the drug manufacturers. The TPL tape matches have provided more accurate data resulting in updated TPL segments. The facsimile claiming process is being automated to further enhance our opportunity for recovery of these claims. This is scheduled for completion by June 30, 2006.

Contact person:        Jim FitzGerald  
                                  Department of Human Services  
                                  (401) 462-1879

**Finding 2004-78**

*Corrective Action:*

2004-78(a)

The Department has been performing data matches with insurance companies since April 2003, for fiscal year 2004 and the first 3 quarters of fiscal 2005 we have identified and added over 110,000 policies to our file. In FY 04, this saved over \$8.9 million in claims not being processed; generated 113,159 facsimile claims, recovering \$7.9 million resulting in a combined saving and repayment to the federal government in excess of \$9.7m. Rhode Island's Medicaid program ranks second nationally in TPL recoveries.

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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2004-78(b)

The Department disagrees that there is responsibility to reimburse the federal government for denied facsimile claims, many of which are Medicare. The primary reason for denial is timely filing from the other insurer when that information is retrieved and updated as efficiently as possible. Many of the denied claims are not processed by the insurance carrier when submitted, resulting in expiration of filing limits. This is being addressed through modification of the procedures for facsimile claiming, the first phase will be in place by July 31, 2005.

Contact person:        Jim FitzGerald  
                                 Department of Human Services  
                                 (401) 462-1879

**Finding 2004-79**

***Corrective Action:***

DHS continues to work with the other departments to integrate their benefit programs within the MMIS, and the Managing Director of the Office of Health and Human Services has issued a directive to the Directors of the cognizant state agencies that this process should be completed as early as possible. HIPAA has been the overriding priority for systems change effort for the past three years, although the Department has made changes to accommodate this requirement during those efforts.

The Division implemented new approval rules in fiscal 2004 to better control the filing of rate changes by other agencies.

Financial management will continue to review the claiming of administrative expenditures by other departments to ensure that the Interagency Agreement is followed. These agreements are being rewritten and should be completed by September 2005. Any necessary adjustment will be identified on the following quarterly federal report.

Contact person:        Ronald Gaskin  
                                 Department of Human Services  
                                 (401) 462-6856

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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**Finding 2004-80**

*Corrective Action:*

The Division of HCQFP and our fiscal agent have improved procedures for enrolling providers, have implemented length of time for enrollment of out of state providers and have begun to disenroll inactive providers and providers failing to comply. We support the criteria in 42 CFR 455.106 and believe that we are in compliance. DHS has assigned an individual to review and correct any necessary changes by December 31, 2005.

Contact person:     Jim FitzGerald  
                              Department of Human Services  
                              (401) 462-1879

**Finding 2004-81**

*Corrective Action:*

2004-81(a)

The Center for Child and Families is reviewing the process of disenrolling individuals from RIte Share when employment changes. Upon completion of this review any necessary changes will be scheduled for implementation. The federal share will be credited on the next quarterly report.

2004-81(b)

This process has improved and was corrected in the prior fiscal year. It became an issue in this audit report due to an extended absence of the individual responsible for 'working' the list of outstanding checks. This has been corrected by training a backup for this position. The Federal share will be returned on the next quarterly report.

Contact person:     Ronald Gaskin  
                              Department of Human Services  
                              (401) 462-6856

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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**Finding 2004-82**

*Corrective Action:*

2004-82(a)

Under the State accounting system, RISAIL, any changes of the current structure must be accomplished by the State Controller. The MMIS procedures for posting and processing are linked to the State chart of accounts to post expenditures to the correct accounts which becomes the basis to request the required federal dollars. DHS will review the current account structure.

2004-82(b)

DHS performs quarterly analysis of all Medicaid accounts prepared for the CMS-64 expenditure report. This process includes the review of various MMIS fiscal reports and the transaction posted to the State accounting system. The total expenditures reported on the CMS-64 quarterly report are recorded on the State accounting system. This is an on-going initiative.

2004-82(c)

DHS fiscal staff communicates with the various state departments expending medicaid funds on a regular basis. DHS reviews medicaid charges to the various administrative accounts and inquires and instructs the other state departments to reconcile and make the necessary accounting adjustments to record the correct state/federal charges. DHS does not include expenditures on the federal CMS fiscal reports based upon charges recorded to various federal/state accounts; expenditures are reported based upon signed certified fiscal reports filed with DHS. The examples stated in the audit report of errors posted to other department federal accounts appear to indicate DHS overstated federal expenditures to the federal government, this is not true since the amount reported was the correct amount.

Contact person:        Ronald Gaskin  
                                 Department of Human Services  
                                 (401) 462-6856

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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**Finding 2004-83**

***Corrective Action:***

The Department continues to recover funds from the hospital settlement process in a timely manner and within the 60 days required by 42 CFR. The hospital in question has reopened their Medicare cost reports several times over the period cited, thus making it difficult to reach resolution of the Medicaid settlement and therefore have not determined a final over/under payment amount. We continue to work toward resolution of this issue.

Contact person:        Jim FitzGerald  
                                 Department of Human Services  
                                 (401) 462-1879

**Finding 2004-84**

***Corrective Action:***

While the Department disagreed with the OIG's assertion that oversight was inadequate, the Department prepared and distributed a *Medicaid Direct Services Guidebook for Local Education Agencies* (Guidebook) in May 2004 and conducted training on the Guidebook to ensure Local Education Agencies (LEAs) are adequately trained concerning these claiming guidelines. All LEAs participated in the training as did contractors who assist some of the LEAs with claiming; CMS representatives also attended the training. In August 2004, a companion *Rhode Island Medicaid School-Based Administrative Claiming Guide* was distributed to the LEAs. That guide was reviewed and approved by CMS. In addition, interagency agreements with the LEAs were revised to reflect the new requirements. Finally, the Department has been conducting an ongoing review of LEA documentation to make certain claims are properly supported. In concert, these four elements constitute the enhanced oversight and monitoring procedures for school-based health services recommended by the OIG and Office of the Auditor General.

The tentative disallowance has been further reduced by CMS to \$672,135.

Contact person:        Sharon Reniere  
                                 Department of Human Services  
                                 (401) 462-2187

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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**Finding 2004-85**

*Corrective Action:*

The business process for RItE Share is currently being overhauled and will be supported by substantial information systems enhancements for the Employer Contact Unit, which then passes information to the Collections Unit within DHS that is responsible for collecting any overpayments that the member received for coverage that ended. Efforts are underway to improve collaboration between the two units to ensure that information is transmitted in a timely manner. In addition, a regular tape match process with the fiscal agent has been implemented that will help to identify members' third-party coverage status. With respect to the fee-for-service claims, when it is discovered that a member did not have insurance for any given month(s) prior to the current month, his or her enrollment segment is end-dated retroactively, resulting in the member having fee-for-service coverage during that time period because he or she is still Medical Assistance eligible. Any claims that are incurred are paid in the fee-for-service environment. The number of cases being retroactively end-dated should be reduced given the systems enhancements and improved collaboration.

Contact person:       Lissa DiMauro  
                                  Department of Human Services  
                                  (401) 462-6356

**Finding 2004-86**

*Corrective Action:*

2004-86(a)

Partially Accept the Recommendation

For the period under review, a total of 24 agencies received SAPT funding, 18 of which received aggregate Substance Abuse Prevention and Treatment Block Grant (SAPT) Block Grant funding of \$1,761,742, with individual awards ranging up to \$273,257, and the average award totaling \$97,875; the remaining 6 agencies received aggregate funding of \$5,773,917, with individual awards ranging from \$728,398 to \$1,266,831.

Most of the agencies in the first cohort are primary prevention programs and the SAPT contract funds represent 100.0 percent of the contract award. When the SAPT funds represent 100.0 percent of the service award, the funding is identified as SAPT in the contract award. In the case of the larger contracted services, while the annual award for each service under contract with a particular agency is specified, because the contract



Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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funding supporting each service is comprised of a mix of SAPT funds and State General Revenue funds and the mix of these funds can be fluid based on a number of factors, the specific dollar allocation by fund source is not made. However, as the agencies in this group and the order of magnitude of SAPT funding received by each agency is fairly constant over time, the agencies are prospectively and continuously aware of the need to adhere to SAPT requirements.

Further, as a primary objective of specifying the dollar amount is to alert contract agencies to specific federal requirements related to the SAPT, MHRH - Division of Behavioral Healthcare's (DBH) current procedures of :

- a. identifying applicable CFDA number(s) and title(s) on the contract award notice when the award is supported with federal funds,
- b. including in the contract itself all of the SAPT requirements,
- c. and, starting in SFY 05, including the federal award agency

adequately achieves the overall purpose. Further in relationship to the need for an audit under A-133, immediately at the close of each program year, the DBH confirms with each contractor the total amount paid for each contract service and the values by fund source; this information confirms the basis for the type of audit to be conducted. Also, most of the contractors are multi-service agencies with significant funding support beyond DBH's contract services.

The federal award number and federal award year cannot be listed. As our contract awards generally coincide with the State Fiscal Year, identifying how much applies to a particular federal fiscal year award is problematic for a number of reasons, to include the July authorization would anticipate federal funds not yet authorized at the federal level, and inability to precisely estimate the rate SAPT funds will be expended system wide.

Contact person:       John M. Murray  
                              Department of Mental Health, Retardation and Hospitals  
                              Substance Abuse Unit  
                              401-462-5698

Completion Date: June 30, 2005 [implemented in current operational year]

2004-86(b)

Accept the Recommendation

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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Contact person: John M. Murray  
Department of Mental Health, Retardation and Hospitals  
Substance Abuse Unit  
401-462-5698

Completion Date: September 30, 2005 [to be fully implemented in current operational year]

2004-86(c)

Reject the Recommendation

This finding is particular to treatment programs, and is specific to SFY 2004. During this period, on-site monitoring of Prevention Programs occurred.

For treatment programs, during FY 2004 the Department elected to temporarily suspend on-site monitoring visits while concentrating efforts on developing an RFP for a re-designed outpatient substance abuse treatment system. Under the existing system of care, only general outpatient services, as defined by the American Society of Addiction Medicine (ASAM), existed. Under the new system, the full range of ambulatory services – partial hospitalization, intensive outpatient and outpatient now exist. The new system was procured and implemented on October 1, 2004, three months beyond the close of the period being audited.

Further, the Department believes that the current biennial on-site monitoring reviews of treatment programs, supplemented by other measures to include utilization monitoring, periodic meetings with the contractors to discuss contract and general service matters and new and emerging treatment trends and issues, plus various financial reporting to include the annual audits sufficiently satisfy monitoring requirements. Additionally, all treatment programs are subject to licensing reviews and most of the agencies are accredited by national accrediting organizations.

The acceptance of the biennial cycle is critical because in any period some contractors will not receive an on-site visit and if the strictest interpretation of this finding were made, the finding would suggest that all programs would need to receive a site visit each year. Also, in prior years a particular program could be scheduled for on-site monitoring in consecutive years, this was not necessarily routinely done. Rather, site visit frequency was based on a series of factors.

Contact person: John M. Murray  
Department of Mental Health, Retardation and Hospitals  
Substance Abuse Unit  
401-462-5698

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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**Finding 2004-87**

*Corrective Action:*

RIEMA agrees with the recommendation. RIEMA has significantly improved their Cash Management system since the period covered by the audit. The Senior Financial Officer is responsible for completing a weekly report that contains the cumulative amounts expended for each grant and the funds that have been drawn down to date. Any differences between these amounts are then drawn down and deposited into the state accounting system. This practice will eliminate any shortfall or excess of federal funds in our state accounts. Furthermore, the fiscal staff has recently increased from two individuals to four staff members. The additional staff has allowed the RIEMA Fiscal Unit to perform in a more efficient manner.

Anticipated Completion Date: Corrective Action implemented during State FY05.

Contact person: Sandra Cabral, Senior Financial Officer  
Emergency Management Agency  
(401) 275-4645

**Finding 2004-88**

*Corrective Action:*

RIEMA agrees with the recommendation. The Cash Management Act of 1990 and DHS guidelines require that Homeland Security funding be provided to state and municipal governments on a reimbursable basis. This is problematic for a number of volunteer and municipal organizations because it requires these entities to incur expenses prior to receiving funds. In some instances, this time frame is insufficient to prevent municipal and volunteer organizations from having to make payments to vendors in advance of receiving grant funds from the state. Many organizations do not have the financial resources to make these advance payments, especially for expensive specialized equipment. Another problem is that many municipalities require cash on hand prior to commencing the procurement process.

This is a national issue which has been recognized by Congress. As it relates to Homeland Security grants, for FFY05 grants Congress has exempted these funds from the Cash Management Improvement Act of 1990 and allows funds to be provided to state and locals in advance of expenditure for up to 120 days. Consequently, the State of Rhode Island should institute a process for administrative relief in matters relating to Homeland Security and expenditure of these funds.

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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However, regarding the specific recommendation, RIEMA had already identified needed program adjustments prior to the start of the audit and had already initiated needed changes. All grants are now managed on a reimbursement basis, initiated by the submittal of a Request for Reimbursement form from the sub recipient.

Anticipated Completion Date: Implemented in State FY05.

Contact person: John Soscia, Homeland Security Grant Manager.  
Emergency Management Agency  
(401) 462-7189

**Finding 2004-89**

*Corrective Action:*

2004-89(a)

RIEMA partially agrees with this recommendation. The OJP Financial Guide states that periodic monitoring is required of subrecipients. RIEMA requires all subrecipients to submit quarterly fiscal and program reports which are reviewed by DPLOs and are considered "Desk Monitoring". DHS ODP guidance indicates that desk monitoring is "...great with limited number of staff and for short term purposes". RIEMA has requested additional FTEs which would support the time-consuming process of additional On-Site monitoring. This request was approved by the General Assembly recently and RIEMA has initiated action to fill these positions. Furthermore, during the fiscal year covered by the audit, RIEMA staff conducted approximately 12 on site visits to review equipment inventory and ensure that equipment was being used for its intended use. Documentation of these visits had been provided to auditors. Furthermore, RIEMA staff explained to auditors the process for selecting 20 additional sub recipients for on site monitoring visits, basically the top 20 grant recipients, ensuring that while this number does not equal the majority of subrecipients, it does equal the majority of Homeland Security grant funds, thereby ensuring the majority of funds have been subject to subrecipient monitoring. Additionally, through the conduct of disaster drills and exercises and monthly working group meetings, RIEMA staff has been able to observe the utilization of equipment to ensure equipment is used for authorized purposes and subrecipients are following the provisions of there contracts with us.

However, RIEMA does acknowledge that these procedures are not in writing and that these procedures should be formalized.

Anticipated Completion Date: October 30, 2005

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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Contact person: John Aucott, Homeland Security Director  
Emergency Management Agency  
(401) 462-7127

2004-89(b)

RIEMA agrees and will modify forms to the less stringent requirements recommended by the State Auditor General. RIEMA's policy during the period covered by the audit required subrecipients to submit audit reports for grants in excess of \$25,000. OMB guidance requires non-federal entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in a year in Federal awards to have a single or program specific audit conducted for that year. The FFY05 Conditions and Assurances form will contain the \$500,000 requirement as recommended by the State Auditor General.

Anticipated Completion Date: completed prior to end of audit.

Contact person: John Soscia, Homeland Security Grant Manager.  
Emergency Management Agency  
(401) 462-7189

2004-89(c)

RIEMA agrees with this recommendation. RIEMA grant management staff will request that all subrecipients submit a Statement of Audit Requirements indicating whether or not they meet the requirements for an audit and, if so, include a copy of the reporting package submitted to the Federal clearing house.

Anticipated Completion Date: October 31, 2005

Contact person: John Soscia, Homeland Security Grant Manager  
Emergency Management Agency  
(401) 462-7189

<b>Finding 2004-90</b>
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***Corrective Action:***

RIEMA agrees with these recommendations and accepts the fact that previous SF 269A reports were based on expended amounts plus pending and planned expenditures.

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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RIEMA fiscal staff did not utilize the SF 269A line for obligated but not liquidated expenditures.

The plan for corrective action is to reconstruct each of the quarterly reports to reflect actual expenditures as reflected on the RI-SAIL state accounting system. Each amended report will be supported with a hard copy of the state's quarterly expenditure report. Any differences between the most current report and the corrected amounts will be reflected in the report for the period ending September 30, 2005. All reports are cumulative. This corrective action will be completed by the Senior Financial Officer.

The Senior Financial Officer will attend the most current training for the Department of Justice grants. The last training completed by the Senior Financial Officer was over ten years ago for the FEMA/Smartlink grants. We also recommend that management personnel that will be reviewing and signing future reports attend financial/grant training.

Anticipated Completion Date: September 30, 2005 for items (a) thru (c) and  
July 1, 2005 for item (d).

Contact person: Sandra Cabral, Senior Financial Officer.  
Emergency Management Agency  
(401) 275-4645

**Finding 2004-91**

***Corrective Action:***

RIEMA agrees with the recommendation. DHS ODP grant requirements state that at the close out of the grant, a complete inventory must be submitted to DHS. For FY 99, 00, and 01 this has been completed since these grants have been closed out. FFY02 and FFY03 are still open and the requirement to develop a detailed list will be completed at the appropriate time as part of the close out procedure.

Regarding equipment held in inventory for later use by locals: this equipment, which is part of our emergency response cache, is primarily disposable equipment (i.e., chemical suits, boots and gloves), all items which do not reach the requirements of the State's Fixed Asset Control and Tracking System.

Title of equipment purchased by RIEMA and passed-through to local entities rests with the local entity and therefore falls under their own audit and inventory requirements. RIEMA has supplied auditors with these equipment lists.

Corrective Action Plan  
Findings Included in 2004 Single Audit Report

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RIEMA agrees that there may be some agency equipment that requires completion of a Capital Asset Acquisition Report and entry into the State's system. Equipment purchases will be reviewed for applicability.

Anticipated Completion Date:            October 31, 2005

Contact person:            Paul Lupoli  
   Emergency Management Agency  
   (401) 462-7121

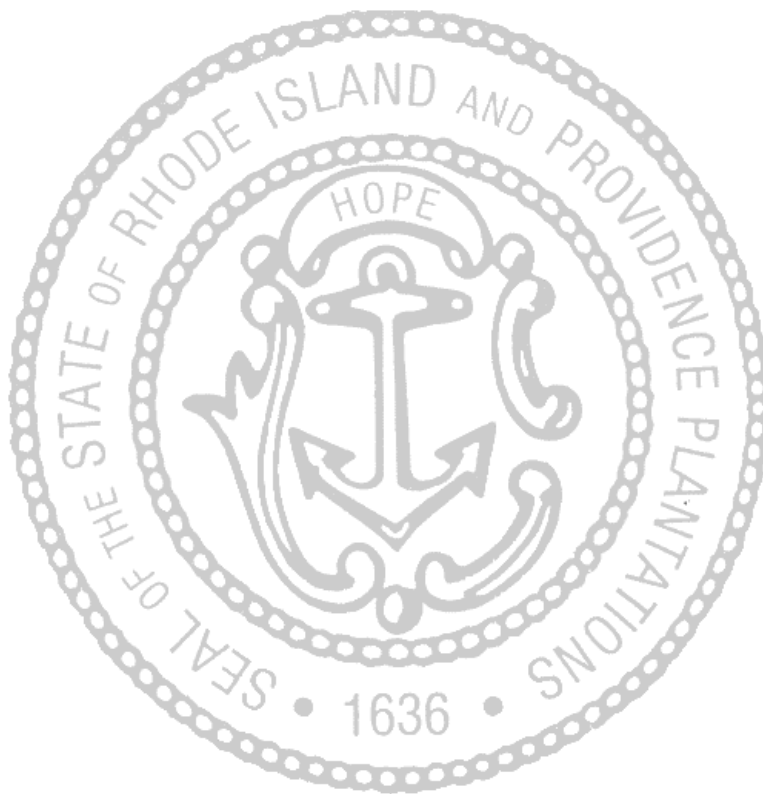
**Finding 2004-92**

***Corrective Action:***

The University concurs with the recommendation. The sub-recipient monitoring was not completed timely due to a change in personnel and job duties. The sub-recipient monitoring has been reassigned and the procedure has been reviewed to ensure it will be followed in the future. With the new process implemented fiscal year 2005 will be completed in a timely manner.

Contact person:            Sharon Bell, Controller  
   University of Rhode Island  
   110 Carlotti Administration Building  
   75 Lower College Road, Room 110  
   Kingston, RI 02881

Summary Schedule  
of Prior Audit Findings





**Summary Schedule of Prior Audit Findings  
Table of Prior Findings by Federal Program**

<u>Program Title</u>	<u>CFDA Number</u>	<u>Findings included in Previous Single Audit Reports</u>
Food Donation	10.550	03-21
Food Stamp Cluster:		
Food Stamps	10.551	03-20
State Administrative Matching Grants for Food Stamp Program	10.561	03-19, 03-20
Child Nutrition Cluster:		
School Breakfast Program	10.553	02-21, 02-22, 03-20, 03-21, 03-22
National School Lunch Program	10.555	02-21, 02-22, 03-20, 03-21, 03-22
Special Milk Program for Children	10.556	02-21, 02-22, 03-20, 03-22
Summer Food Service Food Program for Children	10.559	03-20, 03-21
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	03-19, 03-20
Public Works and Economic Development Cluster:		
Grants for Public Works and Economic Development Facilities	11.307	03-23
Community Development Block Grants/ State's Program	14.228	02-30, 03-20
Unemployment Insurance	17.225	02-33, 02-34, 03-19, 03-20, 03-24
Trade Adjustment Assistance – Workers	17.245	01-22
Workforce Investment Act	17.255	01-23
WIA Cluster		
WIA Adult Program	17.258	03-20, 03-25, 03-26
WIA Youth Activities	17.259	03-20, 03-25, 03-26
WIA Dislocated Workers	17.260	03-20, 03-25, 03-26
Airport Improvement Program	20.106	03-27
Highway Planning and Construction	20.205	03-20, 03-28, 03-29, 03-30
Federal Transit Cluster:		
Federal Transit - Capital Investment Grants	20.500	03-20, 03-31
Federal Transit - Formula Grants	20.507	03-20, 03-31
Freight Rail Improvement Project	None	03-20, 03-32
Title I Grants to Local Educational Agencies	84.010	03-20, 03-33

**Summary Schedule of Prior Audit Findings  
Table of Prior Findings by Federal Program**

<u>Program Title</u>	<u>CFDA Number</u>	<u>Findings included in Previous Single Audit Reports</u>
Special Education Cluster:		
Special Education – Grants to States	84.027	03-20, 03-33
Special Education – Preschool Grants	84.173	03-20, 03-33
Student Financial Assistance Cluster:		
Federal Family Education Loans	84.032	03-34, 03-35, 03-36, 03-37
Federal Pell Grant Program	84.063	03-38
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	03-19, 03-20
Vocational Education – Basic Grants to States	84.048	98-24
Improving Teacher Quality State Grants	83.367	03-20, 03-33
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	03-20, 03-39, 03-40
Temporary Assistance for Needy Families	93.558	01-37, 03-20, 03-41, 03-42, 03-43
Child Support Enforcement	93.563	03-19, 03-20, 03-43, 03-44, 03-45, 03-46
Low-Income Home Energy Assistance	93.568	01-41, 02-44, 03-20, 03-47, 03-48, 03-49
Community Services Block Grant	93.569	01-45
Child Care Cluster:		
Child Care and Development Block Grant	93.575	03-20, 03-43, 03-50
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	03-20, 03-43, 03-50
Foster Care – Title IV-E	93.658	03-19, 03-20, 03-51, 03-52
Social Services Block Grant	93.667	01-45, 02-52, 03-57
State Children’s Insurance Program	93.767	03-20, 03-43, 03-53, 03-54, 03-55, 03-56
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	03-20
State Survey and Certification of Health Care Suppliers and Providers	93.777	03-20
Medical Assistance Program	93.778	03-20, 03-41, 03-43, 03-55, 03-56, 03-57, 03-58, 03-59, 03-60, 03-61, 03-62, 03-63, 03-64, 03-65, 03-66, 03-67, 03-68, 03-69, 03-70
Block Grants for Prevention and Treatment of Substance Abuse	93.959	03-20, 03-71, 03-72, 03-73, 03-74

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
98-24	84.048	The department did not have adequate procedures in place to ensure subrecipients did not have federal cash on hand in excess of their immediate needs.						
	98-24	Monitor advances to subrecipients to ensure that they conform to standards required by 34 CFR 80.21(c), 80.37 (a) (4), and 31 CFR 205.10(a).	97-25			X		See Corrective Action Plan for finding 2004-46
01-22	17.245	The Department of Labor and Training (DLT) lacks adequate internal control procedures to ensure the reliability of data reported on federal report form ETA 563 ( <i>Quarterly Determinations, Allowance Activities and Reemployment Services Under the Trade Act – OMB No. 1205-0016</i> ).						
	01-22c	Seek to automate the process using existing and more sophisticated systems.	00-20c		X			Staff continue in their efforts to fully automate generation of the ETA 563 report.
	01-22d	Assess the accuracy of ETA 563 reports previously submitted during fiscal 2000 and fiscal 2001. Submit revised reports as necessary,					X	Unable to replicate data elements in previous reports for correction and resubmittal.
01-23	17.255	Our review of the WIA Financial Status Reports revealed several exceptions in amounts reported and accounting methods used.						
	01-23	Improve controls to ensure the accuracy and completeness of Financial Status Report information in accordance with the report instructions.		X				
01-37	93.558	Programming changes were made to the IRS interface program that resulted in no discrepancies being reported to caseworkers. The programming change was neither documented nor reviewed.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
01-37	01-37a	Strengthen control procedures to ensure that changes to application software and all subsequent modifications are controlled, properly documented, reviewed and approved.		X				
	01-37b	Correct the IRS interface program and rerun fiscal 2001 IRS data matches.					X	The IRS interface program was corrected in 2003. Subsequent years 2002, 2003, and 2004 interfaces were completed in accordance with established rules.
01-41	93.568	LIHEAP needs to improve its subrecipient monitoring procedures to ensure it fully meets its responsibilities as a pass-through entity and also to ensure that subrecipients are complying with program requirements.						
	01-41c	Update subrecipient contracts to reflect the current requirements of OMB Circular A-133.		X				
01-45	93.569 93.667	Controls over subrecipient monitoring could be improved. Subrecipient audit reports are not received and reviewed on a timely basis. Management decisions are not issued as required by OMB Circular A-133.						
	01-45b	Perform alternative monitoring procedures when audit reports do not provide timely and reasonable assurance of a subrecipient's compliance with program requirements.	<u>93.569</u> 98-40		X			See status of finding 02-52
02-21	10.553 10.555 10.556	RIDE implemented a new computer system to administer the child nutrition programs. User access was not adequately restricted and controlled through the use of specific user ID's and passwords.						
	02-21	Enhance system security features by (1) assigning all users unique passwords, (2) defining and controlling access to system data through user ID's and passwords, and (3) implementing standard password administration procedures.	01-13	X				
02-22	10.553 10.555 10.556	The computer system installed by RIDE to administer child nutrition programs lacked the capability to fully meet the department's federal reporting requirements. Manual calculations resulted in errors being reported. The system also incorrectly calculated some meal reimbursements.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
02-22	02-22a	Improve controls over federal reporting by resolving the computer system design and implementation deficiencies.	01-14a	X				
	02-22b	Reconcile the expenditures included on quarterly reports (SF-269) to amounts included in the State Accounting System.	01-14b		X			The Department currently reconciles the SF-269 report to the State Accounting System at grant closeout, but also plans to reconcile at State fiscal year-end in the future.
02-30	14.228	The Department needs to improve its monitoring procedures to ensure that subrecipients are using CDBG funds for authorized purposes in compliance with laws, regulations and the provisions of contract and grant agreements.						
02-30	02-30a	Improve subrecipient monitoring procedures by ensuring all required subrecipient site visits are conducted and by reviewing all subrecipient audit reports on a timely basis.	01-19			X		
02-30	02-30b	Update the checklist used to review subrecipient audit reports to include the current terminology and reporting requirements of OMB Circular A-133.				X		
02-33	17.225	The Department did not always obtain required approvals from the Division of Purchasing prior to ordering goods and services from vendors or exceeding existing purchase order amounts.						
02-33	02-33	Implement and enforce enhanced control procedures to ensure compliance with State purchasing laws and regulations.		X				
02-34	17.225	The DLT lacks adequate controls to ensure the reliability of data reported on federal report form ETA-227 <i>Overpayment Detection and Collection Activities</i> .						
02-34	02-34	Implement controls to ensure that ETA 227 report information is prepared in the manner prescribed by the federal government. Document supervisory reviews and approvals.				X		See Corrective Action Plan for finding 2004 - 38
02-44	93.568	The State Energy Office did not prepare and submit the required <i>Financial Status Reports (SF-269A)</i> . Other reports contained inaccuracies, incomplete information, and data not reported in accordance with instructions.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
02-44b		Ensure that all federal reports are submitted to the granting agency as required. Prepare and submit the necessary <i>SF-269A Financial Status Reports</i> .	01-43			X		Although the required financial status reports for FY's 2002 and 2003 have been prepared and submitted, the FY 2001 report is still outstanding. It is our understanding that the Central Business Office has been made aware of this finding and will be preparing the 2001 report.
02-44c		Submit a corrected <i>LIHEAP Carry Over and Reallotment Report</i> .				X		An amended LIHEAP Carry Over and Reallotment report was submitted to HHS. We have since discovered that our amended report was still not accurate according to our audit. The Central Business Office has been made aware of this and will be submitting another revision.
02-52	93.667	The department's subrecipient monitoring procedures may not be sufficiently comprehensive to ensure federal sub-awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements.						
02-52a		Perform alternative monitoring procedures when audit reports do not provide timely and reasonable assurance of a subrecipient's compliance with program requirements.	00-43			X		The Department does employ several tools to monitor many of its subrecipients in order to insure compliance. Types of monitoring tools used by the Department include reviewing agency board minutes, attending agency program events, sponsoring training sessions for subrecipient staff, and attending agency association meetings. In most cases the Department's subrecipients are also receiving federal and state funds from several other state departments, therefore a statewide approach to onsite monitoring may be a more effective way to ensure that subrecipients are expending federal awards in compliance with laws and regulations. Site visits will be used by the Department as a monitoring tool, within staffing constraints.

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Prior rec. number</i>	<i>Imple-mented</i>	<i>Partially Imple-mented</i>	<i>Not Imple-mented</i>	<i>No Longer Valid</i>	<i>Comments</i>
02-52b		Perform timely and substantive follow-up on subrecipient audit findings – particular emphasis is warranted when findings remain uncorrected for multiple reporting years.	01-45b		X			DHS employs several methods to monitor subrecipients to insure compliance. Including the review of agency program and fiscal reports, attending agency meetings and provide training to subrecipient staff. Site visits are limited because of staff resources. DHS believes a statewide approach of onsite monitoring and reviews would be a more effective way to accomplish this goal.
03-19	Various	The State did not have adequate controls to ensure compliance with regulations governing the use, management and disposition of equipment purchased with federal funds.	97-10 98-07 99-09 00-09 01-08 02-16			X		See Corrective Action Plan for finding 2004 - 30
03-20	Various	The State did not have adequate controls to ensure compliance with federal cash management requirements in drawing cash for federal programs.						
03-20a		Implement a centralized monitoring system to ensure compliance with cash management requirements.	97-11 98-08 99-10 00-10 01-09 02-17a			X		See Corrective Action Plan for finding 2004 - 29a
03-20b		Strengthen procedures to ensure that all interest liability calculations are performed and documented as required by Federal regulations.	02-17b			X		See Corrective Action Plan for finding 2004 - 29b
03-20c		Continue to review the basis for requesting Federal funds (i.e., funding techniques) for applicable Federal assistance programs, and modify the Treasury/State agreement to more accurately match funding techniques to current practices.	02-17c			X		See Corrective Action Plan for finding 2004 - 29c

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
03-21	10.550 10.553 10.555 10.559	We noted numerous variances in inventory records of food commodities.				X		See Corrective Action Plan for finding 2004 - 31
	03-21	Improve controls over the receipt and distribution of donated food commodities by ensuring that all required forms are completed and recorded in the inventory records when goods are received, shipped, or damaged.				X		See Corrective Action Plan for finding 2004 - 31
03-22	10.553 10.555 10.556	The computer system installed by RIDE to administer child nutrition programs lacked the capability to fully meet the department's federal reporting requirements. Manual calculations resulted in errors being reported. The system also incorrectly calculated some meal reimbursements.						
	03-22	Improve controls over federal reporting by resolving the computer system design and implementation deficiencies.	01-14a 02-22a	X				
03-23	11.307	The EDC does not complete all of the financial, performance, and special reports required by the federal awarding agency. Reports are not reviewed by a person independent of the preparer and no review of compliance requirements is performed to ensure all required reports have been prepared in accordance with those requirements.						
	03-23	We recommend that a person independent of the person preparing the reports detail review each report, and compare the requirements of the U.S. Department of Commerce and OMB Circular A-133 to the reports prepared to determine whether all required reports have been prepared and reports prepared are completed in accordance with such requirements prior to being overviewed by the Corporation's Director of Finance and Administration.	02-24 02-26			X		See Corrective Action Plan for finding 2004 - 35
03-24	17.225	DLT did not obtain a change order for an expenditure in excess of the authorized purchase order.						
	03-24	Improve control procedures to ensure compliance with state procurement requirements.	02-33	X				



## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
03-25	17.258 17.259 17.260	Encumbrance balances were erroneously recorded as expenditures. The department then drew excess funds to cover the erroneous expenditures.						
	03-25	Ensure excess federal funds drawn for erroneous expenditures have been returned or credited to the federal government.		X				
03-26	17.258 17.259 17.260	DLT does not retain supporting documentation to support the annual performance report.						
	03-26	Strengthen controls to ensure documentation supporting federal performance reports is requested from providers and retained for verification purposes.					X	Revised Federal performance reporting requirements will be tested in future periods.
03-27	20.106	One bid package did not contain a signed certificate that the party was not suspended or debarred.						
	03-27	We recommend that the management insure all consultant firms hired to prepare bid documents for construction projects on behalf of the Corporation are familiar with and comply with 49 CFR Part 29, which states that bid documents must require the "Certificate Regarding Debarment, Suspension and Other Responsibility Matters" be signed and submitted as part of the bid package.		X				
03-28	20.205	Two projects were advertised for bid before FHWA approval was obtained and another was awarded without the required concurrence.						
	03-28	Develop procedures to ensure that required approvals and/or concurrences are obtained when required.		X				
03-29	20.205	Labor compliance checklists were sometimes missing, others were missing one or both required signatures.						
	03-29	Strengthen oversight of the labor compliance monitoring procedures to ensure contractor compliance with Davis Bacon Act requirements.					X	See Corrective Action Plan for finding 2004 – 40

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple- mented	Partially Imple- mented	Not Imple- mented	No Longer Valid	Comments
03-30	20.205	RIDOT's method for allocating labor charges to various projects by use of a "labor additive" has not been approved by the FHWA. We found unallowable costs included in the calculation of the rate.						
	03-30a	Request a formal interpretation from the Federal Highway Administration as to whether their distribution of leave and fringe benefit costs to Federal construction projects requires Federal review and approval.				X		See Corrective Action Plan for finding 2004 – 41
	03-30b	Revise the methodology for computing the labor additive rate to include only allowable costs to Federal projects.				X		See Corrective Action Plan for finding 2004 – 41
	03-30c	Adjust charges to Federal projects based on a provisional labor additive rate to actual on an annual basis.				X		See Corrective Action Plan for finding 2004 – 41
03-31	20.500 20.507	RIDOT did not submit one of two required DBE reports.						
	03-31	Prepare and submit DBE reports as required by program regulations.				X		See Corrective Action Plan for finding 2004 – 42
03-32	None	RIDOT has not submitted required financial reports for the Freight Rail Improvement Project since June 30, 2000.						
	03-32a	Prepare and submit quarterly reports as required by the Grant Agreement. Reconcile amounts reported to the State's accounting system.				X		See Corrective Action Plan for finding 2004 – 43
	03-32b	Require reports to be reviewed by supervisory personnel prior to submission.				X		See Corrective Action Plan for finding 2004 – 43
03-33	84.010 84.027 84.173 84.367	RIDE does not have adequate procedures in place to ensure subrecipients do not have federal cash on hand in excess of their immediate needs. Cash requests by subrecipients are generally processed once a month and funds are generally advanced based on forecasts prepared by the subrecipient for the month.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments		
03-33	03-33	Monitor advances to subrecipients to ensure that they conform to standards required by 34 CFR 80.21(c), 80.37 (a) (4), and 31 CFR 205.10(a).	<u>84.010</u>			X		See Corrective Action Plan for finding 2004 - 46		
			97-25							
			98-24							
			99-29							
			00-24							
			01-27							
			02-38							
			<u>84.027</u>						X	
			<u>84.173</u>							
			99-29							
00-24										
01-27										
02-38										
03-34	84.032	12 out of 25 student files selected did not contain a record of an exit interview being performed or mailed.								
	03-34	We recommend that the University strengthen its procedures to ensure that a signed exit interview form or confirmation of on-line counseling be obtained from all borrowers, to ensure compliance with federal requirements regarding exit interviews.	02-39			X		See Corrective Action Plan for Finding 2004 - 52 (CFDA # changed from 84.032 to 84.268)		
03-35	84.032	Required exit interviews were not conducted in 13 out of 30 cases tested.								
	03-35	We recommend that the College strengthen its procedures to ensure that a signed exit interview form or confirmation of on-line counseling was performed be received from all borrowers to be in compliance with federal requirements regarding exit interviews.		X						
03-36	84.032	The college currently does not have a procedure in place to notify students of the date and amount of the disbursement of their loan and their right to cancel loan proceeds upon receipt of FFELP.								
	03-36	We suggest that the College implement procedures to notify the student of their FFELP funds and their right to cancel, whether written or electronically.		X						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Prior rec. number</i>	<i>Imple-mented</i>	<i>Partially Imple-mented</i>	<i>Not Imple-mented</i>	<i>No Longer Valid</i>	<i>Comments</i>
03-37	84.032	Entrance interviews were not conducted in out of thirty FFELP case files examined. One Perkins loan file tested did not contain evidence of the required entrance interview.  Policies should be enforced to ensure all documentation is completed for the required entrance reviews.		X				
03-38	84.063	Disbursement records were not transmitted to the Department of Education within the required 30 days.						
03-38		The University should review its procedures to ensure disbursement records are transmitted to the Department of Education within the required 30 days.				X		See Corrective Action Plan for Finding 2004 - 51
03-39	93.283	Five contracts with service providers did not contain certifications that the providers were not suspended or debarred from participating in the CDC grant programs.						
03-39		Review and strengthen procedures to ensure current agreements containing the required suspension and debarment certifications are in place for all vendors.				X		See Corrective Action Plan for finding 2004 – 53
03-40	93.283	The Department of Health does not require employees who work solely on a single Federal award or cost objective, or their supervisors, to sign certifications that they worked solely on that program for the period covered by the certification.						
03-40		Implement procedures to ensure that employees who work solely on a single Federal award or cost objective, or their supervisors, sign the required certifications on at least a semi-annual basis.				X		See Corrective Action Plan for finding 2004 – 54
03-41	93.558 93.778	TANF eligibility discrepancies resulting from IEVS data matches were not investigated and resolved in a timely manner.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
03-41	03-41a	Strengthen control procedures to ensure that discrepancies resulting from data matches are promptly resolved and utilized to determine recipient eligibility and the amount of assistance.	98-36 99-33a 00-32a 01-36a 02-41a		X			The Department provided written procedures and continues to provide staff training. See Corrective Action Plan for finding 2004 - 56
	03-41b	Maintain documentation supporting the resolution of data match discrepancies. Initiate modifications when discrepancies impact eligibility and/or benefit levels.	99-33b 00-32b 01-36a 02-41b		X			See Corrective Action Plan for finding 2004 - 56
03-42	93.558	The Department lacks adequate internal control procedures to ensure the reliability of data reported on federal report form ACF-204.						
	03-42a	Strengthen supervisory review and approval procedures to ensure that all necessary information is included in the report and the information is accurate, within the proper reporting period and is supported by accurate calculations and reasonable estimates.			X			DHS offices of Financial Management will verify data reported on the ACF-204 report. See Corrective Action Plan for finding 2004 - 57
	03-42b	Maintain adequate detailed supporting documentation for amounts reported.			X			
	03-42c	Correct and resubmit the Fiscal year 2002 ACF-204 report to the Federal Government.			X			
03-43	93.558 93.575 93.596 93.767 93.778 93.563	DHS does not have a process in place to update and reassess risk assessments when significant system changes occur. Further, policies and procedures to identify and address security risks related to system changes have also not been implemented by DHS.						
	03-43a	Develop a comprehensive ADP risk analysis and system security review process to ensure a coordinated approach to identifying and addressing security risks related to information systems used to administer federal programs.				X		See Corrective Action Plan for finding 2004 - 71

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
03-43	03-43b	Implement procedures to ensure that risk assessments are conducted for significant system changes that could affect overall information system security.				X		See Corrective Action Plan for finding 2004 – 71
	03-43c	Utilize recognized industry standards (i.e., Federal Information Systems Controls Audit Manual (FISCAM), National Institute of Standards and Technology (NIST)) governing security of Federal ADP systems and information processing to aid in the development of the department's policies and procedures relating to system security.				X		See Corrective Action Plan for finding 2004 – 71
03-44	93.563	CSE does not reconcile child support collections and disbursements recorded in its computer system (INRHODES) with amounts recorded in the State accounting system.						
	03-44a	Accumulate all child support collections and distributions in the department computer system and reconcile to the amounts recorded in the State accounting system.	97-35 98-37a 99-34a 00-34a 01-38a 02-42a			X		See Corrective Action Plan for finding 2004 – 60
	03-44b	Investigate and resolve the difference regarding child support collections pending distribution reported by the CSE and State accounting systems.	98-37b 99-34b 00-34b 01-38b 02-42b			X		See Corrective Action Plan for finding 2004 – 60
	03-44c	Perform daily reconciliations between collections posted to the INRhodes computer system and bank deposits for all forms of child support receipts.		X				
03-45	93.563	CSE personnel do not verify data supplied by the DPM agrees to department records.						
	03-45	Reconcile the cash balance reported on the PSC-272 report with the State accounting system.				X		See Corrective Action Plan for finding 2004 – 61
03-46	93.563	Control procedures are not adequate to ensure that medical support, once ordered by the court, is enforced.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
03-46a		Enhance control procedures to ensure that medical coverage information is recorded within the CSE INRHODES computer system on a timely basis when medical support is ordered by the court.	00-35a 01-39a 02-43a			X		See Corrective Action Plan for finding 2004 – 62
	03-46b	Initiate appropriate enforcement action for medical support orders.	00-35b 01-39b 02-43b			X		See Corrective Action Plan for finding 2004 - 62
03-47	93.568	Charges for salaries and benefits are not supported by activity reports or time sheets. Management was unable to support \$290,000 in payroll charges to the LIHEAP program.						
03-47		Allocate employee salaries and fringe benefits costs to the appropriate activities based on routine time sheets or random moment time-studies.				X		In February 2005 the Central Business Office within DOA began a time study of the State Energy Office personnel. This will be done three times a year and the result will be the basis for the distribution and allocation of employee salaries and benefits. See Corrective Action Plan for finding 2004 - 64.
03-48	93.568	The State Energy Office lacks adequate procedures to ensure that payments to its LIHEAP program subrecipients are limited to their immediate cash needs.						
03-48		Restrict subrecipient funding to their immediate cash needs and ensure that LIHEAP program funds reports are properly submitted by subrecipients.	02-45		X			We continue to strengthen our compliance in this area by reviewing the Program Funds and Client Data Reports to determine the cash needs of our subgrantees. See Corrective Action Plan for finding 2004 - 67.
03-49	93.568	During federal fiscal year 2002, the State Energy Office did not finalize two utility contracts until after the beginning of the fiscal year. The State Energy Office did not require its providers of fuel and utility services or subrecipients to certify that the organization and its principals are not suspended or debarred from participating in the LIHEAP program.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Prior rec. number</i>	<i>Implemented</i>	<i>Partially Implemented</i>	<i>Not Implemented</i>	<i>No Longer Valid</i>	<i>Comments</i>
	03-49a	Amend contracts with subrecipients to include all necessary federal compliance provisions.				X		See Corrective Action Plan for finding 2004 - 65
	03-49b	Finalize all contracts by the beginning of the fiscal year in which the services will be provided and ensure the contracts reference appropriate thresholds and OMB Circulars.	02-46a	X				
03-50	93.575 93.596	Childcare workers sometimes failed to comply with established procedures regarding hardcopy documentation of eligibility and income. This resulted in errors in the calculation of provider payments and co-payments.						
	03-50	Adhere to internal procedures requiring agency personnel obtain and utilize the appropriate documentation to update electronic case file records prior to approving childcare eligibility and determining payment amounts.	01-46 02-47		X			DHS implemented a new operating program in the InRhodes computer system. Child Care policy was revised to define client income. These changes along with staff training should result in more accurate eligibility determination and maintaining documentation. See Corrective Action Plan for finding 2004 - 68.
03-51	93.658	Six cases examined did not meet eligibility requirements, resulting in unallowable charges.						
	03-51	Adjust federal reports to reimburse the federal government for the unallowable maintenance costs charged during fiscal year 2003.		X				
03-52	93.658	The department's accounting system is not able to separate daycare charges for the Adoption Assistance and Foster Care programs.						
	03-52	Implement procedures to compile day care costs eligible for reimbursement under the Foster Care program.			X			See Corrective Action Plan for finding 2004 - 69.
03-53	93.767	Specific eligibility criteria for the SCHIP program has not been programmed into the INRHODES system. The Department must use queries to identify SCHIP eligible individuals and program costs. During fiscal 2002, certain SCHIP expenditures were erroneously claimed. The INRHODES system does not adequately consider other insurance when determining SCHIP eligibility.						



## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
03-53	03-53a	Subject the results of queries used to accumulate eligible SCHIP program costs to a quality control process to ensure eligibility and allowable cost program criteria are met.	02-54			X		See Corrective Action Plan for finding 2004 – 72a
	03-53b	Adjust federal reports for the amounts erroneously claimed as program costs.	02-54b			X		See Corrective Action Plan for finding 2004 – 72b
	03-53c	Implement procedures to fully consider the existence or availability of other insurance when determining eligibility for SCHIP.	02-54c			X		See Corrective Action Plan for finding 2004 – 72c
03-54	93.767	Data is not available to apply collection of co-pay amounts to either Medicaid or SCHIP, whichever program was initially charged. All co-pay collections are applied to the Medicaid program.						
03-54		Implement procedures to allow crediting the appropriate federal program for the collection of co-pay amounts under the State's RItte Care Cost Share program.	02-55			X		See Corrective Action Plan for finding 2004 – 73
03-55	93.767 93.778	SCHIP expenditures were initially claimed as Medicaid program expenditures and later adjusted and claimed as SCHIP expenditures.						
03-55		Estimate the federal share of eligible SCHIP program expenditures for the purposes of drawing cash against the appropriate cash award and letter of credit.	02-56			X		DHS does not agree with this finding.
03-56	93.767 93.778	Some manually assigned aid categories assigned were incorrect.						
03-56		Improve controls and policies relating to manually determined eligibility segments within INRHODES to ensure that correct aid category codes are assigned to medical benefit recipients within the Medical Assistance and SCHIP programs.				X		See Corrective Action Plan for finding 2004 – 74
03-57	93.667 93.778	Controls are not adequate to ensure that all payments for homemaker services are charged to the appropriate funding source.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
03-57		Strengthen procedures to ensure that vendor billings for homemaker services are verified as to funding source, authorization period and authorized hours prior to payment.	00-42 01-49 02-53			X		See Corrective Action Plan for finding 2004 – 75
03-58	93.778	Adequate controls were not in place to ensure that claims were paid only for individuals eligible under the Medical Assistance Program.						
03-58		Determine, on a timely basis, the amount of claims paid on behalf of ineligible individuals and reimburse the federal government for its share.	97-42a 98-44b 99-42b 00-46 01-53 02-57			X		See Corrective Action Plan for finding 2004 – 76
03-59	93.778	The department's oversight of its fiscal agent designated to pay Medical Assistance Program claims was not adequate to ensure the reliability of data reported by the Medical Management Information System and to ensure claims were processed in accordance with the Department's instructions and federal requirements.						
03-59a		Obtain an annual examination ("SAS 70" review) performed by independent certified public accountants of the fiscal agent's internal control policies and procedures.	97-43a 98-45b 99-43a 00-47a 01-54a 02-58a			X		See Corrective Action Plan for finding 2004 – 77a
03-59b		Improve financial oversight of the fiscal agent by enhancing procedures to (1) verify information from the MMIS used to record program activity and prepare federal reports, (2) monitor the billing and collection of drug rebates and (3) ensure third party liabilities are identified and collected.	97-43b 98-45a 99-43b 00-47b 01-54b 02-58b			X		See Corrective Action Plan for finding 2004 – 77b
03-60	93.778	Delays in verifying TPL information contributed to lost TPL recovery.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
03-60a		Review existing procedures to ensure that third party liabilities are identified on a timely basis.	97-45			X		See Corrective Action Plan for finding 2004 – 78a
			98-47a					
			99-46a					
03-60b		Reimburse the federal government for its share of uncollected third party liability recoveries.	00-49a					See Corrective Action Plan for finding 2004 – 78b
			01-55a					
			02-59a					
03-60c		Investigate the possibility of sharing data electronically with other insurers to facilitate the identification of third party liability.	98-47b				X	See Corrective Action Plan for finding 2004 – 78b
			99-46b					
			00-49b					
03-61	93.778	Approximately \$50 million of program expenditures were processed by systems independent of the MMIS. These other accounting systems have not been designed to contain all the control procedures of the MMIS.	01-55c	X				
			02-60c					
03-61a		Improve controls by requiring all benefit-type program expenditures to be processed through the MMIS.	97-52			X		See Corrective Action Plan for finding 2004 – 79a
			98-51					
			99-49a					
03-61b		Implement oversight procedures for per diem rates established for state operated facilities.	00-51a					See Corrective Action Plan for finding 2004 – 79b
			01-56a					
			02-60a					
03-61c		Implement control procedures to ensure the allowability of administrative expenditures charged to the Medicaid program by other departments.	01-56c				X	See Corrective Action Plan for finding 2004 – 79c
			02-60b					
03-61d		Implement monitoring procedures to ensure that other State agencies are complying with MOU and/or interagency agreements that mandate their allowable Medicaid claiming activity.	98-48b					See Corrective Action Plan for finding 2004 – 79d
			99-49b				X	
			00-51c					
03-61d		Implement monitoring procedures to ensure that other State agencies are complying with MOU and/or interagency agreements that mandate their allowable Medicaid claiming activity.	01-56d					See Corrective Action Plan for finding 2004 – 79d
			02-60c					

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Prior rec. number</i>	<i>Imple-mented</i>	<i>Partially Imple-mented</i>	<i>Not Imple-mented</i>	<i>No Longer Valid</i>	<i>Comments</i>
03-62	93.778	DHS did not obtain revised agreements from all its contractors that certify that the organization and its principals are not suspended or debarred from participating in the Medicaid Program.						
03-62a		Review and strengthen procedures designed to ensure current agreements containing the required suspension and debarment certifications are in place for all providers.	98-54b 99-51 00-53 01-58 02-61			X		See Corrective Action Plan for finding 2004 – 80a
03-62b		Implement procedures to ensure that individuals/entities participating in the Medical Assistance Program have not been excluded from participation by any federal organization.				X		See Corrective Action Plan for finding 2004 – 80b
03-62c		Revise Addendum I to the department's standard provider agreement to fully comply with 42 CFR 455.106.				X		See Corrective Action Plan for finding 2004 – 80c
03-63	93.778	We noted instances of provider overpayments that were not reported timely on federal reports.						
03-63		Reimburse the federal government for program overpayments within 60 days of their discovery.				X		See Corrective Action Plan for finding 2004 – 81
03-64	93.778	Amounts reimbursed as disproportionate share payments to one hospital did not meet the criteria set forth in Section 1923(b) of the Social Security Act and the State Plan.						
03-64		Adhere to provisions in the State Plan regarding disproportionate share hospital reimbursements to qualifying mental health services hospitals and seek federal approval of the plan.	02-64				X	Recommendation not valid for fiscal year 2004, however, prior year questioned costs are still unresolved.
03-65	93.778	The process to accumulate information for the CMS-64 report is complex and requires extensive manual effort. No review process is in place to ensure consistent and accurate reporting of program expenditures on the CMS-64.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
03-65	03-65a	Reconcile Medicaid program expenditures reported on the CMS-64 with amount included in the State's accounting system. Implement a review process to ensure the consistent and accurate reporting of program expenditures.	02-65a			X		See Corrective Action Plan for finding 2004 – 82b
	03-65b	Align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS.	02-65b			X		See Corrective Action Plan for finding 2004 – 82a
	03-65c	Include information relative to the collection of health care related taxes on the CMS-64.	02-65c	X				
	03-65d	Ensure data reported on the CMS-64 regarding outstanding drug rebates is consistent with supporting records maintained by the fiscal agent.	02-65d	X				
03-66	93.778	One hospital submitted overdue settlement reports for the years 1995 to 2001 DHS settlement reports indicate the hospital owes \$3.1 million for the period reported. The hospital disputes the amount owed.						
03-66		Recover identified hospital settlements from providers in a timely manner and credit the federal government for their share within 60 days.				X		See Corrective Action Plan for finding 2004 – 83
03-67	93.778	We found an error in a capitation rate due to the improper conversion of the recipients aid category from INRHODES to MMIS.						
03-67a		Develop a process to identify incorrectly assigned capitation codes within the Rite Care population.		X				
03-67b		Identify all cases with incorrect capitation codes and determine amounts to be recouped from participating HMO providers.		X				
03-68	93.778	According to a report from the OIG, Department of Health and Human Services, DHS did not monitor or review the LEA's degree of compliance with federal and state regulations applicable to LEA's participation in the Medicaid school-based program.						
03-68		Enhance oversight and monitoring procedures related to school-based medical services to address the findings in the report issued by the DHHS.				X		See Corrective Action Plan for finding 2004 - 84

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
03-69	93.778	DHS needs to re-evaluate and improve its current oversight and monitoring of the Connect CARRE provider to ensure that the program is operating effectively and meeting its primary objectives.						
03-69a		Improve oversight and monitoring procedures over care management activities for the <i>Connect CARRE</i> program.		X				
03-69b		Adopt all recommendations communicated in conjunction with the above mentioned performance audit to provide enhanced controls over payments to the <i>Connect CARRE</i> provider.		X				
03-70	93.778	We found four cases where individuals were paid directly for health insurance coverage after they had terminated employment. The recipients did not return premium payments to DHS.						
03-70		Improve controls to ensure that Rite Share participants enroll and sustain valid health insurance coverage to prevent program overpayments.				X		See Corrective Action Plan for finding 2004 – 85
03-71	93.959	The Division of Substance Abuse (DSA) does not identify the portion of the total grant that is funded from federal sources at the time of the award, but at the end of the fiscal year.						
03-71		Identify the amount and source of federal funds included in each grant award to subrecipients at the time of the award.	01-62a		X			See Corrective Action Plan for finding 2004 – 86
03-72	93.959	DSA utilizes a form to prompt and document its required site monitoring reviews of treatment facilities receiving substance abuse block grant funds. We found program review worksheets were not fully completed for certain facilities.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Prior rec. number</i>	<i>Implemented</i>	<i>Partially Implemented</i>	<i>Not Implemented</i>	<i>No Longer Valid</i>	<i>Comments</i>
03-72a		Complete all questions on the program review worksheet during subrecipient monitoring reviews. Indicate on work sheet "not applicable, or none" for those areas where there are no findings to report.				X		As of SFY 05, the revised monitoring tool requires an entry for each item with one of the following responses entered: met, not met, or not applicable. Also, see Corrective Action Plan for finding 2004-86.
03-72b		Complete reviews or monitoring of all treatment facilities as required by federal regulations.				X		As of SFY 05, the department conducts onsite monitoring of every treatment program every two years. Also, see Corrective Action Plan for finding 2004-86.
03-73	93.959	DSA should enhance its oversight and monitoring of the subrecipient administering the revolving loan fund to ensure compliance with all applicable federal regulations.						
03-73a		Improve monitoring of the subrecipient administering the revolving loan fund.				X		As of SFY 05, the Division's financial unit reviews the financial sections of the quarterly report. The Treatment Monitoring Unit will be reviewing the program sections. The program monitoring activity will be fully implemented as of the quarter ending June 30, 2005. While the Treatment Monitoring Unit's involvement was not fully implemented, the quarterly program reports are read by other DBH staff. If there was a program concern associated with a particular quarterly submission, it would have been addressed with the contact agency.
03-73b		Implement formal written policies and procedures regarding maximum loan amount limits and permitted exceptions.				X		As of April 2005, the Division has established and disseminated policies and procedures regarding the operations of the revolving loan program. Among other matters, the policy document addresses maximum loan amounts and the manner exceptions are to be addressed, and how loan defaults will be handled.
03-73c		Implement formal written policies and procedures regarding loan defaults.				X		

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03-74	93.959	During fiscal 2003, no detoxification services provider was selected for peer review. Names of the proposed peer review team for another facility were not provided to the facility in advance to insure that no conflict of interest would occur.						
03-74a		Conduct peer reviews for each of the 5 modalities of treatment in accordance with federal regulations.		X				
03-74b		Verify all the team members in advance with the selected facility in accordance with federal regulations in order to identify potential conflicts of interest with peer review team member prior to beginning the peer review.		X				



**Mission**

***“The Office of the Auditor General exists to support the State Legislature and Federal Government in meeting their constitutional responsibilities and to help improve the performance and accountability of government”***