State of Rhode Island
and Providence Plantations

SINGLE AUDIT REPORT

Fiscal Year Ended June 30, 2009

DENNIS E. HOYLE, CPA
ACTING AUDITOR GENERAL
dennis.hoyle@oag.ri.gov

STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

- *INTEGRITY*
- *RELIABILITY*
- *INDEPENDENCE*
- *ACCOUNTABILITY*

May 7, 2010

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, 2009. 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,

Dennis E. Hoyle, CPA
Acting Auditor General

86 WEYBOSSET STREET ♦ PROVIDENCE, RHODE ISLAND 02903-2800 ♦ www.oag.ri.gov ♦ TEL 401.222.2435 ♦ FAX 401.222.2111

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GENERAL ASSEMBLY
OFFICE of the AUDITOR GENERAL

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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, 2009, 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 2% of the assets and 1% of the revenues of the governmental activities and 1% of the assets and 14% of the revenues and net additions of the fiduciary funds within the aggregate remaining fund information;
- the Convention Center Authority, a major fund, which also represents 70% of the assets and 1% of the revenues of the business-type activities; and
- 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 opinions, insofar as they relate to the amounts included for the governmental activities, the business-type activities, the aggregate discretely presented component units, the Convention Center Authority major fund, and the aggregate remaining fund information, are based on the reports of the other auditors.

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

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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.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State, as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in note 18D, the General Fund had a fiscal 2009 operating deficit of $36.7 million resulting from a deficiency of general revenue compared to general revenue expenditures. The unreserved fund balance (deficit) of the General Fund was ($62.3) million at June 30, 2009.

As described in notes 1(R), 6(F), and 18(C), the State implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2010 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Management's Discussion and Analysis, on pages A-4 through A-18, the Budgetary Comparison Schedules on pages A-112 through A-114, and the Schedules of Funding Progress on pages A-115 through A-117 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 State, 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, 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 a whole.

Dennis E. Hoyle, CPA
Acting Auditor General

April 6, 2010

Management 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, 2009. 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 June 30, 2009 by $789.1 million. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government. Of this amount, ($1,550.9) million was reported as unrestricted net assets (deficit), $440.3 million was restricted net assets, and $1,899.7 million was invested in capital assets, net of related debt.
- **Changes in Net Assets:** In the Statement of Activities the State's total net assets decreased by $209.8 million in fiscal year 2009. Net assets of governmental activities decreased by $40.6 million, while net assets of the business-type activities decreased by $169.2 million.

Fund Financial Statements

- The State's governmental funds reported a combined ending fund balance of $889.3 million, an increase of $204.0 million in comparison with the previous fiscal year, primarily as a result of debt issued during the year pending disbursement.
- The General Fund ended the current fiscal year with an unreserved, undesignated balance (deficit) of ($62.3) million, a decrease of $19.4 million from June 30, 2008.
  - The Budget Reserve and Cash Stabilization Account ended the fiscal year with a balance of $80.1 million, a decrease of $22.8 million in comparison with the previous fiscal year. In fiscal year 2009, $22 million was appropriated from the Budget Reserve Account to mitigate the effect of a projected general revenue shortfall.
- The Intermodal Surface Transportation Fund ended the fiscal year with an unreserved fund balance of $0.2 million, which was a decrease of $7.4 million from the previous year.
- The GARVEE Fund ended its fiscal year with a fund balance of $268.1 million an increase of $115.4 million in comparison with the previous fiscal year. Of the fund balance, $15.6 million is reserved for debt.
- The Rhode Island State Lottery transferred $337.5 million to the General Fund in support of general revenue expenditures during the fiscal year, a decrease of $16.8 million in comparison with the previous fiscal year. In addition, $6.8 million was also transferred to the Permanent School Fund in fiscal year 2009.
- The Employment Security Fund ended the fiscal year with net assets of $6.8 million, a decrease of $171.2 million compared with the prior year. This decrease was primarily attributable to a significant increase in unemployment benefits paid as a result of the high unemployment rate in the State. This necessitated the borrowing of $70.3 million from the Federal Unemployment Trust Fund.

- The R.I. Convention Center Fund ended the fiscal year with net asset deficiency of $44.6 million, a reduction of $1.3 million compared with the prior year. The Fund has historically had a net asset deficiency as the amount of debt related to capital assets has exceeded the net book value of the capital assets because the repayment term for the debt generally is more than the depreciable life of the assets.

Overview of the Financial Statements

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

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

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

Government-wide Financial Statements

The government-wide financial statements provide a broad view of the State's finances. The statements provide both short-term and long-term information about the State's financial position, which 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 activities:

- **Governmental Activities:** The activities in this section represent most of the State's basic services and are generally supported by taxes, grants and intergovernmental revenues. The governmental activities of the State include general government, human services, education, public safety, natural resources, and transportation. The net 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 Rhode Island Lottery, Rhode Island Convention Center Authority and the Employment Security Trust Fund.
- **Discretely Presented Component Units:** Component units are entities that are legally separate from the State, but for which the State is financially accountable. These entities are listed in Note 1. The financial information for these entities is presented separately from the financial information presented for the primary government.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on the individual parts of 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 and permanent funds. The State has several governmental funds, of which GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* defines the general fund as a major fund. The criteria for determining if any of the other governmental funds are major funds are detailed in Note 1(D). The Intermodal Surface Transportation 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 the State's Comprehensive Annual Financial Report (CAFR).

- **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 (RICCA) and the Employment Security Fund. These funds are each presented in separate columns on the basic proprietary fund financial statements. The State's internal service funds are reported as governmental activities on the government-wide statements, because the services they provide predominantly benefit governmental activities. The State's internal service funds are reported on the basic proprietary fund financial statements in a single combined column. Individual fund data for these funds is provided in the form of combining statements and can be found in the supplementary information section of the State's CAFR.

- **Fiduciary funds:** These funds are used to account for resources held for the benefit of parties outside the State government. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support the State's programs. These funds, which include the pension 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 the State's CAFR.

Major Features of the Basic Financial Statements

	Government-wide	Fund Financial Statements		
	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 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

Management Discussion and Analysis

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 and other post-employment benefits to its employees. This section also includes a budgetary comparison schedule for each of the State's major governmental funds that have a legally enacted budget.

Other Supplementary Information

Other supplementary information, which follows the required supplementary information in the State's CAFR, includes the combining financial statements for nonmajor governmental funds, 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 $789.1 million at the end of fiscal year 2009, compared to $998.9 million at the end of the prior fiscal year. The primary reason for the $209.8 million decrease was that resources accumulated in prior years were used to fund some of the current year expenses. Governmental activities have unrestricted net assets (deficit) of ($1,543.7) million.

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), less any related debt outstanding that was needed to acquire or construct the assets. The State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources. An additional portion of the State's net assets represent resources that are subject to external restrictions on how they may be used.

State of Rhode Island's Net Assets as of June 30, 2009
(Expressed in Thousands)

	Govermental Activities		Business-Type Activities		Total Primary Government	
	2009	2008*	2009	2008	2009	2008*
Current and other assets	$ 1,610,728	$ 1,413,978	$ 120,086	$ 223,419	$ 1,730,814	$ 1,637,397
Capital assets	2,855,528	2,784,026	205,282	208,595	3,060,810	2,992,621
Total assets	4,466,256	4,198,004	325,368	432,014	4,791,624	4,630,018
Long-term liabilities outstanding	2,796,056	2,476,054	335,548	268,980	3,131,604	2,745,034
Other liabilities	834,565	845,762	36,394	40,353	870,959	886,115
Total liabilities	3,630,621	3,321,816	371,942	309,333	4,002,563	3,631,149
Net assets:						
Invested in capital assets, net of related debt	1,959,118	1,877,872	(59,453)	(60,902)	1,899,665	1,816,970
Restricted	420,215	427,588	20,130	198,928	440,345	626,516
Unrestricted	(1,543,698)	(1,429,272)	(7,251)	(15,345)	(1,550,949)	(1,444,617)
Total net assets *(as restated)	$ 835,635	$ 876,188	$ (46,574)	$ 122,681	$ 789,061	$ 998,869

* - Cumulative effect of prior period adjustments is fully explained in note 18C.

As indicated above, the State reported a balance in unrestricted net assets (deficit) of ($1,550.9) million at June 30, 2009 in the Statement of Net Assets. This deficit results in part from the State’s use of general obligation bond proceeds (which are reported as debt of the primary government) for non-capital expenditures deemed to provide important benefits for the general public. In these instances, proceeds are transferred to municipalities, discretely presented component units, and non-profit organizations within the State to fund specific projects. Examples of these uses of general obligation bond proceeds include but are not limited to the following:

- Certain transportation projects funded with bond proceeds that do not meet the State’s criteria for capitalization as infrastructure;
- Construction of facilities at the State’s university and colleges which are reflected in discretely presented component units;
- Water resources projects including the acquisition of sites for future water supply resources, various water resources planning initiatives, and funding to upgrade local water treatment facilities;
- Environmental programs to acquire, develop, and rehabilitate local recreational facilities and insure that open space is preserved;
- Historical preservation initiatives designed to protect and preserve historical buildings as well as provide funding for cultural facilities and
- Capital improvements for privately-owned and operated group homes for developmentally disabled citizens of the State as well as children who are dependant on the State for care.

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

Changes in Net Assets

The State's net assets decreased by $209.8 million during the current fiscal year. Total revenues of $8,339.8 million were less than expenses of $8,549.6 million. Approximately 31.0% of the State's total revenue came from taxes, while 28.9% resulted from grants and contributions (including federal financial aid). Charges for various goods and services provided 38.4% of the total revenues. The State's expenses covered a range of services. The largest expenses were for human services, 31.8% and education, 15.1%. In fiscal year 2009, governmental activity expenses exceeded program revenues by $3,064.8 million, which resulted in the use of $2,708.8 million in general revenues (mostly taxes). On the other hand, net program revenues from business-type activities in fiscal year 2009 exceeded expenses by $130.1 million.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	$ 428,854	$ 449,812	$ 2,772,889	$ 2,601,083	$ 3,201,743	$ 3,050,895
Operating grants and contributions	2,114,821	1,827,704	194,857	3,285	2,309,678	1,830,989
Capital grants and contributions	103,515	112,712			103,515	112,712
General revenues:						
Taxes	2,588,417	2,820,709			2,588,417	2,820,709
Interest and investment earnings	9,435	32,466	4,279	9,531	13,714	41,997
Miscellaneous	95,758	121,273	11,782	8,341	107,540	129,614
Gain on sale of capital assets	1,656	3,026			1,656	3,026
Payments from component units	13,569	39,284			13,569	39,284
Total revenues	5,356,025	5,406,986	2,983,807	2,622,240	8,339,832	8,029,226
Program expenses:						
General government	754,386	894,766			754,386	894,766
Human services	2,719,346	2,736,956			2,719,346	2,736,956
Education	1,287,577	1,361,310			1,287,577	1,361,310
Public safety	414,830	428,351			414,830	428,351
Natural resources	75,103	90,087			75,103	90,087
Transportation	324,007	240,644			324,007	240,644
Interest	136,737	133,298			136,737	133,298
Lottery			2,215,602	2,042,722	2,215,602	2,042,722
Convention Center			48,764	41,007	48,764	41,007
Employment insurance			573,288	259,246	573,288	259,246
Total expenses	5,711,986	5,885,412	2,837,654	2,342,975	8,549,640	8,228,387
Change in net assets before transfers	(355,961)	(478,426)	146,153	279,265	(209,808)	(199,161)
Transfers	315,408	324,928	(315,408)	(324,928)		
Change in net assets	(40,553)	(153,498)	(169,255)	(45,663)	(209,808)	(199,161)
Net assets - Beginning	829,461	982,959	122,681	168,344	952,142	1,151,303
Cumulative effect of prior period adjustments	46,727				46,727	
Net assets - Beginning, as restated	876,188	982,959	122,681	168,344	998,869	1,151,303
Net assets - Ending	$ 835,635	$ 829,461	$ (46,574)	$ 122,681	$ 789,061	$ 952,142

The cumulative effect of the prior period adjustment is fully explained in Note 18 Section C.

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 $889.3 million, an increase of $204.0 million. Reserved fund balances are not available for new spending because they have already been committed as follows: (1) $80.1 million for a "rainy day" account, (2) $52.1 million for continuing appropriations, (3) $90.6 million principally for liquidating debt, (4) $148.4 million for employment insurance programs and (5) $35.2 million for other restricted purposes. Approximately 61.3% or $545.2 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 (deficit) of the General Fund was ($62.3) million, while total fund balance was $70.0 million.

Revenues and other sources of the General Fund totaled $5,218.3 million in fiscal year 2009, a decrease of $135.7 million, 2.53%, from the previous year. The revenues from various sources and the change from the previous year are shown in the following tabulation (amounts in thousands):

	2009	2008	Increase (decrease) from 2008 Amount	Percent
Taxes:				
Personal income	$ 897,305	$ 1,073,617	$ (176,312)	-16.42%
Sales and use	998,513	1,019,614	(21,101)	-2.07%
General business	345,792	374,800	(29,008)	-7.74%
Other	37,359	48,370	(11,011)	-22.76%
Subtotal	2,278,969	2,516,401	(237,432)	-9.44%
Federal grants	2,001,605	1,740,283	261,322	15.02%
Restricted revenues	133,872	126,090	7,782	6.17%
Licenses, fines, sales, and services	295,069	322,864	(27,795)	-8.61%
Other general revenues	30,307	41,200	(10,893)	-26.44%
Subtotal	2,460,853	2,230,437	230,416	10.33%
Total revenues	4,739,822	4,746,838	(7,016)	-0.15%
Other sources	478,516	607,153	(128,637)	-21.19%
Total revenue and other sources	$ 5,218,338	$ 5,353,991	$ (135,653)	-2.53%

The increase in Federal grants of $261.3 million is primarily attributable to $255.2 million of new funds received by the State under the American Recovery and Reinvestment Act (ARRA) which was enacted on February 17, 2009. ARRA provided funding for a number of programs primarily in the Human Services, General Government and Education categories.

Expenditures and other uses totaled $5,255.0 million in fiscal year 2009, a decrease of $136.5 million, 2.53%, from the previous year. Changes in expenditures and other uses by function from the previous year are shown in the following tabulation (amounts in thousands):

	2009	2008	Increase (decrease) from 2008 Amount	Percent
General government	$ 586,628	$ 626,052	$ (39,424)	-6.30%
Human services	2,711,167	2,727,534	(16,367)	-0.60%
Education	1,217,271	1,289,124	(71,853)	-5.57%
Public safety	401,976	410,605	(8,629)	-2.10%
Natural resources	68,932	72,982	(4,050)	-5.55%
Debt Service:				
Principal	102,683	92,077	10,606	11.52%
Interest	67,273	68,478	(1,205)	-1.76%
Total expenditures	5,155,930	5,286,852	(130,922)	-2.48%
Other uses	99,104	104,650	(5,546)	-5.30%
Total expenditures and other uses	$ 5,255,034	$ 5,391,502	$ (136,468)	-2.53%

Intermodal Surface Transportation Fund. The Intermodal Surface Transportation Fund (ISTEA) is a special revenue fund that 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 $0.2 million, while the total fund balance was $35.4 million. Total fund balance of the ISTEA fund decreased by $13.0 million during the current fiscal year. The primary reason for this decrease was a reduction in gasoline taxes collected.

GARVEE Fund. The GARVEE Fund is a capital projects fund that 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 the fiscal year with a fund balance of $268.1 million, an increase of $115.4 million. The reason for this increase was the issuance of $181.8 million of special obligation bonds.

General Fund Budgetary Highlights

Prior to FY2009, according to the State’s Constitution, general revenue appropriations in the general fund could not 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. Excess revenue was transferred to the Reserve. If the balance in the Reserve exceeded three percent of the total general revenues and opening surplus, the excess was transferred to the RI Capital Plan Fund to be used for capital projects. In FY2009, the spending cap decreased by .2% and Reserve limitation increased by .4%. For years subsequent to FY2009 the spending cap will decrease by .2% and the reserve limitation will increase by .4% each year until FY2013 when the spending cap will be 97% of the total general revenues and opening surplus, and the Reserve will be five percent of the total general revenues and opening surplus. 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 revenue sources must be identified. Certain agencies have federal programs that are entitlements, which continue to require State funds to match the federal funds. Agencies may get additional appropriations provided a need is established.

Adjustments to general revenue receipt estimates resulted in a decrease of $258.2 million, 7.7%, between the original budget and the final budget. General revenue appropriations decreased from the original budget by $268.4 million. Some significant changes between the preliminary and final estimated general revenues and the enacted and final general revenue appropriations are listed below.

	Original Budget vs. Final Budget Change (In thousands)	Percent
General revenues		
Taxes		
Personal Income	$ (153,635)	-13.7%
Business Corporations	(49,000)	-30.4%
Public Utilities Gross Earnings	15,000	15.0%
Sales and Use	(39,900)	-4.6%
Motor Vehicle	5,132	11.2%
Cigarettes	16,500	14.4%
Inheritance and Gift	(7,800)	-20.5%
Departmental Revenue	(17,477)	-5.0%
Other		
Transfer from Lottery	(27,400)	-7.5%
Other General Revenue	344	
Total Change in Estimated Revenue	$ (258,236)	-7.7%
General revenue appropriations		
Department		
Administration	$ 6,452	1.4%
Revenue	(5,055)	-13.4%
Children, Youth and Families	24,254	17.7%
Health	(4,245)	-13.2%
Human Services	(107,431)	-14.0%
Mental Health, Retardation and Hospitals	(36,566)	-16.7%
Elementary and Secondary Education	(103,303)	-11.1%
Board of Governors for Higher Education	(8,975)	-5.0%
Corrections	(23,465)	-13.1%
Judicial	(3,313)	-3.9%
Public safety	(2,865)	-4.3%
Environmental Management	(2,224)	-6.2%
Other	(1,616)	
Total Change in Appropriations	$ (268,352)	-9.2%

The General Fund ended fiscal year 2009 with an unreserved fund balance deficit of $62.3 million. The deficit increased by $19.4 million from June 30, 2008. The primary factor that caused the increase was a shortfall in actual general revenues vs. the final budgeted amounts of $63.3 million. Deficiencies were experienced in all major categories of general revenue. The two largest general revenue shortfalls were in Personal Income Taxes-$30.1 million and Sales and Use Taxes-$15.3 million. These were a result of the severe economic downturn that affected the nation and especially the Northeast region in fiscal year 2009. Due to a number of aggressive cost control measures that were implemented during the fiscal year, general revenue expenditures were equal to final appropriated amounts. In addition, the General Assembly appropriated $22 million from the Budget Reserve and Cash Stabilization Account which mitigated the effect of the general revenue shortfall.

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, 2009, amounts to $3,060.8 million, net of accumulated depreciation of $1,763.4 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 2.3% in terms of net book value, primarily caused by construction in progress for construction and repair of roads and other infrastructure.

Actual expenditures to purchase or construct capital assets were $202.9 million for the year. Of this amount, $131.8 million was used to construct or reconstruct roads. Depreciation charges for the year totaled $125.3 million.

State of Rhode Island's Capital Assets as of June 30, 2009
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008*	2009	2008	2009	2008*
Capital assets not being depreciated						
Land	$ 344,442	$ 342,307	$ 45,558	$ 45,558	$ 390,000	$ 387,865
Works of Art	314	239			314	239
Intangibles	145,180	136,510			145,180	136,510
Construction in progress	494,250	834,460	412	1,567	494,662	836,027
Total capital assets not being depreciated	984,186	1,313,516	45,970	47,125	1,030,156	1,360,641
Capital assets being depreciated						
Land improvements	3,700	3,700			3,700	3,700
Buildings	577,823	517,249	233,047	163,303	810,870	680,552
Building improvements	208,342	208,342			208,342	208,342
Equipment	230,558	224,926	22,407	83,395	252,965	308,321
Intangibles	8,428	8,428			8,428	8,428
Infrastructure	2,509,729	2,064,005			2,509,729	2,064,005
	3,538,580	3,026,650	255,454	246,698	3,794,034	3,273,348
Less: Accumulated depreciation	1,667,238	1,556,140	96,142	85,228	1,763,380	1,641,368
Total capital assets being depreciated	1,871,342	1,470,510	159,312	161,470	2,030,654	1,631,980
Total capital assets (net) *	$ 2,855,528	$ 2,784,026	$ 205,282	$ 208,595	$ 3,060,810	$ 2,992,621

* - As restated

The State has a number of significant capital projects in process including the modernization of IT systems and office facilities for the Division of Motor Vehicles, construction of a new facility for the School for the Deaf, construction of a new facility for the College of Pharmacy at the University of Rhode Island and construction of a new headquarters/training facility for use by the R.I. State Police. In addition, a number of significant highway and bridge improvement projects are underway, including relocation of a major portion of Interstate I-195 and construction of a new Sakonnet River Bridge. Finally, the State is making a significant investment in commuter rail service by expanding service from Providence to Warwick's T.F. Green Airport and Wickford Station in Washington County.

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

Debt Administration

Under the State's Constitution, the General Assembly has no power to incur State debts in excess of $50,000 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 $2,523.1 million of which $1,036.2 million is general obligation debt, $658.5 million is special obligation debt and $828.4 million is debt of the blended component units. Additionally, accreted interest of $23.9 million has been recognized for debt on one blended component unit, which will not be paid until 2052. The State's total bonded debt increased by $300.2 million during the current fiscal year. This increase is the net of $39.1 million increase in general obligation debt, an increase of $300.4 million in special obligation debt and a decrease of $39.3 million in the blended component units debt. 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 $107.8 million of general obligation bonds of which $12.4 million were refunding bonds used to refund $12.6 million of outstanding bonds and $331.8 million of special obligation bonds. The special obligation bonds include $150 million of revenue bonds issued on behalf of the State under the Historic Structures Tax Credit Financing Program. The special obligation bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The State is obligated under a Payment Agreement with RIEDC to make payments to the trustee. This obligation is subject to annual appropriation by the General Assembly. The proceeds of the Bonds are being used to provide funds for redemption of Historic Structures Tax Credits redeemed in FY2009 and the following two fiscal years.

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 $269.4 million. Additional information on the State's long-term debt can be found in the notes to the financial statements of this report.

Conditions Expected to Affect Future Operations

At the November 2009 Revenue Estimating Conference (REC) the enacted FY 2010 estimate of general revenues was revised downward by $130.4 million. Of the 19 general revenue sources that are estimated at the REC, 12 were revised downward from enacted estimates including the three largest tax sources of general revenue; Personal Income Tax, Sales and Use Tax, and Business Corporation Tax. The estimated Lottery Transfer to the general fund and Departmental Receipts were revised upward. The revised FY 2010 estimate of total general revenues is $2.946.4 million, a 4.2 percent decrease from the enacted FY 2010 estimate.

In addition, the first quarter report for FY 2010 prepared by the Budget Office and issued on November 13, 2009 projects that expenditures will exceed appropriations for a number of programs by $34.6 million. Also, the estimated opening deficit of $61.8 million for FY 2010 contributes to the total general revenue deficit for FY 2010. In total, the general revenue deficit for FY 2010 is projected to be $219.8 million according to Budget Office's first quarter report.

On December 15, 2009 the Governor announced a supplemental budget proposal for FY 2010. This proposal includes a number of measures designed to eliminate the FY 2010 budget deficit discussed above. Among the measures in the supplemental budget proposal are expenditure reductions totaling $155.2 million and non-recurring revenues and transfers totaling $38.1 million.

The Lottery's largest video lottery facility, Twin River, commenced a bankruptcy proceeding in June 2009. A reorganization plan is pending before the bankruptcy court whereby the lenders shall become the new owners of the facility and search for a new operator to replace the debtors. Twin River has continued to remain open and the State's share of revenue has been remitted. Various legislative proposals are pending regarding operation of the facility, the State's investment in marketing and management of the facility, as well as proposing the voters consider an expansion of the facility's gaming options.

In accordance with GASB Statement No.45 the State began accounting for retiree health care benefits on an actuarial basis in fiscal year 2008. An actuarial study completed as of June 30, 2007 has determined the State's unfunded actuarial liability to be approximately $788.2 million. Based on a discount rate of 3.566% the State and other participating employers' annual required contribution was determined to be $42.1 million and the net OPEB obligation as of June 30, 2009 was $20.8 million. The State is currently funding the retiree health care program on a pay as you go basis. The Governor's budget for FY2011 proposes that the program be funded on an actuarial basis beginning in FY2011.

A number of unions representing state employees and teachers reportedly plan to file a lawsuit challenging the recently enacted pension reforms. If successful, these challenges could impact some or all of the estimated pension reform savings.

The State sold $350 million of General Obligation Tax Anticipation Notes in August 2009. The notes bear interest at 2.5% and are due on June 30, 2010. The proceeds from these Notes were used to provide working capital. In addition, the General Fund borrows from the R.I. Capital Plan Fund and the R.I. Temporary Disability Insurance Fund to provide short term working capital. The State is continuing to carefully monitor cash flow in order to insure that there are sufficient resources available to retire these Notes at their maturity date. In addition, the State has undertaken a series of measures to improve the timing of receipts and disbursements and to reduce the level of short-term borrowing. These measures include accelerating the collection of certain taxes and the partial restructuring of the State's disbursement pattern.

The State's unemployment rate is 12.7% which continues to negatively impact the State's overall economic environment and tax collections. The State has borrowed from the Federal Unemployment Trust Fund to continue benefits to unemployed individuals. Borrowings through March 2010 totaled nearly $204 million and further borrowings are anticipated.

Beginning in FY2009, the State received additional federal grant revenue from the federal American Reinvestment and Recovery Act (ARRA). For certain programs where costs are shared by the federal and state government (e.g., Medicaid), the state share of program costs was temporarily decreased. Such funding has partly mitigated the impact of general revenue shortfalls, which are expected to continue through fiscal years 2010 and 2011.

Economic Factors

The unemployment rate for the State of Rhode Island was 12.5 percent in the fourth quarter of 2009, which is an increase from the rate of 9.0 percent during the fourth quarter of 2008. The State's unemployment rate increased slightly to 12.7 percent in January 2010. The state's unemployment rate compares unfavorably with the U.S. unemployment rate of 9.7 percent as of February 2010. The state's high rate of unemployment is due to at least three factors: the prominent role of the housing sector in the state's economy; the high concentration of blue collar workers as a percent of the state's total labor force; and the small size of the state's economy relative to those of Connecticut, Massachusetts and the country as a whole.

In its February 2010 forecast, Moody's Economy.com noted that despite the "deplorable conditions" of the state's labor market, economic indicators outside the labor market have begun to improve. These economic indicators include residential construction which "has been on a slight upward trend for all of 2009" and industrial production which "has increased since mid-year." Average household income resumed positive growth in the second quarter of 2009 although the rate of growth is sluggish and trails the rate of inflation. The state's economy is expected to hit bottom in 2010 with a real recovery commencing in 2011. The recovery is expected to be slow due to the state's labor market situation with the state not regaining "its peak employment level until 2014, well after the U.S."

Rhode Island's economy faces long-term challenges. The state is ranked among the bottom 10 states for its business tax climate. The total state and local tax burden has diminished but is still higher than the U.S. average and one of the highest in New England. The state has high energy costs and relatively low household incomes vis-à-vis home prices.

Requests for Information

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

State of Rhode Island and Providence Plantations
Statement of Net Assets
June 30, 2009
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business - Type Activities	Totals	Component Units
Assets				
Current assets:				
Cash and cash equivalents	$ 336,108	$ 15,221	$ 351,329	$ 266,909
Funds on deposit with fiscal agent	426,313	17,772	444,085	
Investments	177		177	45,297
Receivables (net)	432,452	64,267	496,719	237,471
Restricted assets:				
Cash and cash equivalents	7,537	13,363	20,900	264,539
Investments	73,247		73,247	285,417
Receivables (net)				22,472
Other assets				11,669
Due from primary government		1,050	1,050	50,815
Due from component units	4,416		4,416	232
Internal balances	1,087	(1,087)		
Due from other governments and agencies	211,772	3,212	214,984	346
Loans to other funds	1,082		1,082	
Inventories	1,660	738	2,398	7,393
Other assets	65,067	934	66,001	12,095
Total current assets	1,560,918	115,470	1,676,388	1,204,655
Noncurrent assets:				
Investments				111,373
Receivables (net)	8,261		8,261	1,827,955
Restricted assets:				
Cash and cash equivalents				131,976
Investments				111,040
Receivables (net)				1,543,838
Other assets				160,698
Due from component units	25,413		25,413	
Capital assets - nondepreciable	984,186	45,970	1,030,156	669,796
Capital assets - depreciable (net)	1,871,342	159,312	2,030,654	1,409,636
Other assets	16,136	4,616	20,752	75,513
Total noncurrent assets	2,905,338	209,898	3,115,236	6,041,825
Total assets	4,466,256	325,368	4,791,624	7,246,480
Liabilities				
Current Liabilities:				
Cash overdraft	1,600		1,600	
Accounts payable	439,709	12,475	452,184	118,385
Due to primary government				4,416
Due to component units	50,815		50,815	98
Due to other governments and agencies		4,063	4,063	22,381
Deferred revenue	10,966	3,797	14,763	32,680
Other current liabilities	112,135	2,257	114,392	258,149
Current portion of long-term debt	219,340	7,765	227,105	189,701
Obligation for unpaid prize awards		6,037	6,037	
Total current liabilities	834,565	36,394	870,959	625,810
Noncurrent Liabilities:				
Due to primary government				25,413
Due to other governments and agencies		70,271	70,271	3,752
Net OPEB obligation	20,725	75	20,800	22,688
Deferred revenue		8,233	8,233	7,065
Due to component units				696
Notes payable				3,744
Loans payable				621,145
Obligations under capital leases	250,158		250,158	13,751
Compensated absences	3,524		3,524	19,804
Bonds payable	2,458,057	256,969	2,715,026	3,518,168
Other liabilities	63,592		63,592	130,917
Total noncurrent liabilities	2,796,056	335,548	3,131,604	4,367,143
Total liabilities	3,630,621	371,942	4,002,563	4,992,953
Net Assets				
Invested in capital assets, net of related debt	1,959,118	(59,453)	1,899,665	1,130,528
Restricted for:				
Budget reserve	80,145		80,145	
Transportation	1,410		1,410	
Debt	90,704	13,363	104,067	633,706
Assistance to Other Entities	47,102		47,102	
Employment insurance program	148,382	6,767	155,149	
Other	51,103		51,103	141,985
Nonexpendable-education	1,369		1,369	95,611
Unrestricted	(1,543,698)	(7,251)	(1,550,949)	251,697
Total net assets	$ 835,635	$ (46,574)	$ 789,061	$ 2,253,527

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, 2009

(Expressed in Thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
					Primary Government			
Functions/Programs	**Expenses**	**Charges for Services**	**Operating grants and contributions**	**Capital grants and contributions**	**Governmental activities**	**Business-type activities**	**Totals**	**Component Units**
Primary government:								
Governmental activities:								
General government	$ 754,386	$ 168,210	$ 83,143	$ 628	$ (502,405)	$	$ (502,405)	$
Human services	2,719,346	187,973	1,617,233	3,648	(910,492)		(910,492)	
Education	1,287,577	8,335	217,799	167	(1,061,276)		(1,061,276)	
Public safety	414,830	32,770	55,214	2,730	(324,116)		(324,116)	
Natural resources	75,103	31,385	15,132	5,934	(22,652)		(22,652)	
Transportation	324,007	181	126,300	90,408	(107,118)		(107,118)	
Interest and other charges	136,737				(136,737)		(136,737)	
Total governmental activities	5,711,986	428,854	2,114,821	103,515	(3,064,796)		(3,064,796)	
Business-type activities:								
State lottery	2,215,602	2,558,930				343,328	343,328	
Convention center	48,764	21,340				(27,424)	(27,424)	
Employment security	573,288	192,619	194,857			(185,812)	(185,812)	
Total business-type activities	2,837,654	2,772,889	194,857			130,092	130,092	
Total primary government	$ 8,549,640	$ 3,201,743	$ 2,309,678	$ 103,515	(3,064,796)	130,092	(2,934,704)	
Component units:	$ 1,235,448	$ 915,127	$ 40,267	$ 157,775				(122,279)
General Revenues:								
Taxes					2,588,417		2,588,417	
Interest and investment earnings					9,435	4,279	13,714	8,853
Miscellaneous					95,758	11,782	107,540	15,973
Gain on sale of capital assets					1,656		1,656	
Transfers (net)					315,408	(315,408)		
Payments from component units					13,569		13,569	
Payments from primary government								247,492
Total general revenues and transfers					3,024,243	(299,347)	2,724,896	272,318
Change in net assets					(40,553)	(169,255)	(209,808)	150,039
Net assets - beginning as restated					876,188	122,681	998,869	2,103,488
Net assets - ending					$ 835,635	$ (46,574)	$ 789,061	$ 2,253,527

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, 2009
(Expressed in Thousands)

	General	Intermodal Surface Transportation	GARVEE	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 88,002	$ 26,495	$	$ 180,816	$ 295,313
Restricted cash and cash equivalents				7,537	7,537
Funds on deposit with fiscal agent			275,335	150,977	426,312
Investments				177	177
Restricted investments				73,247	73,247
Receivables (net)	363,793	12,470		50,217	426,480
Due from other funds	2,183	12,714		1,687	16,584
Due from component units	3,088				3,088
Due from other governments and agencies	148,687	63,087			211,774
Loans to other funds	11,003			101,948	112,951
Other assets	58,251			32	58,283
Total assets	$ 675,007	$ 114,766	$ 275,335	$ 566,638	$ 1,631,746
Liabilities and Fund Balances					
Liabilities					
Cash overdraft				1,600	1,600
Accounts payable	388,303	21,150	5,437	15,721	430,611
Due to other funds			573	15,593	16,166
Due to component units	2,779	37,925		9,973	50,677
Loans from other funds	101,948			6,743	108,691
Deferred revenue	26,766	19,722			46,488
Other liabilities	85,252	569	1,261	1,123	88,205
Total liabilities	605,048	79,366	7,271	50,753	742,438
Fund Balances					
Reserved for:					
Budget reserve	80,145				80,145
Appropriations carried forward	52,100				52,100
Debt			15,560	75,028	90,588
Transportation capital projects		35,228			35,228
Employment insurance programs				148,364	148,364
Unreserved, reported in:					
General fund	(62,286)				(62,286)
Special revenue funds		172		93,326	93,498
Capital projects funds			252,504	197,799	450,303
Permanent fund				1,368	1,368
Total fund balances	69,959	35,400	268,064	515,885	889,308
Total liabilities and fund balances	$ 675,007	$ 114,766	$ 275,335	$ 566,638	$ 1,631,746

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, 2009
(Expressed in Thousands)

Fund balance - total governmental funds		$	889,308
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.			
Capital assets	4,516,608		
Accumulated depreciation	(1,663,984)		
			2,852,624
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.			
Compensated absences	(61,373)		
Bonds payable	(2,547,097)		
Net premium/discount and deferred amount on refunding	(25,689)		
Cost of issuance	13,302		
Obligations under capital leases	(269,340)		
Premium	(5,353)		
Cost of issuance	2,836		
Interest payable	(25,295)		
Other liabilities	(94,025)		
			(3,012,034)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			
Receivables	10,635		
Due from component units	26,576		
Deferred revenue	35,522		
			72,733
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 are reported with governmental activities.			33,004
Net assets - total governmental activities		$	835,635

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, 2009
(Expressed in Thousands)

	General	Intermodal Surface Transportation	GARVEE	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	$ 2,278,969	$ 129,831	$	$ 180,951	$ 2,589,751
Licenses, fines, sales, and services	295,069			593	295,662
Departmental restricted revenue	133,872	157			134,029
Federal grants	2,001,605	217,211			2,218,816
Income from investments	313	316	1,646	6,739	9,014
Other revenues	29,994	3,258		58,030	91,282
Total revenues	4,739,822	350,773	1,646	246,313	5,338,554
Expenditures:					
Current:					
General government	586,628			168,738	755,366
Human services	2,711,167				2,711,167
Education	1,217,271			8,123	1,225,394
Public safety	401,976				401,976
Natural resources	68,932			9	68,941
Transportation		299,841		40	299,881
Capital outlays			73,642	141,958	215,600
Debt service:					
Principal	102,683	2,714	31,320	21,100	157,817
Interest and other charges	67,273	252	22,435	42,853	132,813
Total expenditures	5,155,930	302,807	127,397	382,821	5,968,955
Excess (deficiency) of revenues over (under) expenditures	(416,108)	47,966	(125,751)	(136,508)	(630,401)
Other financing sources (uses):					
Bonds and notes issued			181,805	245,375	427,180
Refunding bonds issued				12,445	12,445
Proceeds from the sale of Certificates of Participation				54,610	54,610
Premium and accrued interest			6,991	1,109	8,100
Operating transfers in	451,575	40,937	52,302	77,398	622,212
Payments from component units	13,558	10			13,568
Other	13,383				13,383
Payment to refunded bonds escrow agent				(12,697)	(12,697)
Discount on issuance of debt				(66)	(66)
Operating transfers out	(99,104)	(101,944)		(103,303)	(304,351)
Total other financing sources (uses)	379,412	(60,997)	241,098	274,871	834,384
Net change in fund balances	(36,696)	(13,031)	115,347	138,363	203,983
Fund balances - beginning (as restated)	106,655	48,431	152,717	377,522	685,325
Fund balances - ending	$ 69,959	$ 35,400	$ 268,064	$ 515,885	$ 889,308

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, 2009
(Expressed in Thousands)

Net change in fund balances - total governmental funds			$ 203,983
Amounts reported for governmental activities in the Statement of Activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Current year acquisitions are therefore deducted from expenses on the Statement of Activities, less current year depreciation expense and revenue resulting from current year disposals.			
	Capital outlay	185,636	
	Depreciation expense	(113,973)	
			71,663
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.			
	Debt service		
	Principal	157,817	
	Debt defeased in refunding	12,565	
	Interest and other charges	(14,663)	
	Proceeds from sale of debt	(494,235)	
	Deferral of premium/discount	(8,036)	
	Amortization of premium/discount	6,214	
	Deferral of issuance costs	5,940	
	Amortization of issuance costs	(1,282)	
			(335,680)
Revenues (expenses) in the Statement of Activities that do not provide (use) current financial resources are not reported as revenues (expenditures) in the governmental funds.			
	Compensated absences	5,195	
	Program expenses	1,549	
	Program revenue	(835)	
	Capital grant revenue	(480)	
	General revenue - taxes	(1,334)	
	General revenue-misc	(6,877)	
			(2,782)
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.			22,263
Change in net assets - total governmental activities			$ (40,553)

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, 2009
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Assets					
Current assets:					
Cash and cash equivalents	$ 11,613	$ 2,555	$ 1,053	$ 15,221	$ 40,791
Restricted cash and cash equivalents		13,363		13,363	
Funds on deposit with fiscal agent			17,772	17,772	
Receivables (net)	4,692	1,114	58,461	64,267	3,600
Due from primary government		1,050		1,050	
Loans to other funds					1,732
Due from other funds	10		603	613	2,663
Due from other governments and agencies			3,212	3,212	
Inventories	738			738	1,660
Other assets	404	530		934	6,948
Total current assets	17,457	18,612	81,101	117,170	57,394
Noncurrent assets:					
Capital assets - nondepreciable		45,970		45,970	
Capital assets - depreciable (net)	808	158,504		159,312	2,905
Other assets		4,616		4,616	
Total noncurrent assets	808	209,090		209,898	2,905
Total assets	18,265	227,702	81,101	327,068	60,299
Liabilities					
Current Liabilities:					
Accounts payable	8,768	3,707		12,475	19,101
Due to other funds	1,700			1,700	1,994
Due to other governments and agencies			4,063	4,063	
Loans from other funds					4,910
Deferred revenue	938	2,859		3,797	
Other current liabilities	1,372	885		2,257	1,188
Bonds payable		7,765		7,765	
Obligation for unpaid prize awards	6,037			6,037	
Total current liabilities	18,815	15,216	4,063	38,094	27,193
Noncurrent Liabilities:					
Due to other governments and agencies			70,271	70,271	
Deferred revenue	8,125	108		8,233	
Bonds payable		256,969		256,969	
Net OPEB obligation	75			75	102
Total noncurrent liabilities	8,200	257,077	70,271	335,548	102
Total liabilities	27,015	272,293	74,334	373,642	27,295
Net Assets					
Invested in capital assets, net of related debt	808	(60,261)		(59,453)	2,905
Restricted for:					
Debt		13,363		13,363	
Employment insurance programs			6,767	6,767	
Unrestricted	(9,558)	2,307		(7,251)	30,099
Total net assets	$ (8,750)	$ (44,591)	$ 6,767	$ (46,574)	$ 33,004

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, 2009

(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Operating revenues:					
Charges for services	$ 2,558,930	$ 21,043	$ 192,619	$ 2,772,592	$ 338,029
Grants			194,857	194,857	
Miscellaneous		297		297	
Total operating revenues	2,558,930	21,340	387,476	2,967,746	338,029
Operating expenses:					
Personal services	4,764	13,486		18,250	8,647
Supplies, materials, and services	209,384	8,754		218,138	304,794
Prize awards	2,001,214			2,001,214	
Depreciation and amortization	240	11,117		11,357	313
Benefits paid			561,151	561,151	
Total operating expenses	2,215,602	33,357	561,151	2,810,110	313,754
Operating income (loss)	343,328	(12,017)	(173,675)	157,636	24,275
Nonoperating revenues (expenses):					
Interest revenue	664	253	3,362	4,279	422
Other nonoperating revenue	925		10,857	11,782	
Interest expense		(15,407)		(15,407)	
Other nonoperating expenses			(12,137)	(12,137)	19
Total nonoperating revenue (expenses)	1,589	(15,154)	2,082	(11,483)	441
Income (loss) before transfers	344,917	(27,171)	(171,593)	146,153	24,716
Transfers in		28,513	1,856	30,369	
Transfers out	(344,292)		(1,485)	(345,777)	(2,453)
Change in net assets	625	1,342	(171,222)	(169,255)	22,263
Total net assets - beginning	(9,375)	(45,933)	177,989	122,681	10,741
Total net assets - ending	$ (8,750)	$ (44,591)	$ 6,767	$ (46,574)	$ 33,004

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, 2009
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I. State Lottery	**R.I. Convention Center**	**Employment Security**	**Totals**	**Internal Service Funds**
Cash flows from operating activities:					
Cash received from customers	$ 2,569,426	$ 21,646	$ 184,010	$ 2,775,082	$ 339,920
Cash received from grants			194,857	194,857	
Cash payments to suppliers for goods and services	(4,552)	(9,411)		(13,963)	(307,371)
Cash payments to employees for services	(4,634)	(13,518)		(18,152)	(14,939)
Cash payments to prize winners	(2,010,904)			(2,010,904)	
Cash payments for commissions	(206,351)			(206,351)	
Cash payments for benefits			(561,139)	(561,139)	
Other operating revenue (expense)			761	761	19
Net cash provided by (used for) operating activities	342,985	(1,283)	(181,511)	160,191	17,629
Cash flows from noncapital financing activities:					
Loan from federal government			70,271	70,271	
Loans from other funds					14,112
Loans to other funds					(6,000)
Repayment of loans to other funds					(19,002)
Repayment of loans from other funds					8,450
Operating transfers in		25,965		25,965	
Operating transfers out	(344,415)		(332)	(344,747)	(3,792)
Net transfers from (to) fiscal agent			111,030	111,030	
Net cash provided by (used for) noncapital financing activities	(344,415)	25,965	180,969	(137,481)	(6,232)
Cash flows from capital and related financing activities:					
Principal paid on capital obligations		(76,470)		(76,470)	
Interest paid on capital obligations		(14,622)		(14,622)	
Acquisition of capital assets	(146)	(10,821)		(10,967)	(70)
Proceeds from bonds		69,275		69,275	
Net cash provided by (used for) capital and related financing activities	(146)	(32,638)		(32,784)	(70)
Cash flows from investing activities:					
Proceeds from sale and maturity of investments					
Interest on investments	445	284		729	422
Net cash provided by (used for) investing activities	445	284		729	422
Net increase (decrease) in cash and cash equivalents	(1,131)	(7,672)	(542)	(9,345)	11,749
Cash and cash equivalents, July 1	12,744	23,590	1,595	37,929	29,042
Cash and cash equivalents, June 30	$ 11,613	$ 15,918	$ 1,053	$ 28,584	$ 40,791
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	343,328	(12,017)	(173,675)	157,636	24,275
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	240	11,117		11,357	313
Other revenue (expense) and operating transfer in (out)	525		773	1,298	19
Net changes in assets and liabilities:					
Receivables, net	(187)	(229)	(8,609)	(9,025)	532
Inventory	(53)			(53)	967
Prepaid items		121		121	476
Other assets	(10)			(10)	
Due to / due from transactions	138			138	
Accounts and other payables	(1,321)	(810)		(2,131)	(2,662)
Accrued expenses	(98)			(98)	(6,291)
Deferred revenue	18	535		553	
Prize awards payable	405			405	
Total adjustments	(343)	10,734	(7,836)	2,555	(6,646)
Net cash provided by (used for) operating activities	$ 342,985	$ (1,283)	$ (181,511)	$ 160,191	$ 17,629

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

State of Rhode Island and Providence Plantations

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2009

(Expressed in Thousands)

	Pension Trust	Private Purpose: Touro Jewish Synagogue	Agency
Assets			
Cash and cash equivalents	$ 3,313	$	$ 73,930
Deposits held as security for entities doing business in the State			83,861
Receivables			
Contributions	63,669		
Due from state for teachers	15,969		
Due from other plans	34		
Miscellaneous	462		2,371
Total receivables	80,134		2,371
Investments, at fair value			
Equity in Short-Term Investment Fund	2,866		
Equity in Pooled Trust	5,980,801		
Other investments		1,678	
Total investments	5,983,667	1,678	
Property and equipment, at cost, net of accumulated depreciation	5,897		
Total assets	6,073,011	1,678	160,162
Liabilities			
Accounts payable	3,886		2,718
Due to other plans	34		
Net OPEB liability	65		
Deposits held for others			157,444
Total liabilities	3,985		160,162
Net assets held in trust for pension and other benefits	$ 6,069,026	$ 1,678	$

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

State of Rhode Island and Providence Plantations
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2009
(Expressed in Thousands)

	Pension Trust	Private Purpose: Touro Jewish Synagogue
Additions		
Contributions		
Member contributions	$ 170,609	$
Employer contributions	281,895	
State contributions for teachers	73,600	
Interest on service credits purchased	2,396	
Service credit transfer payments	72	
Total contributions	528,572	
Investment income		
Net appreciation (depreciation) in fair value of investments	(1,671,410)	(496)
Interest	82,125	
Dividends	53,502	45
Other investment income	3,968	4
	(1,531,815)	(447)
Less investment expense	20,313	
Net income (loss) from investing activities	(1,552,128)	(447)
Securities Lending		
Securities lending income	15,390	
Less securities lending expense	9,121	
Net securities lending income	6,269	
Total net investment income (loss)	(1,545,859)	(447)
Total additions	(1,017,287)	(447)
Deductions		
Benefits		
Retirement benefits	584,858	
Cost of living adjustment	150,172	
SRA Plus Option	31,788	
Supplemental benefits	1,099	
Death benefits	2,863	
Total benefits	770,780	
Refund of contributions	10,879	
Administrative expense	8,582	
Service credit transfer payments	72	
Distribution		50
Total deductions	790,313	50
Change in net assets	(1,807,600)	(497)
Net assets held in trust for pension benefits		
Net assets - beginning	7,876,626	2,175
Net assets - ending	**$ 6,069,026**	**$ 1,678**

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

State of Rhode Island and Providence Plantations
Notes to Basic Financial Statements
June 30, 2009

INDEX

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

B. Reporting Entity

The accompanying financial statements include all funds of the State and its component units. GASB 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. The entities that were deemed to be component units were included because the State appoints a voting majority of the entity's governing body and the potential for the entity to provide specific financial benefits to, or impose specific financial burdens on the State.

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.

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. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veteran's Memorial Auditorium Arts and Cultural Center located in 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, 3rd Floor, Providence, RI 02903.

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.

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.

Rhode Island Public Rail Corporation (RIPRC) – This corporation was created and established for the purpose of enhancing and preserving the viability of commuter transit operations in the State.

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 the 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 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 established the Central Falls School District. This act provided for the State to assume administrative responsibility for the School District effective July 1, 1991. Chapter 16-2 of the R.I. General Laws established a seven member Board of Trustees, which governs the School District and has the powers and duties of a School Committee. 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 four subsidiary corporations. The R. I. Airport Corporation manages the State's six airports. The Quonset Development Corporation oversees the Quonset Point/Davisville Industrial Park. In addition, the RIEDC operates the Small Business Loan Fund Corporation and the R.I. Economic Policy Council. 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, 315 Iron Horse Way, Suite 101, 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 be obtained by writing to the Narragansett Bay Commission, 1 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 by writing to the Director of Finance and Administration, R.I. Industrial Facilities Corporation, 315 Iron Horse Way, Suite 101, 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, 315 Iron Horse Way, Suite 101, 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, One Capitol Hill, Providence, RI 02908.

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.

The College Crusade of Rhode Island (TCCRI) - This is a Rhode Island nonprofit corporation, formerly named the Rhode Island Children's Crusade for Higher Education, 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 The College Crusade of Rhode Island, The 134 Center, Suite 111, 134 Thurbers Avenue, Providence, RI 02905.

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. The State does not allocate indirect costs to the functions. 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 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. Significant sources of tax revenues susceptible to accrual are recorded as taxpayers earn income (personal income and business corporation taxes), as sales are made (sales and use taxes) and as the taxable events occur (miscellaneous taxes), net of estimated tax refunds. 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.

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.

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, among other things, employee and retiree medical benefits, State fleet management, unemployment and workers' compensation for State employees, industrial prison operations, surplus property, telecommunications and other utilities, 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.

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, and health insurance for certain retirees.

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 **Intermodal Surface Transportation Fund** (ISTEA) 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 governmental funds:

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

Intermodal Surface Transportation Fund. This fund accounts for the collection of the gasoline tax, federal grants, and bond proceeds that are used in maintenance, upgrading, and construction of the State's highway system.

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.

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. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veteran's Memorial Auditorium Arts and Cultural Center located in Providence.

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.

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.

The State's enacted budget designates the source of funds for expenditures. When a type of expenditure is allocable to multiple funding sources, federal and restricted funds are generally utilized first.

E. Cash and Cash Equivalents

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

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.

F. Funds on Deposit with Fiscal Agent

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

H. Receivables

Receivables are stated net of estimated allowances for uncollectible amounts, which are determined, based upon past collection experience. Within governmental funds, an allowance for unavailable amounts is also reflected.

I. Due From Other Governments and Agencies

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

J. Interfund Activity

In general, eliminations have been made to minimize the double counting of internal activity, including internal service fund type activity on the government-wide financial statements. However, 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) Other Funds are reported at the net amount on the fund financial statements. Transfers between governmental and business-type activities are reported at the net amount on the government-wide financial statements.

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

K. Inventories

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

L. Capital Assets

Capital assets, which include land, non-depreciable intangibles, construction in progress, land improvements, buildings, building improvements, furniture and equipment (which also includes subcategories for vehicles and computer systems), depreciable intangibles (computer software), and infrastructure (e.g., roads, bridges, dams, piers) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

Non-depreciable intangibles consist mostly of perpetual land rights such as conservation, recreational, and agricultural easements.

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

Asset Category	Capitalization Thresholds	Estimated Useful Lives
Capital Assets (Depreciable)		
Land improvements	$1 million	20 years
Buildings	$1 million	20 - 50 years
Building Improvements	$1 million	10 - 20 years
Furniture and equipment	$5,000	3 - 10 years
Intangibles	$1 million	5 years
Infrastructure	$1 million	7 - 75 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction of capital facilities is not capitalized.

Capital assets acquired in the governmental funds are recorded as capital outlay expenditures in capital projects funds and current expenditures by function in other governmental fund financial statements.

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

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

M. Bonds Payable

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

For Proprietary fund types and component units, bond discounts, premiums, discounts, 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 premiums and discounts. Bond premiums and discounts are presented as adjustments to the face amount of the bonds payable. Deferred bond issuance costs are included in other assets.

N. Obligations under Capital Leases

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

O. 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. In addition, in fiscal year 2009, an additional category of leave obligation was established as a result of a pay reduction taken by certain classes of employees. For governmental fund types, such obligations are recognized when paid and for proprietary fund types, they are recorded as fund liabilities when earned.

P. Other Liabilities

Other liabilities includes escrow deposits, accrued salary and fringe benefits for the governmental fund types, accrued interest payable, accrued salaries, accrued vacation and sick leave for the proprietary fund types and escrow deposits, landfill closure costs, accrued expenses, arbitrage and interest payable for the component units.

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.

R. Recently Issued Accounting Standards

During the fiscal year ended June 30, 2009, the State adopted the following new accounting standards issued by GASB:

GASB Statement No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations.* See Note 6 for more information.

GASB Statement No. 52 – *Land and Other Real Estate Held as Investments by Endowments.*

The State will adopt the following new pronouncements in the fiscal year ending June 30, 2010:

GASB Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*, effective for the State's fiscal year ending June 30, 2010.

GASB Statement No. 53 **–** *Accounting and Financial Reporting for Derivative Instruments*, effective for the State's fiscal year ending June 30, 2010.

The impact on the State's financial statements of the pronouncements to be implemented in the future has not been determined.

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

<u>Primary Government-Governmental and Business Type Activities</u>

Cash

At June 30, 2009, the carrying amount of the State's cash deposits was $158,212,000 and the bank balance was $247,025,000. The bank balances include demand deposit accounts, interest-bearing deposit accounts, and certificates of deposit. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are a) uncollateralized, b) collateralized with securities held by the pledging financial institution, or c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name.

All of the financial institution's holding the State's deposits have elected to participate in the Federal Deposit Insurance Corporation's Temporary Liquidity Guarantee Program which fully guarantees non-interest bearing transaction accounts and certain other accounts which bear interest of less than 50 basis points. Other deposit balances are insured up to $250,000 for each official custodian by institution.

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the primary government were required to be collateralized at June 30, 2009 pursuant to this statutory provision. However, the Office of the General Treasurer instituted a collateralization requirement for institutions holding the State's deposits during fiscal 2009. Financial institutions were required to pledge collateral equal to the balance of uninsured deposits. Additionally, consistent with State Investment Commission guidelines, certain interest-bearing deposit accounts used as short-term investments are required to be collateralized at 102% of the outstanding balance.

The following summarizes the State's exposure to custodial credit risk (expressed in thousands) for deposits at June 30, 2009 within the governmental and business type activities:

Bank balance	$ 247,025
Bank balance insured by federal depository insurance	110,111
Uninsured balance	136,914
Collateralized – collateral held by third party custodian in the State's name	89,461
Uninsured or collateralized with securities held by the pledging institution or the pledging institution's trust department or agent but not in the State's name	$ 47,453

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

The R.I. Public Rail Corporation, a non-major governmental fund, has $7,537,000 of restricted cash. Of the State's investments equaling $73,424,000 the Tobacco Settlement Financing Corporation, a non-major governmental fund, has restricted investments totaling $73,247,000.

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

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

The State's investments (expressed in thousands) at June 30, 2009 are as follows:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Money Market Mutual Funds	$ 213,755	$ 213,755	$ 0	$ 0	$ 0
Commercial Paper	72,005	72,005	0	0	0
Repurchase Agreements	1,679	1,679	0	0	0
	287,439	$ 287,439	$ 0	$ 0	$ 0

(177)	Investments
(73,247)	Restricted investments
214,015	Cash equivalents
158,214	Cash
$ 372,229	Total cash and cash equivalents

	Statement of Net Assets
$ 351,329	Cash and cash equivalents
20,900	Restricted cash and cash equivalents
$ 372,229	Total cash and cash equivalents

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

As of June 30, 2009, information about the State's exposure to credit risk for investments (expressed in thousands) is as follows:

Issuer	Fair Value	S & P Rating	Average Maturities Days
MONEY MARKET			
BlackRock Fed Fund Inst Shares	$ 5,304	AAAm	30
Fidelity FIMM Funds: Gov Port Class I	128,186	AAAm	50
Federated Government Obligation Fund Inst Shares	64,468	AAAm	47
Wells Fargo Advantage Government Money Market Fund	306	AAAm	28
Dreyfus Gov Cash Mgt Fund	14,037	AAAm	51
Goldman Sachs Treasury Investment	1,009	AAAm-G	57
Wells Fargo Advantage 100% Treasury Plus Fund	411	AAAm-G	57
First American Treasury Obl. Class A	34	AAAm	46
COMMERCIAL PAPER			
FCAR Owner Trust	52,493	A-1+	
HSBC Finance Corp	19,512	A-1+	
TOTAL	$ 285,760		

Funds on Deposit with Fiscal Agent

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

The State's funds on deposit with fiscal agent reported in the governmental funds (expressed in thousands) at June 30, 2009 are as follows:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. Government Agency Securities	$ 117,518	$ 52,618	$ 64,900	$ 0	$ 0
Money Market Mutual Funds	304,388	304,388	0	0	0
Investment Contracts	4,407	4,407	0	0	0
Funds on deposit with fiscal agent	$ 426,313	$ 361,413	$ 64,900	$ 0	$ 0

The above funds on deposit with fiscal agent (expressed in thousands) consist of the following:

Issuer	Fair Value	S & P Rating	Average Maturities Days
MONEY MARKET			
Federated Govt Obligation Tax Mgt Fund	$ 38,317	AAAm	46
First American Treasury Obl. Fund	1,611	AAAm	46
J P Morgan US Govt. Money Market Agency Class	2,459	AAAm	49
J P Morgan US Treasury Securities Money Market Fund Agency Class	1	AAAm-G	41
Wells Fargo Advantage 100% Treasury Money Market Fund	5,520	AAAm-G	55
Dreyfus Treasury Prime Cash Mgt Fund	95,485	AAAm-G	51
US Bank Money Market Account	2		
Fidelity Inst MM Funds: Gov Port Class III	160,994	AAAm	50
INVESTMENT CONTRACTS			
FSA Capital Management GIC	4,407		
U.S. GOVERNMENT AGENCIES			
Federal Home Loan Mortgage Corporation	33,066	AAA	
Federal Home Loan Bank	61,515	AAA	
Federal National Mortgage Association	22,937	AAA	
TOTAL	$ 426,313		

During the fiscal year $1,102,000 consisting primarily of income from investments held in the Bond Capital Fund, was transferred to the General Fund for debt service payments.

Concentration of Credit Risk

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

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

Type	Issuer	Amount	Percentage
Commercial Paper	FCAR Owner Trust	$ 52,493	7.35%
US Government Agencies	Federal Home Loan Bank	61,515	8.62%

Fiduciary Funds

Pension Trusts

The Employees' Retirement System (ERS) consists of four plans: the Employee Retirement System (ERSP), Municipal Employees Retirement System (MERS), State Police Retirement Board Trust (SPRBT), and Judicial Retirement Board Trust (JRTB).

Cash Deposits and Cash Equivalents

At June 30, 2009, the carrying amount of the ERS cash deposits was $3,305,000 and the bank balance was $3,449,000. The bank and book balances represent the plans' deposits in short-term trust accounts which include demand deposit accounts and interest-bearing, collateralized bank deposit accounts. Of the bank balance, the entire amount is covered by federal depository insurance and $2,757,377 is also fully collateralized. The collateralized time deposits are collateralized at a minimum of 102%. Cash equivalent type investments consist of money market mutual funds totaling $6,946. The money market mutual fund (Federated Government Obligations Fund – Institutional Shares) is invested in a portfolio of short-term U.S. Treasury and government agency securities, including repurchase agreements collateralized fully by U.S. Treasury and government agency securities. The fund was rated AAAm by Standard & Poors and had an average maturity of 47 days at June 30, 2009.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the ERS's deposits were required to be collateralized at June 30, 2009.

Investments

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

On July 1, 1992, the State Investment Commission pooled the assets of the ERS with the assets of the MERS for investment purposes only, and assigned units to the plans based on their respective share of market value. On September 29, 1994 and November 1, 1995, the assets of the SPRBT and the JRBT, respectively, were added to the pool for investment purposes only. The custodian bank holds most assets of the ERS in two pooled trusts, Short-term Investment Trust and Pooled Trust. Each plan holds units in the trusts. The number of units held by each plan is a function of each plans' respective contributions to, or withdrawals from, the trust.

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

The following table presents the fair value of investments by type at June 30, 2009 (expressed in thousands):

Investment Type	Fair Value
Cash Deposits	$ 14,700
Money Market Mutual Fund	262,263
Foreign Currencies	1,093
U.S. Government Securities	410,780
U.S. Government Agency Securities	542,090
Collateralized Mortgage Obligations	13,276
Corporate Bonds	497,644
Domestic Equity Securities	114,614
International Equity Securities	21,622
Commingled Funds - Domestic Equity	2,241,402
Commingled Funds - International Equity	1,084,260
Private Equity	571,147
Real Estate	
Limited Partnership	123,660
Commingled Funds	100,328
Real Estate Investment Trusts	20,236
	$ 6,019,115
Net investment receivable (payable)	(35,448)
Total	$ 5,983,667

Consistent with an target asset allocation model adopted by the State Investment Commission, the ERS directs its investment managers to maintain well diversified portfolios by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds.

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

Interest Rate Risk

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

Duration is a measure of a debt security's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The ERS manages its exposure to interest rate risk by comparing each fixed income manager portfolio's effective duration against a predetermined benchmark index based on that manager's mandate. The fixed income indices currently used by the ERS are:

- Citigroup Broad Investment Grade Bond Index
- Barclays MBS Index
- Barclays Credit Index
- Credit Suisse First Boston Global Hi Yield Index
- Barclays US Tips Index

At June 30, 2009, no fixed income manager was outside of the policy guidelines.

The following table shows the ERS's fixed income investments by type, fair value and the effective duration at June 30, 2009 (expressed in thousands):

Investment Type		Fair Value	Effective Duration
U.S. Government Securities	$	410,780	5.78
U.S. Government Agency Securities		542,090	2.71
Collateralized Mortgage Obligations		13,276	1.87
Corporate Bonds		497,644	5.73
Total Fixed Income	$	1,463,790	4.60

The ERS also invested in a short-term money market mutual fund (State Street Bank Institutional Liquid Reserves) that held investments with an average maturity of 55 days.

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

Credit Risk

The ERS manages exposure to credit risk generally by instructing fixed income managers to adhere to an overall target weighted average credit quality for the portfolio and by establishing limits on the percentage of the portfolio that is invested in non-investment grade securities.

The ERS's exposure to credit risk as of June 30, 2009 is as follows (expressed in thousands):

Quality Rating *	Collateralized Mortgage Obligations	U.S. Government Agency Obligations	Corporate Bonds
Aaa	$ 7,659	$ 542,090	$ 51,693
Aa	511		19,009
A	673		139,398
Baa	2,879		164,590
Ba	713		48,812
B	63		48,738
Caa			9,341
Ca			2,752
C			880
D			1,248
Not rated	778		11,183
Fair Value	$ 13,276	$ 542,090	$ 497,644

* Moody's Investors Service

The ERS's investment in a short-term money market mutual fund (State Street Bank Institutional Liquid Reserves) was rated AAAm by Standard & Poors Investors Service.

Concentration of Credit Risk

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

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ERS will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2009 all securities were registered in the name of the ERS (or in the nominee name of its custodial agent) and were held in the possession of the ERS's custodial bank, State Street Bank and Trust.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. Portfolios are diversified to limit foreign currency and security risk and the ERS's investment asset allocation policy targets non-US equity investments at 20%. The ERS may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. The ERS's exposure to foreign currency risk at June 30, 2009, was as follows:

Currency	Currency	Equities	Private Equity	Total
Canadian Dollar	$ 5	$ 733	$ 14,081	$ 14,819
Euro Currency		4	75,793	75,797
Hong Kong Dollar	42	13,760		13,802
Indonesian Rupiah		460		460
Japanese Yen	1,045	5,721		6,766
Pound Sterling		944		944
South Korean Won	1		543	544
Total	$ 1,093	$ 21,622	$ 90,417	$ 113,132

The ERS also had exposure to foreign currency risk though its investment in international equity commingled funds which totaled $1,084,259,535.

Derivatives and Other Similar Investments

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

The ERS's derivative investments include forward foreign currency transactions, futures contracts, options, securities purchased prior to issuance, and short sales. The ERS enters into these transactions to enhance performance, rebalance the portfolio consistent with overall asset allocation targets, gain exposure to a specific market, or mitigate specific risks. 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 ERS enters into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. A currency forward is a contractual agreement to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. These contracts involve risk in excess of the amount reflected in the ERS's Statements of Fiduciary Net Assets. The face or contract amount in U.S. dollars reflects the total exposure the ERS has in that particular currency contract. 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 ERS uses futures to manage its exposure to the domestic and international equity, money market, and bond markets and the fluctuations in interest rates and currency values. Futures are also used to obtain target market exposures in a cost effective manner and to narrow the gap between the ERS's actual physical exposures and the target policy exposures. Using futures contracts in this fashion is designed to reduce (or hedge) the risk of the actual plan portfolio deviating from the policy portfolio more efficiently than by using physical securities. The program is only used to manage intended exposures and asset allocation rebalancing.

Buying futures tends to increase the ERS's exposure to the underlying instrument. Selling futures tends to decrease the ERS's exposure to the underlying instrument, or hedge other ERS investments. Losses may arise from changes in the value of the underlying instruments and if there is an illiquid secondary market for the contracts.

Through commingled funds, the ERS also indirectly holds derivative type instruments, primarily equity index futures. Other derivative type instruments held by the commingled funds include purchased or written options, foreign currency exchange contracts, interest rate swaps, credit default swaps and government bond futures.

The ERS invests in mortgage-backed securities, which are included in the categories described as collateralized mortgage obligations and U.S. Government Agency Securities in Note 3(b). These securities are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which are likely in declining interest rate environments, thereby reducing the value of these securities. Additional information regarding interest rate risks for these investments is included in Note 3(c) *Interest Rate Risk*.

Mortgage backed securities of U.S. Government Agencies are also bought and sold in the "to be announced" or TBA market, which performs as a forward or delayed delivery market. The ERS will enter into a forward contract to buy (or sell) mortgage backed securities in the TBA market, promising to purchase (or deliver) mortgage backed securities on a settlement date sometime in the future. The actual security that will be dealt to fulfill a TBA trade is not designated at the time the trade is originated.

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

The following summarize the ERS's exposure to specific derivative investments at June 30, 2009.

Fixed Income Futures

Contract	2009 Expiration	Position		Close Price (local)	Quantity	Multiplier		Notional (Base)
U.S. 2-year Treasury Notes	September	Short	$	108.109375	48	2,000	$	(10,378,500)
U.S. 10-year Treasury Notes	September	Short		116.265625	31	1,000		(3,604,234)
U.S. 30-year Treasury Bonds	September	Short		118.359375	25	1,000		(2,958,984)
U.S. 5-year Treasury Notes	September	Short		114.718750	48	1,000		(5,506,500)
							$	(22,448,219)

International Equity Index Futures

Contract	2009 Expiration		Close Price (local)	Position	Quantity	Multiplier	FX Rate		Notional (Base)
CAC 40	July	$	3,136.00	Long	120	10	1.40265	$	5,278,452
DAX	September		4,819.50	Long	23	25	1.40265		3,887,041
DJ EURO STOXX	September		2,398.00	Long	422	10	1.40265		14,194,201
FTSE 100	September		4,218.00	Long	188	10	1.64685		13,059,257
HANG SENG	July		18,420.00	Long	16	50	0.12903		1,901,407
IBEX 35	July		9,717.00	Long	15	10	1.40265		2,044,433
FTSE MIB	September		19,088.00	Long	14	5	1.40265		1,874,165
TOPIX	September		924.50	Long	156	10,000	0.01036		14,947,601
S&P TSE 60	September		627.10	Long	60	200	0.86107		6,479,700
ASX SPI 200	September		3,901.00	Long	57	25	0.80845		4,494,113
								$	68,160,370

US Equity Index Futures

Contract	2009 Expiration		Close Price (local)	Position	Quantity	Multiplier		Notional (Base)
Russell 2000 Mini Index	September	$	507.20	Short	1	100	$	(50,720)
S&p 500 Index	September		915.50	Short	7	250		(1,602,125)
							$	(1,652,845)

Foreign Curreny Forward Contracts

Pending receivable	$	200,775,743
Pending payable		(200,947,757)
Foreign currency forward contract asset (liability)	$	(172,014)

The notional values associated with these derivative instruments are generally not recorded on the financial statements; however, amounts for the exposure (unrealized gains/losses) on these instruments are recorded. The aggregate gain (loss) of all index futures at June 30, 2009 is ($71,695) which is reflected within the Statements of Changes in Fiduciary Net Assets at June 30, 2009. The aggregate gain (loss) on pending foreign currency forward contracts is ($172,014) which is also included in the Statements of Changes in Fiduciary Net Assets at June 30, 2009.

Securities Lending

Policies of the State Investment Commission permit the ERS to enter into securities lending transactions. During fiscal 2009, the ERS had contracted with State Street Bank &

Trust Company (SSB), as third party securities lending agent, to lend the ERS'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. Effective March 2009, the State Investment Commission withdrew participation in the securities lending program. At June 30, 2009 one security remained on loan with a fair value of $4,162. Collateral received for the security on loan was $16,650 (fair value). At June 30, 2009, no other directly held ERS securities were on loan.

While participating in the securities lending program, securities on loan were collateralized at 102%. There were no restrictions on the amount of loans that could be made. The contract with the lending agent required them to indemnify the ERS if the borrowers failed to return the securities. Either the ERS or the borrower could terminate all securities loans on demand. The cash collateral received on security loans was invested in the lending agent's short-term investment pool. The ERS was not permitted to pledge or sell collateral securities received unless the borrower defaulted. There were no losses during the fiscal year resulting from default of the borrowers or lending agent.

At June 30, 2009, the ERS had indirect exposure to securities lending activity through participation in a commingled fund. The commingled fund participates in a securities lending program administered by a related party of the manager of the commingled fund. During fiscal 2009, the commingled fund manager imposed withdrawal restrictions from the commingled fund due to market conditions which adversely impacted its securities lending collateral pool. The restrictions generally limit withdrawals from the lending fund to no more than 4% of the participant balance per month. The State Investment Commission has authorized withdrawals from the lending commingled fund to be reinvested in a similar non-lending commingled fund consistent with the limitations imposed by the commingled fund manager. The ERS's investment at June 30, 2009 in the commingled fund which participates in securities lending activity was $983,621,923.

Private Purpose Trust

The private purpose trust (Touro Jewish Synagogue) had investments of $1,678,000 in the Fidelity Balanced Fund.

Agency Funds

At June 30, 2009, the carrying amount of the State's cash deposits within the agency funds was $39,927,000 and the bank balance was $16,926,000. The bank balances include demand deposit accounts and interest-bearing deposit accounts. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are a) uncollateralized, b) collateralized with securities held by the pledging financial institution, or c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name.

All of the financial institution's holding the State's deposits have elected to participate in the Federal Deposit Insurance Corporation's Temporary Liquidity Guarantee Program which fully guarantees non-interest bearing transaction accounts and certain other accounts which bear interest of less than 50 basis points. Other deposit balances are insured up to $250,000 for each official custodian by institution.

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the primary government were required to be collateralized at June 30, 2009 pursuant to this statutory provision. However, the Office of the General Treasurer instituted a collateralization requirement for institutions holding the State's deposits during fiscal 2009. Financial institutions were required to pledge collateral equal to the balance of uninsured deposits. Additionally, consistent with State Investment Commission guidelines, certain interest-bearing deposit accounts used as short-term investments are required to be collateralized at 102% of the outstanding balance.

The following summarizes the State's exposure to custodial credit risk for deposits at June 30, 2009 within the agency funds (in thousands):

Bank balance	$ 16,926
Bank balance insured by federal depository insurance	10,051
Uninsured balance	6,875
Collateralized-collateral held by third party custodian in State's name	64
Uninsured or collateralized with securities held by the pledging institution or the pledging institution's trust department or agent but not in the State's name	$ 6,811

Investments (classified as cash equivalents) within the agency funds totaled $34,004,000 and consisted of a money market fund – Federated–Government Obligations Fund rated AAAm by Standard and Poors Investors Service with an average maturity of 47 days.

Note 3. Receivables

Receivables at June 30, 2009 (expressed in thousands) consist of the following:

	Taxes	Accounts	Accrued Interest	Notes and Loans	Allowance for Uncollectibles	Total Receivables
Governmental Activities:						
General	$ 278,478	$ 247,872	$	$	$ (151,924)	$ 374,426
Intermodal Surface Transportation	11,470			1,000		12,470
Other governmental	51,332	786			(1,901)	50,217
Internal Service		3,600				3,600
Total - governmental activities	$ 341,280	$ 252,258	$	$ 1,000	$ (153,825)	$ 440,713
Amounts not expected to be collected in the subsequent year and recorded as deferred revenue						
General	$ 8,645	$ 7,206				
Business-type activities:						
State Lottery	$	$ 4,826	$	$	$ (134)	$ 4,692
Convention Center		1,594			(480)	1,114
Employment Security	58,574	11,146			(11,259)	58,461
Total - business-type activities	$ 58,574	$ 17,566	$	$	$ (11,873)	$ 64,267
Component Units	$	$ 101,455	$ 7,624	$ 3,619,295	$ (96,638)	$ 3,631,736

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.

Note 4. Intra-Entity Receivables and Payables

Intra-entity receivables and payables as of June 30, 2009, are the result of ongoing operations and are expected to be reimbursed within the subsequent fiscal year. They are summarized below (expressed in thousands):

	Interfund Receivable	Interfund Payable
Governmental Funds		
Major Funds		
General	$ 2,183	$
Intermodal Surface Transportation	12,714	
GARVEE		573
Other		
Coastal Resources Management Council Dredge		2
RI Temporary Disability Insurance		1,080
RI Public Rail Corporation		7,537
Bond Capital		6,964
RI Capital Plan	1,671	
Certificates of Participation	16	
Permanent School		10
Total Other	1,687	15,593
Total Governmental	16,584	16,166
Proprietary Funds		
Enterprise		
RI Lottery	10	1,700
Employment Security Trust	603	
Total Enterprise	613	1,700
Internal Service		
Assessed Fringe Benefits		371
Central Utilities		1,026
Central Mail	10	
State Telecommunications	971	
Central Pharmacy		24
Central Laundry	265	
Automotive Maintenance		61
Central Warehouse		27
Correctional Industries	105	
Records Center		10
Health Insurance Active	183	
Health Insurance Retiree-State		475
Health Insurance Retiree-Teachers	605	
Vehicle Replacement Revolving Loan	379	
Capitol Police	145	
Total Internal Service	2,663	1,994
Totals	$ 19,860	$ 19,860

In addition, at June 30, 2009 the Employer Pension Contribution Fund (an Agency Fund) had $60,385,553 classified as deposits held for others, representing employer and employee retirement contributions deposited in the fund pursuant to law. This amount was paid to the Employees' Retirement System in July 2009.

Note 5. Capital Assets

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

Primary Government

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land *	$ 342,307	$ 2,237	$ (102)	$ 344,442
Works of Art	239	75		314
Intangibles	136,510	8,670		145,180
Construction in progress *	834,460	175,690	(515,900)	494,250
Total capital assets not being depreciated	1,313,516	186,672	(516,002)	984,186
Capital assets being depreciated:				
Land improvements	3,700			3,700
Buildings	517,249	62,170	(1,596)	577,823
Building Improvements	208,342			208,342
Furniture and equipment	224,926	7,922	(2,290)	230,558
Intangibles	8,428			8,428
Infrastructure	2,064,005	453,882	(8,158)	2,509,729
Total capital assets being depreciated	3,026,650	523,974	(12,044)	3,538,580
Less accumulated depreciation for:				
Land improvements	2,892	185		3,077
Buildings	185,926	18,790	(1,247)	203,469
Building Improvements	126,361			126,361
Furniture and equipment	172,018	18,195	(1,941)	188,272
Intangibles	3,231	1,552		4,783
Infrastructure	1,065,712	75,564		1,141,276
Total accumulated depreciation	1,556,140	114,286	(3,188)	1,667,238
Total capital assets being depreciated, net	1,470,510	409,688	(8,856)	1,871,342
Governmental activities capital assets, net	$ 2,784,026	$ 596,360	$ (524,858)	$ 2,855,528

* Beginning balances have been restated, see Note 18, Section C.

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

General government	$ 8,566
Human services	7,418
Education	2,869
Public safety	11,892
Natural resources	3,671
Transportation	79,870
Total depreciation expense - governmental activities	$ 114,286

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 45,558	$	$	$ 45,558
Construction in progress	1,567	7,020	(8,175)	412
Total capital assets not being depreciated	47,125	7,020	(8,175)	45,970
Capital assets being depreciated:				
Buildings *	227,079	5,968		233,047
Machinery and equipment *	19,619	2,942	(154)	22,407
Total capital assets being depreciated	246,698	8,910	(154)	255,454
Less accumulated depreciation	85,228	11,062	(148)	96,142
Total capital assets being depreciated, net	161,470	(2,152)	(6)	159,312
Business-type activities capital assets, net	$ 208,595	$ 4,868	$ (8,181)	$ 205,282

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 102,361	$ 6,171	$ (750)	$ 107,782
Construction in progress	527,125	201,803	(167,164)	561,764
Other		250		250
Total capital assets not being depreciated	629,486	208,224	(167,914)	669,796
Capital assets being depreciated:				
Buildings	1,344,008	149,020	(515)	1,492,513
Land improvements	166,587	11,943		178,530
Machinery and equipment	295,170	18,882	(10,181)	303,871
Intangibles	4,100			4,100
Infrastructure	367,243	7,951		375,194
Total capital assets being depreciated	2,177,108	187,796	(10,696)	2,354,208
Less accumulated depreciation for:				
Buildings *	507,026	48,317	(4,656)	550,687
Land improvements	95,140	7,269		102,409
Machinery and equipment	184,641	16,866	(5,345)	196,162
Intangibles	615	820		1,435
Infrastructure *	86,134	7,745		93,879
Total accumulated depreciation	873,556	81,017	(10,001)	944,572
Total capital assets being depreciated, net	1,303,552	106,779	(695)	1,409,636
Total capital assets, net	$ 1,933,038	$ 315,003	$ (168,609)	$ 2,079,432

* Certain beginning balances have been restated, due to asset category reclassifications.

The State has considered the impact of GASB 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, and has determined its impact on reported capital asset amounts to be immaterial.

Note 6. 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, 2009, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government: Governmental Activities Principal	Governmental Activities Interest	Business Type Activities Principal	Business Type Activities Interest	Component Units Principal	Component Units Interest
2010	$ 114,729	$ 121,104	$ 7,530	$ 14,853	$ 163,163	$ 150,951
2011	110,860	116,435	8,660	14,470	107,505	147,044
2012	125,405	111,278	9,110	14,030	102,809	142,706
2013	135,865	105,001	9,570	13,565	123,723	138,140
2014	131,930	98,638	10,060	13,075	112,489	133,120
2015 - 2019	636,690	395,391	58,365	56,993	624,457	587,561
2020 - 2024	423,485	254,708	74,745	40,438	643,164	434,444
2025 - 2029	107,290	177,693	63,875	18,943	572,840	293,340
2030 - 2034	168,260	141,921	27,385	7,147	575,985	178,644
2035 - 2039		116,156	6,510	395	688,870	80,105
2040 - 2044	371,700	69,694			170,830	26,220
2045 - 2049					148,045	8,077
2050 - 2054	197,006	2,834,180 *			880	24
	$ 2,523,220	$ 4,542,199	$ 275,810	$ 193,909	$ 4,034,760	$ 2,320,376

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

Primary Government

Governmental Activities

Current interest bonds of the State are serial bonds with interest payable semi-annually. Additionally, the Tobacco Settlement Financing Corporation (a blended component unit) has issued capital appreciation bonds.

In December 2008, the State issued $12,445,000 Consolidated Capital Development Loan of 2008, Refunding Series D, with interest rates ranging from 3.00% to 5.25%, maturing from 2011 through 2018. The proceeds were used to effect a current refunding of the $12,565,000 Variable Rate Multi-Modal Series 2000B. 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 refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the Statement of Net Assets. Assuming an interest rate of 4.000% on the refunded bonds, the refunding decreases related debt service payments by approximately $2,220,000. Since this was a conversion of variable rate debt to fixed rate there was no economic gain/(loss).

Also, in December 2008, the State issued $86,875,000 Consolidated Capital Development Loan of 2008, Series B, with interest rates ranging from 3.00% to 6.00%, maturing from 2010 through 2024 and $8,500,000 Capital Development Loan of 2008, Series C, with interest rates ranging from 5.17% to 6.66%, maturing from 2010 through 2014. The Series C bonds are federally taxable.

The R.I. Economic Development Corporation (RIEDC), on behalf of the State, issues special obligation debt. Grant Anticipation Revenue Vehicle Bonds are payable solely from future federal aid revenues to be received by the State in reimbursement of federally eligible costs of specific transportation construction projects. Rhode Island Motor Fuel Tax Revenue Bonds are payable solely from certain pledged revenues derived from two cents ($.02) per gallon of the thirty cents ($.30) per gallon Motor Fuel Tax. The bonds provide the state matching funds for the Grant Anticipation Revenue Vehicle Bonds. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The RIEDC has no taxing power. The obligation of the State to make payments to the trustee of future federal aid revenues and future pledged motor fuel taxes is subject to annual appropriation by the General Assembly.

In addition, in FY2009 the RIEDC, on behalf of the State, issued $150,000,000 of revenue bonds under the Historic Structures Tax Credit Financing Program. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The RIEDC has no taxing power. The State is obligated under a Payment Agreement to make payments to the trustee. This obligation is subject to annual appropriation by the General Assembly. The proceeds of the Bonds are being used to provide funds for redemption of Historic Structures Tax Credits redeemed in FY2009 and the following two fiscal years.

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 affect 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.

The Tobacco Settlement Financing Corporation (TSFC), a blended component unit, has issued $882,395,742 of Tobacco Asset Backed Bonds that were used to purchase the State’s future rights in the Tobacco Settlement Revenues under the Master Settlement Agreement and the Consent decree and final Judgment. The bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC and do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof and the State has no obligation or intention to satisfy any deficiency or default of any payment of the bonds. The TSFC has no taxing power. The TSFC 2007 bonds are capital appreciation bonds on which no periodic interest payments are made, but which are issued at a deep discount from par and accrete to full value at maturity in the year 2052. The bond indenture contains “Turbo Maturity” provisions, whereby the corporation is required to apply 100% of all collections that are in excess of the then current funding requirements of the indenture to the early redemption of the bonds. During the year ended June 30, 2009, TSFC utilized $21,100,000 of excess collections to early redeem an equal amount of outstanding bonds

At June 30, 2009, general obligation bonds authorized by the voters and unissued amounted to $269,400,000. 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.

Business Type Activities

R.I. Convention Center Authority

The R.I. Convention Center Authority (RICCA) is limited to the issuance of bonds or notes in an aggregate principal amount of $305,000,000. At June 30, 2009, outstanding bond and note indebtedness totaled $276,840,000.

Revenue bonds of 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, (f) pay costs of issuance and (g) acquire and renovate the Civic Center. 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 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. In addition, outstanding indebtedness is insured under certain financial insurance policies.

All outstanding indebtedness is subject to optional and mandatory redemption provisions. Mandatory redemption is required for certain bonds over various years beginning in 2009 through 2027 at the principal amount of the bonds. Certain bonds may be redeemed early, at the option of RICCA at amounts ranging from 100% to 102% of the principal balance.

During March 2009, RICCA issued Refunding Revenue Bonds 2009 Series A, in an aggregate principal amount of $70,735,000 for the purpose of (i) redeeming the outstanding $59,210,000, 2001 Series A Bonds, (ii) financing the payment to UBSAG in termination of the Swap Agreement, (iii) purchasing debt service reserve insurance and bond insurance under a financial guaranty policy, and (iv) paying the costs of issuance. The bonds mature between 2011 and 2027 and bear interest at rates ranging from 3.00% to 5.50%. Additionally, during March 2009, RICCA issued Refunding Revenue Bonds, 2009 Series B (federally taxable), in an aggregate principal amount of $485,000 for the purpose of (i) purchasing debt service reserve insurance and (ii) paying the costs of issuance. The bonds mature in 2014 and bear interest at 7.49%.

Concurrent with the issuance of the 2009 Series A Bonds, a financial insurance policy was issued by Assured Guaranty Corp (AGC). The policy provides maximum coverage for principal and interest payments on the 2009 Series A Bonds of $127,472,366. Coverage under the policy expires on May 15, 2027. In August 2009, AGC was rated by Moody's, S&P, and Fitch as A2, A and AA, respectively.

Simultaneous with the issuance of the 2009 Series A and Series B Bonds (2009 Series Bonds), a Debt Service Reserve Fund Facility was issues by Financial Security Assurance, Inc. (FSA) to meet the Debt Service Reserve Fund requirement. The Facility provides a maximum coverage of $16,230,945. Coverage under the Facility expires at the earlier of May 15, 2027 or the date upon which the 2009 Series Bonds are no longer outstanding. FSA was rated by Moody's as A3 on July 24, 2009, as A on August 26, 2009, and Fitch as AA on August 10, 2009.

In March 2009, utilizing the proceeds of the 2009 Refunding Revenue Bonds, RICCA insubstance defeased $59,210,000 of its 2001 Series A Refunding Revenue Bonds. The bonds were subsequently called and retired during May 2009. Thus, there were no amounts outstanding from this issue as of June 30, 2009.

Concurrent with the issuance of its 2001 Series A Refunding Revenue Bonds, the RICCA entered into an interest rate swap agreement (the Swap Agreement) with UBSAG. By entering into the Swap Agreement, the RICCA converted variable rate bonds to fixed rate bonds to minimize interest rate fluctuation risk. The 2001 Series A bonds bore interest at Daily Rates, Weekly Rates, or Term Rates, as defined in the Bond Resolution, for periods selected from time to time by the RICCA and determined by UBS Painewebber, Inc. (UBS), as Remarketing Agent. In addition, the RICCA had the right to convert these bonds to fixed rate bonds. The bonds initially bore interest at the weekly rate as determined by UBS and were payable in monthly installments. Total interest paid to the bondholders for the year ended June 30, 2009 was $2,461,033.

Under the terms of the Swap Agreement, the RICCA agreed to pay to UBSAG a fixed interest rate of 3.924% on the outstanding principal amount of the Bonds each May 15th and November 15th through May 15, 2027. In exchange, UBSAG agreed to pay to the RICCA interest at the Weekly Rate on a monthly basis through May 15, 2027. The Swap Agreement contained a barrier option early termination date of November 15, 2006 and every fixed rate payment due date thereafter. In addition, UBSAG had the right, but not the obligation, on providing 30 calendar days notice prior to the early termination date, to terminate the Swap Agreement if the averaged Weekly Rate has exceeded 5.25% per annum within the preceding 180 days. Such termination did not require the consent of the RICCA and no fees, payments or other amounts were payable by either party in respect of this termination. Total interest paid by the RICCA to UBSAG for the year ended June 30, 2009 under the Swap Agreement was $1,161,700. Total interest received by the RICCA from UBSAG for the years ended June 30, 2009 under the Swap Agreement was $780,987.

In March 2009, concurrent with the refunding of the 2001 Series A Bonds, the Swap Agreement was terminated for a fee of $7,980,000. This loss has been deferred and is being amortized as a component of interest expense over eighteen years using the effective interest method.

Additionally, the RICCA entered into a standby bond purchase agreement with Dexia Credit Local (Dexia) in conjunction with the issuance of the 2001 Refunding Bonds. Under the terms of the standby bond purchase agreement, Dexia agreed to purchase bonds from the RICCA that bore interest at variable rates. The purchase price would not exceed the aggregate amount of principal and interest outstanding on said bonds at the time of purchase. During FY09, substantially all of the outstanding 2001 Series A Refunding Revenue Bonds were tendered to Dexia pursuant to the standby bond purchase agreement. RICCA was obligated to pay a fee equal to .165% per annum of the outstanding bond principal and interest. The standby bond purchase agreement was terminated in May 2009 upon retirement of the 2001 Series A Bonds.

Each of the RICCA's Bond Resolutions contains certain restrictive covenants. The RICCA was unable to fund the Operating Reserve, Debt Service Reserve and Renewal and Replacement component to the restrictive covenants pursuant to certain indentures. During the annual budget process, the RICCA requests Renewal and Replacement funding from the State. Such appropriations were not made during Fiscal 2009.

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) 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.

In November 2008, the University of Rhode Island (URI) issued $34,105,000 of Series 2008 A Rhode Island Educational and General Revenue Issue. These bonds were used to refund the $33,000,000 outstanding from Series 2004 B Bonds. The proceeds from the issuance were deposited into the Series 2004 B Redemption Account and were used to pay principal and interest on the Series 2004 B bonds through their redemption date, at a price of 100%. URI also issued the University of Rhode Island Auxiliary Enterprise Revenue Issue Series 2008 B, par amount of $3,830,000 to pay expenses relating to the 2004 B swap termination.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1,105,000. This difference, reported in the accompanying financial statements as an increase in bonds payable and is being amortized through the year 2034. There was an economic gain (difference between the present value of the old and new debt service payments) of approximately $2,617,133.

On June 18, 2009, the Rhode Island Health and Education Building Corporation (RIHEBC) issued the University of Rhode Island Educational and General Revenue Issue, Series 2009 A with a par amount of $10,315,000. The proceeds of the Series 2009 A Bonds will be used to finance site and utility infrastructure relating to the "North District" of the Kingston Campus. RIHEBC also issued the University of Rhode Island Auxiliary Enterprise Revenue Issue, Series 2009 B with a par amount of $18,205,000. The proceeds of the Series 2009 B Bonds will be used to finance fire protection and life safety improvements.

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 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).

Per its Master Indenture of Trust and Supplemental Indentures, the R.I. Airport Corporation (RIAC), has pledged net revenues derived from the operation by RIAC of the Airport and Certain Outlying Airports to repay $278,975,000 in airport revenue bonds. Proceeds from the bonds were used for various airport improvement projects. Amounts available to pay debt service per the Master Indenture, including pledged passenger facility charges, were approximately $33,578,000 and $36,492,000 for the years ended June 30, 2009 and June 30, 2008, respectively. Principal and interest payments for the years ended June 30, 2009 and June 30, 2008 were approximately $21,703,000 and $18,819,000, respectively.

RIAC has pledged facility revenues related to the intermodal facility, net of specified operating expenses, to repay $48,765,000 in First Lien Special Facility Bonds. Proceeds from the bonds are being used for the construction of the intermodal facility. Facility revenues, including customer facility charges, were $5,194,000 and $6,211,000 for the years ended June 30, 2009 and June 30, 2008, respectively. Interest paid for the years ended June 30, 2009 and June 30, 2008 were approximately $2,418,000 for each year. Principal payments commence on July 1, 2011.

In June 2006, the R.I. Airport Corporation (RIAC), RIEDC and the R.I. Department of Transportation (RIDOT) executed a Secured Loan Agreement (Agreement) which provides for borrowings of up to $42,000,000 with the United States Department of Transportation under the Transportation Infrastructure Finance and Innovation Act of 1998. The purpose of the Agreement is to reimburse RIEDC and RIDOT and to provide funding to RIAC for a portion of eligible project costs related to the Intermodal Facility Project. RIAC is permitted under the agreement to make requisitions of funds for eligible project costs and it is anticipated that such requisitions will occur through fiscal year 2011. Upon completion of the project, RIAC will begin making monthly payments of principal and interest, with interest at a rate of 5.26%. Payments will be made on behalf of RIEDC (the borrower per the Agreement) and it is anticipated that repayments will commence in fiscal year 2010 with a final maturity of January 2042. Such repayments are payable solely from the net revenues derived from the Intermodal Facility. As of June 30, 2009, RIAC had $83,000 in borrowings under this agreement.

On July 17, 2008, the Narragansett Bay Commission (NBC) issued $66,360,000 in Wastewater System Revenue Refunding Bonds to refund on a current basis, $65,765,000 of the outstanding Wastewater System Revenue Bonds, 2004 Series A and to pay the costs of issuance associated therewith. The reacquisition price exceeded the net carrying amount of the old debt by $627,767. This amount is being netted against the new debt and amortized over the new debt's life.

The Bonds were issued under a Trust Indenture dated as of April 15, 2004 between NBC and Wells Fargo Bank, N.A., as Trustee and a Ninth Supplemental Indenture dated as of July 1, 2008 between NBC and the Trustee.

These bonds have been issued in weekly rate mode but can be changed by NBC to a daily, commercial paper or term rate mode. The interest rate is determined weekly or daily based on the mode and interest is paid monthly. The interest rate for the bonds outstanding during fiscal year 2009 ranged from .25% to 6.5%. The Bonds shall be repaid from Revenues, as defined in the Indenture of the Commission pledged under the Indenture and funds drawn under an irrevocable direct pay letter of credit issued by RBS Citizens National Association. Under the Letter of Credit, the Bank is obligated to pay to the Trustee, upon presentation of required documentation, the amount necessary to pay the principal and purchase price of and interest on the Bonds of up to 60 days at the maximum rate of 10% on the Bonds. The Letter of Credit provides that it will expire on July 16, 2010.

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 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 $20,000,000 of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority (RIIRBA) are limited by mortgage balances that it has insured which are guaranteed by the State. At June 30, 2009 RIIRBA had no outstanding commitments. (See Note 18B).

B. Notes Payable

Notes payable (expressed in thousands) at June 30, 2009 are as follows:

Component Units	
Rhode Island College note payable to the federal government with interest at 5.5% payable in semi-annual installments of principal and interest through 2024.	$ 1,775
R.I. Housing and Mortgage Finance Corporation bank notes, 2.46% to 5.275% interest, payable through 2027.	33,065
R.I. Economic Development Corporation (Masonic Temple Hotel) semi-annual installments of principal and interest through FY 2010 bearing interest at 6.10%.	5,030
R.I. Student Loan Authority note to National Education Loan Network (Nelnet) annual payments of $683,333 plus interest of 8.25% with option to pay off the balance at any time, matures September 27, 2011	2,731
R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 4.15% interest, payable through 2015	619
R.I. Resource Recovery Corporation notes due in installments through 2010, 5 % interest.	625
	43,845
Less: current payable	(40,101)
	$ 3,744

C. Loans Payable

Component Units

Loans payable include liabilities of the Narragansett Bay Commission (NBC) to the R.I. Clean Water Finance Agency (RICWFA) of $271,381,000.

D. Obligations Under Capital Leases

Primary Government

The State has entered into capital lease agreements, Certificates of Participation (COPS), with financial institutions. These financing arrangements have been used by the State to acquire, construct or renovate facilities and acquire other capital assets.

The State's obligation under capital leases at June 30, 2009 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.

In June 2009, the State entered into the following capital leases.

$12,380,000 Series 2009A, Information Technology Project, with maturities from FY2010 to FY2016 and interest rates between 2.000% and 4.000%

$11,805,000 Series 2009B, Energy Conservation Project, with maturities from FY2010 to FY2019 and interest rates between 2.000% and 4.625%

$30,425,000 Series 2009C, School for the Deaf Project, with maturities from FY2010 to FY2029 and interest rates between 2.000% and 5.625%

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, 2009.

Fiscal Year Ending June 30	COPS
2010	$ 35,931
2011	31,774
2012	30,525
2013	29,465
2014	27,827
2015 - 2019	113,557
2020 - 2024	76,107
2025 - 2029	18,304
Total future minimum lease payments	363,490
Amount representing interest	(94,150)
Present value of future minimum lease payments	$ 269,340

E. Compensated Absences

State employees are granted vacation and sick leave in varying amounts based upon years of service. Additionally, in FY 2009, the State deferred payment of certain compensation to employees. 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

Items in this category principally include, but are not limited to:

- Special obligation notes payable to the Rhode Island Housing and Mortgage Finance Corporation to provide financing for various affordable housing initiatives.

- The State's liability for income on invested general obligation bond proceeds determined to be arbitrage earnings in accordance with federal regulations. These amounts are generally payable to the federal government five years after the issuance date of the bonds.

- Refunds payable related to tax carry-forward credits for taxpayers not expected to be paid in the subsequent fiscal period.

- The State's liability to the R.I. Economic Development Corporation (RIEDC) relating to $14,280,000 of financing obtained by the RIEDC to provide funds to extinguish historic structure tax credits for the Masonic Temple hotel project through a long term loan to the developer. With the transaction the State retired approximately $21 million of unused historic tax credit obligations resulting in a net benefit to the State of approximately $7 million. The term of the RIEDC's borrowing is 3 years. The rate on the loan is a function of the 6 month LIBOR rate. To obtain a fixed rate on the obligation, the RIEDC entered into a floating to fixed interest rate swap, whereby the counterparty agrees to pay RIEDC the 6 month LIBOR and EDC agrees to pay the counterparty 6.10%. The RIEDC's note payable is secured by an assignment of a payment agreement between the State and RIEDC reflecting legislative approval of the RIEDC executing this debt and the State's obligation to appropriate to RIEDC funds sufficient to repay the debt. The State will provide semi-annual appropriations and payments to the RIEDC through FY 2010 to pay the debt service on the loan.

- The liability for the expected payment to be made to settle the Station fire litigation as more fully discussed in Note 12.

- The ISTEA and GARVEE fund liabilities consist primarily of retainage related infrastructure construction projects. These amounts are considered long-term liabilities since the related construction projects are not expected to be completed in the subsequent fiscal period. In addition, certain other long-term payables are included in this category.

- The liability for pollution remediation as more fully discussed below.

Pollution Remediation Liabilities

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

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

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

The remediation obligation estimates presented are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes in laws or regulations and other factors that could result in revision to the estimates. Recoveries from responsible parties may reduce the State’s obligation. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

G. Changes in Long-Term Debt

During the fiscal year ended June 30, 2009, 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	$ 997,079	$ 107,820	$ (68,710)	$ 1,036,189	$ 63,494	$ 972,695
Capital appreciation bonds	9		(9)			
Accreted interest on capital appreciation bonds	310		(310)			
Premium and deferred amount on refunding	31,121	1,011	(3,637)	28,495		28,495
	1,028,519	108,831	(72,666)	1,064,684	63,494	1,001,190
RIEDC Grant Anticipation Bonds	285,505	169,395	(27,475)	427,425	26,910	400,515
Premium	17,236	6,786	(3,235)	20,787		20,787
RIEDC Rhode Island Motor Fuel Tax Revenue Bonds	72,560	12,410	(3,845)	81,125	3,480	77,645
Premium	1,377	204	(121)	1,460		1,460
Revenue bonds - RIRBA	24,235		(18,195)	6,040	6,040	
Net premium/discount and deferred amount on refunding	(286)		197	(89)		(89)
Tobacco Settlement Asset-Backed Bonds	843,541		(21,100)	822,441		822,441
Accreted interest on TSFC bonds	11,153	12,724		23,877		23,877
Net premium/discount	(26,329)		1,365	(24,964)		(24,964)
Historic Tax Credit Bonds		150,000		150,000	14,805	135,195
Bonds payable	2,257,511	460,350	(145,075)	2,572,786	114,729	2,458,057
Certificates of Participation (COP)	236,060	54,610	(21,330)	269,340	24,535	244,805
Net premium/discount	6,101	35	(783)	5,353		5,353
Obligations under capital leases	242,161	54,645	(22,113)	274,693	24,535	250,158
Compensated absences	67,436	57,024	(62,456)	62,004	58,480	3,524
Net OPEB Obligation	16,112	4,613		20,725		20,725
Notes Payable	2,276		(2,276)			
Other long-term liabilities						
Special obligation notes	18,152		(4,973)	13,179	4,729	8,450
Arbitrage rebate	6,167		(2,769)	3,398		3,398
Tax refunds payable	17,905			17,905		17,905
Masonic Temple Tax Credit	9,775		(4,745)	5,030	5,030	
Station Fire Settlement	10,000			10,000	10,000	
Other General Fund liabilities	2,248		(1,077)	1,171		1,171
ISTEA Fund liabilities	17,844		(2,387)	15,457		15,457
GARVEE Fund liabilities	908	937		1,845		1,845
Pollution Remediation	11,201	5,930		17,131	1,786	15,345
Other	140		(68)	72	51	21
Other long-term liabilities	94,340	6,867	(16,019)	85,188	21,596	63,592
	$ 2,679,836	$ 583,499	$ (247,939)	$ 3,015,396	$ 219,340	$ 2,796,056
Business type activities						
Revenue bonds	$ 270,960	$ 71,220	$ (66,370)	$ 275,810	$ 7,530	$ 268,280
Add: bond premium	3,905		(356)	3,549		3,549
Less: issuance discounts	(633)	(1,945)	241	(2,337)		(2,337)
Deferred amounts on refunding	(5,907)	(11,031)	3,620	(13,318)		(13,318)
Bonds payable	268,325	58,244	(62,865)	263,704	7,530	256,174
Other long-term liabilities	1,171		(141)	1,030	235	795
	$ 269,496	$ 58,244	$ (63,006)	$ 264,734	$ 7,765	$ 256,969

H. Defeased Debt

In prior years, the State and its component units defeased certain general obligation bonds and revenue bonds by placing the proceeds of the new bonds or other sources, in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the basic financial statements. On June 30, 2009, the following bonds outstanding (expressed in thousands) are considered defeased:

		Amount
Primary government:		
General Obligation Bonds	$	194,899
Certificates of Participation		20,045
R.I. Convention Center Authority		33,375
Component Units:		
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)		264,955
R.I. Economic Development Corporation		61,320
R.I. Turnpike and Bridge Authority		32,300

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, 2009 was $102,000,000, $2,600,179,582 and $1,169,000,000 respectively. Certain issues of conduit debt are moral obligations of the State and the current amounts outstanding are disclosed in Note 12.

J. Short term borrowing

The table below summarizes General Fund short-term borrowing (expressed in thousands) for the fiscal year ended June 30, 2009:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009
General Obligation Tax Anticipation Notes	$ 0	$ 350,000	$ 350,000	$ 0
RI Temporary Disability Insurance Fund	0	25,000	25,000	0
RI Capital Plan Fund	63,721	83,500	45,273	101,948
Total Short Term Borrowing	$ 63,721	$ 458,500	$ 420,273	$ 101,948

All of the borrowings were used to provide short term working capital.

In addition, R.I. Housing & Mortgage Corporation had outstanding balances of $37,000,000 on two lines of credit that are payable on demand and accrue interest at rates ranging from .48875% to 2.06813%.

Note 7. Net Assets/Fund Balances

Governmental Activities

Restricted Net Assets

The Statement of Net Assets reflects $420,215,000 of restricted net assets, of which $199,485,000 is restricted by enabling legislation. The restricted net assets that are restricted by enabling legislation are included in the Employment Insurance Program and Other categories on the Statement of Net Assets. The principal components of the remaining balance of the restricted net assets relate to the Budget Reserve and Cash Stabilization Account and unexpended bond proceeds.

Unrestricted Net Assets

The detail of the unrestricted net assets of the governmental activities (expressed in thousands), is listed below.

	Governmental Activities
Deficit	$ (1,574,795)
General Revenue	
Appropriations carried forward	998
Internal Service Funds	30,099
Unrestricted Net Assets	$ (1,543,698)

The State issues debt for various purposes that does not result in the acquisition of capital assets. Included in the liabilities of the governmental activities on the Statement of Net Assets is $1,635,680,000 of such debt, which contributes to the above deficit.

Changes in General Fund Reserved Fund Balances

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

	Reserved Fund Balance July 1	Additions	Reductions	Reserved Fund Balance June 30
State Budget Reserve Account	$ 102,869	$ 66,094	$ (88,818)	$ 80,145
Appropriations carried forward				
General revenue	1,739	998	(1,739)	998
Departmental restricted revenue	42,413	49,543	(42,413)	49,543
Other	2,584	1,559	(2,584)	1,559
Total	$ 149,605	$ 118,194	$ (135,554)	$ 132,245

The State maintains a State Budget Reserve and Cash Stabilization Account in the general fund. For fiscal year 2009, 2.20% of general revenues and opening surplus are set aside in this account. Amounts in excess of 3.40% of the total general revenues and opening surplus are transferred to the R.I. Capital Plan Fund to be used for capital projects. 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. In fiscal year 2009 the reductions from the State Budget Reserve and Cash Stabilization Account included an appropriation of $22,000,000.

Note 8. Taxes

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

	Governmental Funds	Statement of Activities
General Fund		
Personal Income	$ 897,305	$ 898,002
General Business Taxes:		
Business Corporations	103,181	103,104
Public Utilities Gross Earnings	126,665	126,309
Financial Institutions	2,372	2,544
Insurance Companies	65,741	65,674
Bank Deposits	1,803	1,801
Health Care Provider Assessment	46,030	44,339
Sub-total - General Business Taxes	345,792	343,771
Sales and Use Taxes:		
Sales and Use	807,947	808,166
Motor Vehicle	47,926	47,922
Motor Fuel	1,325	1,296
Cigarettes	130,503	130,464
Alcoholic	10,812	10,812
Sub-total - Sales and Use Taxes	998,513	998,660
Other Taxes:		
Inheritance and Gift	28,097	27,940
Racing and Athletics	2,451	2,451
Realty Transfer	6,811	6,811
Sub-total - Other Taxes	37,359	37,202
Total - General Fund	2,278,969	2,277,635
Intermodal Surface Transportation Fund		
Gasoline	129,831	129,831
Other Governmental Funds	180,951	180,951
Total Taxes	$ 2,589,751	$ 2,588,417

Note 9. Operating Transfers

Operating transfers for the fiscal year ended June 30, 2009 are presented below (expressed in thousands):

	Transfers	Description
Governmental activities		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	$ 49,642	Debt service and operating assistance
Nonmajor Funds		
RI Temporary Disability Insurance	1,287	Administrative cost reimbursement
Historic Tax Credit	59,727	Reimbursement for tax credits claimed
RI Public Rail Corporation	37	Interest earnings transfer
Bond Capital	1,278	Interest earnings transfer
RI Capital Plan	2	Transfer of remaining appropriations to RICAP Fund
RI Refunding Bond Authority	5	Current year excess income
Business-Type Activities		
Lottery	337,515	Net income transfer
Employment Security	1,485	Administrative cost reimbursement
Internal Service		
Assessed Fringe Benefits	100	Charges for Information Technology Services
Central Mail	112	Charges for Information Technology Services
State Telecommunications	84	Charges for Information Technology Services
Automotive Maintenance	301	Charges for Information Technology Services
ISTEA		
Bond Capital	40,937	Infrastructure funding
GARVEE		
Intermodal Surface Transportation	52,302	Debt Service
Nonmajor Fund		
RI Capital Plan		
General	66,818	Transfer statutory excess in budget reserve
Bond Capital	30	RICAP residual balance
Historic Tax Credit		
General	3,773	Application fees for tax credits
Permanent School		
Lottery	6,777	Support of education
Total Governmental Activities	622,212	
Business-Type Activities		
Convention Center		
General	28,513	Debt service
Employment Security		
Assessed Fringe Benefits	1,856	Reimbursement for State employee's unemployment compensation
Total operating transfers	$ 652,581	

Note 10. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately $12,081,000 for the fiscal year ended June 30, 2009.

Most of the operating leases contain an option allowing the State, at the end of the initial lease term, to renew its lease at the then fair rental value. In most cases, it is expected that these leases will be renewed or replaced by other leases.

The following is a summary of material future minimum rental payments (expressed in thousands) required under operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2009:

Fiscal Year Ending June 30		
2010	$	11,388
2011		10,105
2012		8,277
2013		7,146
2014		6,973
2015 - 2019		17,802
Total	$	61,691

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

Note 11. Commitments

Primary Government

Commitments arising from encumbrances outstanding as of June 30, 2009 are listed below (expressed in thousands).

Major funds		
General	$	8,651
ISTEA		294,749
GARVEE		225,264
Total major funds		528,664
Other governmental funds		13,617
Total encumbrances outstanding	$	542,281

The primary government is committed at June 30, 2009 under various contractual obligations for infrastructure construction and other capital projects, which will be principally financed with bond proceeds and federal grants. Encumbrances within the general fund will be principally financed through appropriations of general revenue and federal and restricted revenue in succeeding fiscal years. The primary government is also committed at June 30, 2009 under contractual obligations with various service providers, which will be funded through appropriations of general revenue, and federal and restricted revenues in succeeding fiscal years.

The R.I. Economic Development Corporation (RIEDC), on behalf of the State, entered into several agreements with the developer of the Providence Place Mall. The agreements state the terms by which the State shall perform with regard to a shopping mall, parking garage and related offsite improvements. The authority to enter into these agreements was provided in legislation passed by the General Assembly and signed by the Governor. This legislation further provided for payments to the developer, 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. In the year ended June 30, 2009 $3,560,000 was paid to the developer.

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

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

Additionally, GTECH was obligated to invest $100 million in connection with the construction of a new corporate headquarters and expansion of its manufacturing operations in the State. The gaming system contractor is also required to employ no less than 1,000 full time active employees during the term of the agreement.

The contract mandates commission percentages as detailed in the following chart.

Commission Percentages	
On-Line and Instant Tickets	
Total Lottery Sales in the Year	Percent Thereof
$0 - $275 Million	5.00%
Over $275 Million - $400 Million	1.00%
Over $400 Million	5.00%
Video Lottery Central System	
Total Net Terminal Income for the Year	Percent Thereof
$0 - $500 Million	2.50%
Over $500 Million - $1 Billion	1.00%
Over $1 Billion	2.50%

During fiscal year 2006, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with UTGR, Inc., the owners of Twin River, to operate one of the State's licensed video lottery facilities. The agreement entitles UTGR, Inc. to compensation ranging from 26% to 28.85% of video lottery net terminal income at the facility. At the time of the agreement, the Lottery authorized an additional 1,750 video lottery terminals to be installed at Twin River and UTGR, Inc. has agreed to invest no less than $125 million in the construction and development of its gaming facility during the first three (3) years of the agreement. UTGR, Inc. has the right and option to extend the term of the agreement for two (2) successive five (5) year periods by giving notice to the Lottery at least ninety (90) days prior to the expiration of the agreement. The option can be exercised if UTGR, Inc. is not in default of any major term or condition of the agreement and the full-time employee requirement at Twin River has been met.

During fiscal year 2006, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with Newport Grand, to continue to operate one of the State's licensed video lottery facilities. The agreement entitles Newport Grand to 26% of video lottery net terminal income at the facility. At the time of the agreement, the Lottery authorized an additional 800 video lottery terminals to be installed at Newport Grand, which has agreed to invest no less than $20 million in the construction and development of its gaming facility during the first three (3) years of the agreement. Newport Grand has the right and option to extend the term of the agreement for one (1) additional five (5) year period by giving notice to the Lottery at least ninety (90) days prior to the expiration of the agreement. The option can be exercised if Newport Grand is not in default of any major term or condition and the full-time employee requirement at Newport Grand has been met.

Component Units

R.I. Airport Corporation

The R.I. Airport Corporation (RIAC), a subsidiary and component unit of RIEDC, was obligated for completion of certain airport improvements under commitments of approximately $12,340,000 which is expected to be funded from current available resources and future operations. As of June 30, 2009, RIAC was also obligated for completion of the Warwick Intermodal Facility under commitments of approximately $141,922,000.

Narragansett Bay Commission

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 $19,720,000 at June 30, 2009.

R.I. Resource Recovery Corporation

Landfill closure and post-closure:

The EPA established closure and post-closure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. In 2004, the Corporation reviewed and revised its estimates relating to methane gas monitoring as required by the EPA and leachate pretreatment costs and flows. While Phase IV is still accepting waste, portions of Phase IV have been capped with final capping expected during fiscal year 2012. In 2005, the Corporation began landfilling in Phase V. The Corporation has further revised its estimates relating to capping, maintenance, leachate flow costs and gas collecting system costs of Phases IV and V. The total estimated current cost of future landfill closure and post-closure care costs totaled approximately $92,035,000 as of June 30, 2009.

A liability for closure and post-closure care as of June 30, 2009 of $71,161,699 has been recorded in the accompanying statements of net assets, as noted below, with approximately $20,873,000 in additional costs to be recognized in future years.

	June 30, 2009
Phase I	$ 22,166,547
Phase II and III	5,896,391
Phase IV	12,208,054
Phase V	30,890,707
	$ 71,161,699

The Corporation expects to record an estimated additional $78,000,000 of closure and post-closure care costs based upon current costs over the anticipated life of Phase VI, once it is permitted and begins to accept solid waste.

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

Included in restricted assets held in trust in the accompanying statements of net assets as of June 30, 2009 is $40,118,931 placed in trust to meet the financial requirements of closure and post-closure care related to Phases II, III, IV and V. The Corporation plans to make additional trust fund contributions each year to enable it to satisfy these and future costs.

Pollution remediation obligations*:*

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

Superfund site:

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

During 1996, the Corporation entered into a Consent Decree with the EPA concerning remedial actions taken by the Corporation for groundwater contamination. The Consent

Decree, which was approved by the U.S. District Court on October 2, 1996, required the establishment of a trust fund in the amount of $27,000,000 for remedial purposes. The following is a summary of the activity in the trust fund for the year ended June 30, 2009 which includes additional amounts to meet the financial requirements of post-closure care related to Phase I of the landfill:

		Year ended June 30, 2009
Fair value, beginning of period	$	40,279,407
Earnings		856,748
Change in market value		(60,919)
Disbursements for remediation expenses trustee management fees		(136,752)
Fair value, end of period	$	40,938,484

A fiduciary fund is a fund used to report assets held in a trustee or agency capacity for others, and consequently, such assets cannot be used to support a government's own programs. The trust fund established pursuant to the Consent Decree was established to accumulate and hold in trust resources to be used by the Corporation to fund the Corporation's remedial actions. Accordingly, the trust fund has not been reported as a separate fiduciary fund in the accompanying basic financial statements; instead, assets held in trust have been included in restricted assets held in trust in the accompanying statements of net assets.

In 2004, the Corporation began the capping project for the Superfund site and continued to revise its estimates for leachate pretreatment costs and flows. The Corporation has recorded a liability for future remediation costs of approximately $18,817,000 as of June 30, 2009.

Other pollution remediation obligations:

The Corporation is the owner of several properties adjacent to its landfill operations classified as land held for development. The Corporation is obligated to remediate one of these parcels. During fiscal year 2008, the Corporation recorded a liability for the estimated cost for remediation in the amount of $1,000,000, which is included as a liability as of June 30, 2009.

Environmental concerns:

In August 1996, the Corporation entered into a Consent Agreement (the Agreement) with RIDEM concerning action to be taken by the Corporation regarding the restoration of certain wetlands. Projects included the relocation of Cedar Swamp Brook, creation of a three acre wetland, and the implementation of a soil and erosion plan. The Agreement also called for the establishment of an escrow account for wetlands replacement. Annual deposits of $100,000 were made by the Corporation during fiscal years 1997 through 2002, as required by RIDEM. During 2004, RIDEM released from the escrow approximately $543,000 to the Corporation. As of June 30, 2009 the escrow account totaled approximately $156,000.

The Corporation submitted a comprehensive plan to RIDEM which was approved by RIDEM in April 1998. The Corporation had until 2001 to complete the restoration. Phase I of the Cedar Swamp Brook relocation was substantially completed by November 1998. The cost of these projects totaled approximately $6,328,000 through June 30, 2009. The wetlands restoration work was completed in the spring of 1999 and is awaiting RIDEM approval.

A wetland alteration application was submitted to RIDEM in July 2001. The alteration application entailed relocating the second phase of Cedar Swamp Brook, completing its separation from Sedimentation Pond 2, to the south of the landfill Phase V. Phase II of the relocation of Cedar Swamp Brook began in August 2002. The Corporation has incurred approximately $8,760,000 of engineering and subcontracting costs for this project through June 30, 2009. The project was substantially complete as of June 30, 2007 and is awaiting RIDEM approval.

R.I. Turnpike and Bridge Authority

The R.I. Turnpike and Bridge Authority has entered into various contracts for maintenance of its bridges. At June 30, 2009 remaining commitments on these contracts approximated $4,170,000.

R.I. Public Transit Authority

The R.I. Public Transit Authority is committed under construction contracts in the amount of $34,545,047 at June 30, 2009.

R.I. Higher Education Assistance Authority

Under an agreement with AllianceBernstein L.P., the R.I. Higher Education Assistance Authority (RIHEAA) receives account maintenance, direct commission and other fees derived principally from non-Rhode Island participants in CollegeBound*fund*®, Rhode Island's IRS section 529 college savings program. During FY 2009, these revenues totaled approximately $6,500,000.. In addition, RIHEAA receives $250,000 annually (in quarterly installments) directly from AllianceBernstein. During FY 2002, RIHEAA established two scholarship and grant programs which are funded with the revenues generated from CollegeBound*fund*®. Those programs are:

The Academic Promise Scholarship Program: approximately $1,000,000 is available annually through RIHEAA 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.

The CollegeBound*fund*® Matching Grant Program: up to $500,000 may be made available annually by the Authority to invest through RIHEAA in CollegeBound*fund*® as matching contribution accounts for individuals' accounts established for the benefit of income-qualifying students and their families..

During FY 2009, RIHEAA provided $2,675,000 to be used for Academic Promise Scholarship Program recipients. In addition, RIHEAA provided over $3,800,000 in supplemental funding for the State Scholarship/Grant Program.

Note 12. Contingencies

Primary Government

The State, its officers and employees are defendants in numerous lawsuits. With respect to any such litigation, State officials are of the opinion that the lawsuits are not likely to result either individually or in the aggregate in final judgments against the State that would materially affect its financial position.

Litigation was initiated against the State and the State's Fire Marshal arising out of a tragic fire at a nightclub in West Warwick, Rhode Island. The fire resulted in 100 deaths and injuries to approximately 200 people. Numerous suits have been served upon the State and its Fire Marshal. The State has entered into a settlement for $10,000,000; payment is expected to be made in the near future. A liability has been accrued in the State's financial statements as of June 30, 2009 for this settlement.

The State has been sued by a contractor via a third party complaint relating to the construction of the I-Way Bridge spanning the Providence River (I-195). A subcontractor hired by the contractor to, among other things, drill and install twenty-one shafts to allow for the placement and construction of the I-Way Bridge. The subcontractor claims that it is entitled to compensation for extra work performed and alleged unforeseen conditions encountered during its work. The subcontractor alleges that it incurred approximately $14.5 million to complete its work on the project. The litigation is still in the discovery phase, no trial date has been set and management cannot estimate the likelihood of loss to the State, if any.

Separate claims have been made against the Rhode Island Department of Education by the Cranston School Department and the Chariho Regional School Committee alleging that they are owed reimbursement for certain expenses incurred by them in the operation of their respective area vocational-technical career centers. The Cranston School Department claims it is owed $7,166,656 for the amounts it paid for salaries of directors and guidance counselors from 1990 to the present and for the costs of building repairs from 1999 to the present at the Cranston Area Vocational Technical Center. The Chariho Regional School Committee claims it is owed $4,142,893 for amounts it paid for salaries of directors and guidance counselors from 1990 to the present at the Chariho Career and Technical Center. None of the other six (6) school districts that operate regional vocational technical centers in the state have raised similar claims to date. The claims were assigned to a hearing officer at the Department of Education. On August 26, 2009 counsel for the Department filed a preliminary motion to dismiss on several legal grounds. That motion was granted and both claims were dismissed by the Commissioner on January 21, 2010. Both parties have appealed to the Board of Regents and their appeals are currently pending. Cranston and Chariho filed their briefs with the Board of Regents on February 17, 2010. The Department of Education will be submitting a reply brief in this matter.

The Department of Elementary and Secondary Education issued a final program review determination letter notifying the City of Providence of substantial overpayments in housing aid reimbursements as a result of incorrect or incomplete information provided by the City of Providence at the time that housing aid was being calculated. The City of Providence requested a hearing and disputes the findings of the Department. Based on settlement discussions with the City of Providence, the amount due is $9,450,266. The General Assembly enacted legislation in the 2009 session (G.L. 16-7-44.2) that calls for the repayment to be spread over a number of years calculated by dividing the total amount of the overpayment by the total amount of revenues and deducted the calculated amount from Providence's FY 2009 general education aid. The calculation results in Providence's overpayment being spread over 7 years, or $1,350,038 per year. This reduction will continue through FY 2015.

In September 2008, Rhode Island Council 94 and certain members of the union filed an action in the State Superior Court. Rhode Island Council 94 requested the Court declare that the new laws relative to retiree health coverage, effective October 1, 2008, are unconstitutional and violate State collective bargaining laws. The changes in the laws with respect to retiree health coverage were adopted in order to reduce costs to the State for retiree health benefits by approximately $9.8 million. The Court has denied the motion made by the Rhode Island Council 94 for a temporary restraining order against the implementation of such new laws. The State intends to vigorously contest the lawsuit.

In November 2004, a labor arbitrator ordered payment to deputy sheriffs for missed overtime opportunities. The state appealed and the Superior Court vacated the arbitration award. The union appealed that ruling and the Supreme Court re-instated the arbitration award. The arbitrator then ruled that the number of hours of missed overtime to be reimbursed to union members may be as much as 12,000 hours. The parties disagree about the number of deputies who are eligible to share in the payments and that issue is still pending before the arbitrator. The union has presented the testimony of approximately 90 deputies who claim to have been qualified to work the overtime at issue. The employer believes that about a third of those actually were qualified. However, the arbitrator has not yet ruled on who is entitled to share in the remedy, and he may take a more expansive view of qualifications, in which case more deputies will share in the payment. It is not possible to estimate the state's exposure until the arbitrator rules on the number of deputies to be paid. After that, the calculations are complicated because the period of time for which each deputy will be paid is different, and each one had different overtime rates of pay at different times within their remedy periods.

Tobacco Settlement Financing Corporation

In 2005 and 2006, several states sued Participating Manufacturers (PM's) in their state courts seeking orders that the states diligently enforced the Master Settlement Agreement (MSA) and related statutes. All of the state courts denied the states' actions and ordered those states to arbitrate the 2003 Non-Participating Manufacturers (NPMs) Adjustment, including whether the state diligently enforced the MSA and related statutes.

Although Rhode Island did not sue the PM's, in 2006, the PM's filed a Motion to Compel the State to Arbitrate the 2003 NPM Adjustment in Rhode Island Superior Court, which the State opposed. In 2007, the Court granted the Motion to Compel Arbitration, which the State moved for reconsideration. The Court denied the State's Motion to Reconsider. The State appealed the Court's orders. In 2008, the Supreme Court of Rhode Island remanded the case for the Superior Court to rule on a Motion for a Stay. The Superior Court denied the stay and the case was returned to the Supreme Court of Rhode Island. During the appeal, the PM's and Rhode Island entered into an agreement, whereby Rhode Island would join nationwide arbitration and the PM's would release funds from the disputed account attributable to the 2005 NPM Adjustment and an automatic reduction by 10% in the event that the PMs prevail. Rhode Island received $3,866,925 on February 26, 2009, which flowed to the TSFC.

The arbitration of the 2003 NPM Adjustment dispute has commenced. To date the Participating Manufactures and the States have selected arbitrators who are developing lists for the selection of the third neutral arbitrator. The arbitration of the 2003 NPM Adjustment is expected to last into FY 2011.

In addition to NPM adjustment litigation, litigation has been filed alleging, among other claims, that the Master Settlement Agreement (MSA) violates provisions of the U.S. Constitution, state constitutions, federal antitrust and civil rights laws, and state consumer protection laws. These actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. The lawsuits seek to prevent the states from collecting any monies under the MSA, and/or a determination that prevents the tobacco manufacturers from collecting MSA payments through price increases to cigarette consumers. Several 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. In April 2005, 2006, 2007, and 2008 many of the tobacco manufacturers participating in the MSA either withheld all or portions of their payments due, or remitted their payments to an escrow account, disputing the calculations of amounts due under the agreement. These Participating Manufacturers assert that the calculations of the amounts due failed to recognize a prescribed adjustment for Non-Participating Manufacturers. The corporation's share of these disputed payments is approximately $12,100,000. Due to uncertainties regarding the ultimate realization of the remaining amount of these disputed payments, they have not been recognized as revenue in the accompanying financial statements. The Corporation and the other affected parties are taking actions permitted by the MSA to arrive at a resolution of these matters.

Lottery

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

In March 2008, UTGR, Inc., the owner and operator of Twin River, one of the two licensed video lottery facilities of the State, defaulted on loan payments to its lenders who provided a $565.0 million loan package to UTGR, Inc. and its parent companies to buy and expand the Twin River facility. As a result of defaulting on loan payments, UTGR entered into a forbearance agreement with its lenders. In September 2008, both Standard & Poor's and Moody's Investors Service downgraded their rating of the company that owns Twin River, and Moody's issued a statement warning of a "high probability of bankruptcy". The forbearance agreement expired on January 31, 2009 and was not extended.

In June 2009, UTGR, Inc. d/b/a Twin River, BLB Management Services, Inc, and BLB Worldwide Holdings, Inc. (collectively, the "Debtors") commenced a Chapter 11 bankruptcy proceeding by filing voluntary petitions for relief in the United States Bankruptcy Court for the District of Rhode Island. The filing was made when – after months of discussions and negotiations - the Debtors, their lenders and the State reached an agreement in principle with respect to a consensual reorganization plan, which plan is subject to approval of the Bankruptcy Court. The consensual plan contemplates, among other things, that the lenders will remove approximately $290.0 million of the approximately $590.0 million of debt on the balance sheet of the facility and, subject to the State's regulatory approval process, the lenders shall become the new owners of the facility and search for a new operator for the facility to replace the Debtors. The State is represented in the bankruptcy proceedings by outside legal counsel. Progress has been made toward a successful restructuring of the companies. Since the filing, the Debtors have continued in the management and operation of the business as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code and Twin River has continued to remain open as usual.

In January 2010 the debtors filed their Second Amended Disclosure Statement and Second Amended Plan with respect to the reorganization, which has the support of the key stakeholders. The debtors have already received approval of their Second Amended Disclosure Statement. In addition, the debtors have been granted the authority to begin soliciting votes on the Second Amended Plan. Although the plan provides for the State to make additional investments in the marketing and management for the facility, it is not anticipated that the bankruptcy will have a significant impact on the lottery revenues the State expects to continue to receive from the facility. The lenders and/or debtors intend to have legislation introduced to statutorily achieve certain requirements of the restructuring, including but not limited to, the elimination of the requirement that the debtors offer live greyhound racing as a condition for operating video lottery terminals at the facility. The Rhode Island Lottery continues to control and regulate the video lottery operations at the facility, including cash receipts, cash transfers and cash deposits. The cash management process continues to be carried out with a high degree of physical security and financial integrity.

The Department of Revenue, Division of Lotteries, and the Department of Business Regulation continue to closely monitor the situation. Any proposal to have a new operator of the facility and/or any proposal to transfer ownership of the facility would need regulatory approval. Certain applications for licensure have been submitted by the lenders to the Department of Business Regulation and these applications are currently under review. It should also be noted that the possible opening of new gaming sites in Massachusetts may significantly reduce revenues of Twin River since such sites are likely to reduce the number of out-of-state patrons visiting Twin River.

Federal Grants

The State receives significant amounts of federal financial assistance under grant agreements which specify the purpose of the grant and conditions under which the funds may be used. Generally, these grants are subject to audit.

The Single Audit for the State of Rhode Island for the fiscal year ended June 30, 2008 was issued in June 2009. That report identified approximately $14.2 million in questioned costs relating to the primary government. In addition, a number of findings had potentially significant but unknown or unquantifiable questioned costs. The ultimate disposition of these findings rests with the federal grantor agencies and in most cases, resolution is still in progress. Adjustments are made to the financial statements when costs have been specifically disallowed by the federal government or sanctions have been imposed upon the State and the issue is not being appealed or the right of appeal has been exhausted. The fiscal 2009 Single Audit is in progress. It is anticipated that there will be additional questioned costs identified in that audit. The State’s management believes that any disallowances of federal funding received by the State will not have a material impact on the State’s financial statements.

Moral Obligation Bonds

Some component units issue bonds with bond indentures requiring capital reserve funds. 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, 2009 the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had $285,257,986 and $39,907,829 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 $3,201,500 of the debt on the related economic development revenue bonds in fiscal year 2010.

Component Units

R.I. Student Loan Authority

The R.I. Student Loan Authority maintains Letters of Credit in the original stated amount of $104,888,356 on its November 2008 Series B Weekly Adjustable Interest Rate Bonds and the original stated amount of $104,888,356 on its August 2008 Series C-1, C-2 and C-3 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 as contemplated by the indenture.

The Letters of Credit will expire on the earliest to occur: (a) June 30, 2012, for the August 2008 and November 2008 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, (f) when no amount becomes available to the Trustee under the Letter of Credit.

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, 2009.

The College Crusade of R.I.

The College Crusade of R.I has a $1,200,000 line of credit agreement. Interest is payable monthly at the prime rate plus 1.5% for the fiscal year ended June 30, 2009. There was an outstanding balance of $310,000 as of June 30, 2009.

R.I. Housing and Mortgage Finance Corporation

As of June 30, 2009, the Corporation may borrow up to a maximum of $30,000,000 under one revolving loan agreement expiring in October 2009 and up to a maximum of $19,500,000 under an additional revolving loan agreement expiring in May 2011. At June 30, 2009 $37 million was outstanding under these revolving loan agreements.

Community College of R.I.

On November 2, 2007, an arbitrator awarded two contractors involved in the construction of the Newport campus a total of $3,321,208 in damages and penalties. The Community College has appealed the arbitration award to the Rhode Island Superior Court. The court rendered a decision on June 29, 2009, partially vacating the original arbitration award and a final court order is pending. The Community College believes that the judgment will be appealed. In the interim, the Community College has maintained a liability and related additions to capital costs for $3,321,208.

Note 13. Employer Pension Plans

Plan Descriptions

The State, through the Employees' Retirement System (ERS), 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 ERS 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 and teachers, which is subject to amendment by the general assembly, is established by the General Laws as listed below. As a result of an amendment to the General Laws effective July 1, 2005, the ERS implemented a two-tiered benefit structure for members of the ERS. Members with 10 years of service as of July 1, 2005 follow the Schedule A benefit structure and all other members follow the Schedule B benefit structure. In addition to the State, there are 48 local public school entities that are members of the ERS. The ERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans and a description of the Schedule A and Schedule B benefit structures. 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 ERS are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the contributions are withheld from payroll. 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. Investment transactions are recorded on a trade date basis. The gains or losses on foreign currency exchange contracts are included in income consistent with changes in the underlying exchange rates.

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.

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

The fair value of fixed income securities and domestic and international equity securities is generally based on published market prices and quotations from national security exchanges and securities pricing services.

Commingled funds consist of institutional domestic equity index, international equity index, and real estate funds as well as a commingled fund which holds fixed income securities and domestic equity index futures with the objective of outperforming the S&P 500 index by 75 basis points. The fair value of the commingled funds is based on the reported net asset value (NAV) of the respective fund based upon the fair value of the underlying securities or assets held in the commingled fund.

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

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

Other investments that are not traded on a national security exchange (primarily private equity and real estate investments) are generally valued based on audited December 31 net asset values adjusted for (1) cash flows for the period January 1 to June 30 (which principally include additional investments and partnership distributions), and (2) significant changes in fair value as determined or estimated by the general partners as of June 30. The general partners estimate the fair value of the underlying investments held by the partnership periodically. Publicly traded investments held by the partnerships are valued based on quoted market prices. If not publicly traded, the fair value is determined by the general partner. Financial Accounting Standards Board Statement No. 157, *Fair Value Measurements,* requires private equity and real estate limited partnership general partners to value nonpublibly traded assets at current fair value, taking into consideration the financial performance of the issuer, cash flow analysis, recent sales prices, market comparable transactions, a new round of financing, a change in economic conditions, and other pertinent information. ERS management considers the fair values reported by the general partners at June 30 in addition to the audited net asset values at December 31 adjusted for cash flows for the period January 1 to June 30 in determining the fair value of private equity and real estate investments on the financial statements of ERS.

Private equity and real estate investments represented 9.5% and 4.1%, respectively of the total reported fair value of all ERS investments at June 30, 2009. Of the underlying holdings within private equity investments, approximately 6% were valued based on quoted market prices. The remaining underlying assets were valued generally following the objectives outlined above. Because these fair values were not determined based on quoted market prices, the fair values may differ from the values that would have been determined had a ready market for these investments existed.

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.

	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust
Contribution rates:			
State	21.64%	26.03%	24.06%
Plan members - state employees	8.75%	8.75%	8.75%
State contribution for teachers	7.75% and 8.18%		
Annual pension cost	$199,898	$3,341	$1,700
Contributions made - state employees	$126,298	$3,341	$1,700
Contributions made - teachers	$73,600		
Actuarial valuation date	June 30, 2006	June 30, 2006	June 30, 2006
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	23 years	23 years	23 years
Asset valuation method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions:			
Investment rate of return	8.25%	8.25%	8.25%
Projected salary increases	4.50% to 9.00%	4.50% to 12.50%	4.50%
Inflation	3.00%	3.00%	3.00%
Cost-of-living adjustments	Schd. A 3% compounded Schd. B 2.5% compounded	$1,500 per annum	3.0%
Level of benefits established by:			
General Law(s)	36-8 to 10 16-15 to 17	42-28-22.1	8-3-16, 8-8-10.1, 8-8.2-7 and 28-30-18.1

Three-Year Trend Information

	Year Ending	Annual Pension Cost (APC) (In Thousands)	Percentage of APC Contributed	Net Pension Obligation
Employees' Retirement System	6/30/07	188,832	100%	$ 0
	6/30/08	214,016	100%	0
	6/30/09	199,898	100%	0
State Police Retirement Benefits Trust	6/30/07	4,039	100%	0
	6/30/08	3,720	100%	0
	6/30/09	3,341	100%	0
Judicial Retirement Benefits Trust	6/30/07	2,363	100%	0
	6/30/08	2,128	100%	0
	6/30/09	1,700	100%	0

The table below displays the funded status of each plan for the year ended June 30, 2008, the most recent 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)
ERS						
State Employees	$2,700,368,568	$4,371,829,709	$1,671,461,141	61.80%	$587,500,000	284.50%
Teachers	$4,044,954,378	$6,705,498,005	$2,660,543,627	60.30%	$985,898,174	269.90%
SPRBT	$54,927,390	$69,029,513	$14,102,123	79.60%	$16,698,764	84.50%
JRBT	$34,670,394	$42,455,456	$7,785,062	81.70%	$6,601,889	117.90%

The schedules of funding progress presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the Actuarial Accrued Liabilities (AAL) for benefits.

Additional information as of the June 30, 2008 actuarial valuation:

	ERS		SPRBT	JRBT
	State Employees	Teachers		
Valuation Date	6/30/08	6/30/08	6/30/08	6/30/08
Actuarial Cost Method	Entry Age Normal	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	Level Percent of Payroll – Closed
Equivalent Single Remaining Amortization Period	21 years	21 years	21 years	21 years
Asset Valuation Method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions				
Investment Rate of Return	8.25%	8.25%	8.25%	8.25%
Projected Salary Increases	4.50% to 9.00%	4.50% to 13.25%	4.50% to 12.50%	4.50%
Inflation	3.00%	3.00%	3.00%	3.00%

Cost of Living Adjustments	Schedule A members eligible at 9/30/09 - 3.0% compounded members not eligible at 9/30/09 – 2.5% compounded Schedule B members – 2.5% compounded	Schedule A members eligible at 9/30/09 - 3.0% compounded members not eligible at 9/30/09 – 2.5% compounded Schedule B members – 2.5% compounded	$1,500 per annum	3.0% see Note1(b) to the Employees' Retirement System financial statements

Schedule A - ERS members are those with 10 years or more of contributory service on or before July 1, 2005.

Schedule B - ERS members are those with less than 10 years of contributory service on or before July 1, 2005.

Note 1 – Cost of Living Adjustments (COLA) are based on the actual Consumer Price Index or 3%, whichever is lower. For actuarial purposes, the actuary assumes a 2.5% COLA increase.

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 under a defined contribution retirement plan. Eligible employees who have reached the age of 30, and who have two (2) years of service are required to participate in either the Teachers Insurance and Annuity Association, the Metropolitan Life Insurance Company, or Variable Annuity Life Insurance Company retirement plan. Eligible employees must contribute at least 5% of their gross biweekly earnings. The University and Colleges contribute 9% of the employee's gross biweekly earnings. Total expenses by the institutions for such annuity contracts amounted to approximately $14,471,000 during the year ended June 30, 2009.

The Rhode Island Public Transit Authority has a funded pension plan for all employees, for which eligibility to participate begins immediately upon employment. Benefits vest upon completion of ten years of service. Authority employees are eligible to retire upon attainment of age 62 and 10 years of continuous service. Retired employees are entitled to a monthly benefit for life as stipulated in the plan provisions. The plan also provides death and disability benefits. Employees are required to contribute 3% of their base salary to the plan. The remaining contributions to the plan are made by the Authority. Employer contributions paid in fiscal year 2009 totaled $7,238,060. At January 1, 2009, the most recent valuation date, the total actuarial accrued liability was $75,703,397 and the actuarial value of assets was $43,731,766. The Authority contributed 100.00% of its annual pension cost for fiscal year 2009 and had a net pension obligation of $1,799,084 at June 30, 2009.

Certain other component units have defined contribution pension and savings plans. For information regarding these pension and savings plans, please refer to the component units' separately issued financial reports.

Note 14. Other Post-Employment Benefits

Plan Descriptions

The State administers four defined benefit post-employment health care plans collectively known as the Rhode Island Retiree Health Care Benefit Plan (RIRHCBP).

Members of the Employees' Retirement System (ERS), including State employees, legislators, judges, State Police Officers, certified public school teachers and employees of certain component units, if they meet certain eligibility requirements, are eligible to receive some form of State sponsored retiree health care benefits. A summary of the principal plan provisions follows:

	State Employees and Teachers	Judges	State Police	Legislators
Plan type	Agent Multiple Employer	Sole employer	Sole employer	Sole employer
Eligibility	Members of ERS meeting eligibility criteria	Retired judges	Retired members of the State Police	Retired legislators
Plan benefits	Retiree plan for members until Medicare eligible; subsequently eligible for Medicare supplement	May purchase active employee plan for member and spouse for life	Active employee plan for member, spouse and dependents until age 65; at age 65 coverage ceases if Medicare eligible	May purchase active employee plan for member and spouse for life
Other	Retired teachers can purchase coverage for themselves and dependents at active or early retirement rate, as applicable. Members can purchase coverage for dependants at active or early retirement rate, as applicable.			

RIGL Sections 36-10-2, 36-12.1, 36-12.2.2 and 36-12-4 govern the provisions of the RIRHCBP and they may be amended in the future by action of the General Assembly.

The RIRHCBP is reported in an internal service fund of the State using the accrual basis of accounting. The fund reports all employer and retiree member contributions to the Plans. Contributions are recognized when made. Benefits (health care claims) and refunds are recognized when due and payable in accordance with the terms of the Plans. A liability for incurred but not reported claims is determined based on past claims payment trends and is included in the financial statements. Working premium rates are determined by the State each fiscal year after consultation with an employee benefits consultant and are designed to fund current claims incurred during the fiscal year as well as the costs of administering the Plans. For the year ended June 30, 2009 the Plans operated on a pay as you go basis and no provision has been made to fund future benefits to be provided to RIRHCBP members.

Funding Policy

RIGL Sections 36-10-2, 36-12.1, 36-12.2.2 and 36-12-4 govern the provisions of the RIRHCBP. The contribution requirements of plan members, the State and other participating employers are established and may be amended by the General Assembly.

For those who retired on or before September 30, 2008, the State provides two types of subsidies for health care benefits. The Tier I subsidy applies to non-Medicare eligible plans and provides that the State will pay the portion of the cost of post-retirement health care for the retiree and any dependents above the active group rate. The retiree pays the active monthly rate and the State pays the difference between the active group rate and the early retiree rate. This subsidy is not based on years of service and ends at age 65. In addition to the Tier I benefits, the State pays a portion of the cost of post-retirement health care above the Tier I costs for certain retirees meeting eligibility requirements based upon the age and service of the retiree, which is referred to as the Tier II benefit.

For those who retired on or before September 30, 2008 the fiscal 2009 contributions are as follows:

Retiree Age	Years of Service	Amount of Cost Paid by Retiree
Below 60: (1)		
	28-34	10%
	35+	0%
Retiree Age from 60 to 65: (2)		
	10 – 15	50%
	16 – 22	30%
	23 – 27	20%
	28+	0%
Retiree Age Greater than 65: (3)		
	10 – 15	50%
	16 – 19	30%
	20 – 27	10%
	28+	0%

(1) The monthly premium rate is $789.76 for the individual plan. The retiree's cost is then calculated based on a maximum of $481.28 (the active plan rate).

(2) The monthly premium rates are the same as indicated above for the Retiree Age Below 60 category.

(3) The monthly premium rate for the Medicare Supplemental plan is $201.16 for the individual plan, and the monthly premium for the Medicare HMO plan was $107 for the first six months of fiscal year 2009 and $115 thereafter. Retirees can choose between the two plans. The retiree's cost is then calculated based on their years-of-service subsidy above.

For anyone who retired on or after October 1, 2008, age 59 through 64, with a minimum of 20 years of service, the State will pay 80% of the actual cost of health care coverage. The State contributed $631.81 per month for these retirees during fiscal 2009. For eligible retirees ages 65 or older, the State pays 80% of the cost of the Medicare supplement products as described in note (3) above.

In fiscal year 2009 the State and other participating employers were not required to fund the Plans other than the pay-as-you-go amount necessary to provide current benefits to retirees and administrative costs. For the fiscal year ended June 30, 2009 the State and other participating employers paid $37,856,000 into the Plans.

Annual OPEB Cost and Net OPEB Obligation

As required by GASB Statement 45, the participating employers recognized an expense equal to; a.) the annual required contribution of the employer (ARC), which was actuarially determined, plus b.) interest on the net OPEB obligation at the beginning of the fiscal year, and less c.) the ARC adjustment (discounted present value of the OPEB liability at the beginning of the fiscal year). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The annual OPEB cost for the year, the amount actually paid on behalf of the Plans and the changes in the net OPEB obligation are as follows (dollar amounts in thousands):

	State Employees	Teachers	Judges	State Police	Legislators
Date of Actuarial Valuation	06/30/05	06/30/05	06/30/07	06/30/05	06/30/05
Annual required contribution as a percent of payroll	6.01%	N/A	11.64%	30.27%	18.63%
Annual required contribution	$ 34,657	$ 2,180	$ 1,105	$ 4,602	$ 297
Plus: Interest on net OPEB obligation at beginning of year	$ 476	$ NA	$ 33	$ 116	$ 8
Less: Adjustment to ARC	$ 450	$ NA	$ 30	$ 110	$ 8
Annual OPEB cost	$ 34,683	$ 2,180	$ 1,109	$ 4,609	$ 298
Participating State and/or other employer contributions	$ 33,355	$ 2,180	$ 170	$ 2,007	$ 144
Increase in OPEB obligation	$ 1,328	$ 0	$ 935	$ 2,595	$ 153
Net OPEB obligation at beginning of year	$ 13,349	$ 0	$ 918	$ 3,255	$ 225
Net OPEB obligation at end of year	$ 14,677	$ 0	$ 1,853	$ 5,850	$ 378

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation for 2009 and 2008 (the first year of GASB 45 implementation) was as follows (dollar amounts in thousands):

Plan	Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
State Employees	2008	$ 38,203	65.06%	$ 13,349
	2009	34,683	96.17%	14,677
Teachers	2008	1,428	100.00%	-
	2009	2,180	100.00%	-
Judges	2008	1,382	33.57%	918
	2009	1,109	15.34%	1,853
State Police	2008	4,827	32.57%	3,255
	2009	4,609	43.55%	5,850
Legislators	2008	285	21.05%	225
	2009	298	48.40%	378

The table below displays the funded status of each plan for the year ended June 30, 2007, the most recent actuarial valuation date (in thousands):

	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)
RIRHCBP - State Employees	$ -	$ 679,538	$ 679,538	0.0%	$ 626,145	108.5%
RIRHCBP - Teachers	$ -	$ 10,243	$ 10,243	0.0%	n/a	n/a
RIRHCBP - Judges	$ -	$ 14,024	$ 14,024	0.0%	$ 9,888	141.8%
RIRHCBP - State Police	$ -	$ 54,620	$ 54,620	0.0%	$ 15,977	341.9%
RIRHCBP - Legislators	$ -	$ 29,764	$ 29,764	0.0%	$ 1,592	1869.6%

There were changes in actuarial assumptions in the June 30, 2007 valuation. These include changes in demographic assumptions adopted in the June 30, 2006 valuations for the Employees' Retirement System of Rhode Island, the State Police Retirement Benefits and Trust, and the Judicial Retirement Benefits Trust, based on experience studies performed by the actuary for those systems. The Medicare election assumption for Judges changed from 100% electing Medicare at age 65 to 100% not electing Medicare at age 65 and for Legislators from 100% electing Medicare at age 65 to 75% not electing Medicare at age 65. In addition, in anticipation of the retirements occurring before October 1, 2008, the election percentage for State employees was increased to 90% and the retiree liability was adjusted to 110%.

Further for teachers, the required contribution for teachers is not presented as a percentage of payroll since the required contribution by the State is for the Tier I subsidy for teachers who have elected to participate in the State's Retiree Health Care Benefit Plan. The June 30, 2007 actuarial valuation will be used to determine the annual required contribution for fiscal 2010.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation. The actuarial assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial valuation was performed as of June 30, 2005 with results projected to July 1, 2007 for the fiscal years ended June 30, 2008 and 2009. The annual required contribution was determined using the individual entry age actuarial cost method. The unfunded actuarial accrued liability as of the June 30, 2005 transition date is amortized over a period of 30 years using the level (principal and interest combined) percent of payroll contribution amortization method.

Plan changes effective for employees retiring on or after October 1, 2008 have been reflected in the actuarial valuation performed as of June 30, 2005. The estimated impact of retirements prior to October 1, 2008 and the resulting decrease in the workforce in conjunction with the plan changes has been reflected in the actuarial valuation performed as of June 30, 2005. The actual impact of retirements prior to October 1, 2008 and the resulting decrease in the workforce in conjunction with the plan changes will be reflected in the June 30, 2009 valuation.

The individual entry-age actuarial cost method is used to determine the annual required contribution amounts and the annual net OPEB obligation. The actuarial assumptions include a 3.566% discount rate; an annual healthcare cost trend rate of 12% progressively declining to 4.5% after 10 years; and a salary growth rate ranging from 8.25% in year 1 to 4.75% in year 15 and beyond. The discount rate was calculated based upon the average rate of return during the 10 years ended June 30, 2008 for short term investments of the State's General Fund.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Examples include assumptions about employment, mortality and healthcare cost trends. Actuarial valuations are subject to continual revision as actual results are compared to past expectations and new estimates are formulated about the future.

The RIRHCBP does not issue a stand-alone financial report.

Certain employees of the University of Rhode Island, Rhode Island College and the Community College of Rhode Island are covered by the Rhode Island Board of Governors for Higher Education Health Care Insurance Retirement Program. The Program offers a self-insured health care plan for pre-65 and post-65 retirees or a fully insured Medicare HMO plan for post-65 retirees. For the year ended June 30, 2009, the Program operated on a pay as you go basis and no provision has been made to fund future benefits to be provided to plan members. The University and colleges have recognized the annual required contribution (OPEB cost) as determined by an actuarial valuation performed as of June 30, 2007. For fiscal 2009, annual OPEB cost for the university and colleges was $4,562,422 and actual contributions made were $2,433,613. The financial activity for the Program is accounted for in an agency fund which is included in the accompanying financial statements. Additional disclosures regarding the Program are detailed in the financial statements for each institution.

Note 15. Deferred Compensation

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Department of Administration pursuant to Chapter 36-13 of the General Laws administers the plan. The Department of Administration contracts with private corporations to provide investment products related to the management of the deferred compensation plan. 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 State's financial statements.

Note 16. Risk Management

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

The State has entered into agreements with commercial insurance companies for comprehensive insurance coverage 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 has a contract with an insurance company to provide health care benefits to active and retired employees. The State reimburses the company for the costs of all claims paid plus administrative fees. The estimated liability for incurred but not reported (IBNR) claims at June 30, 2009 was calculated based on historical claims data. The change in claims liability (expressed in thousands) is as follows:

	Liability at July 1	Current Year Claims and IBNR Estimate	Claim Payments	Liability at June 30
Health Insurance Funds				
Liability for unpaid claims	$ 20,650	$ 221,882	$ 224,726	$ 17,806

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.

Note 17. 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	NBC
Condensed statement of net assets:					
Other assets	$ 2,085,147	$ 1,169,170	$ 29,695	$ 250,577	$ 88,388
Capital assets - nondepreciable			3,117	161,532	433,998
Capital assets - depreciable (net)		2,764	85,096	415,920	222,570
Due from primary government				35,244	
Total assets	2,085,147	1,171,934	117,908	863,273	744,956
Long term debt	1,583,919	1,048,888	23,684	374,030	427,984
Other liabilities	225,212	47,205	4,121	60,303	12,046
Due to primary government					
Total liabilities	1,809,131	1,096,093	27,805	434,333	440,030
Net assets:					
Invested in capital assets, net of related debt	9,138	33	62,835	298,360	240,724
Restricted					
Debt service	214,214	74,334	8,219		
Other				80,164	157
Other nonexpendable	2,412				
Unrestricted	50,252	1,474	19,049	50,416	64,045
Total net assets	276,016	75,841	90,103	428,940	304,926
Condensed statement of activities:					
Program expenses					
Personal services	12,586	3,299	2,548	25,219	17,833
Supplies, materials, and services	5,136	6,368	5,672	19,028	14,206
Interest expense	72,044	31,458			
Depreciation, depletion, and amortization	2,598	1,242	3,419	19,774	7,302
Other program expenses	12,957	4,946	1,145	26,275	13,651
Total program expenses	105,321	47,313	12,784	90,296	52,992
Program revenue					
Charges for services	97,397	44,381	13,289	61,535	70,544
Operating grants and contributions				6,881	34
Capital grants and contributions				77,768	
Net program (expense) revenue	(7,924)	(2,932)	505	55,888	17,586
Interest and investment earnings	11,554	1,452	1,502	4,961	420
Miscellaneous			62	(2,813)	170
Payments from primary government				22,954	
Change in net assets	3,630	(1,480)	2,069	80,990	18,176
Beginning net assets as restated	272,386	77,321	88,034	347,950	286,750
Ending net assets	276,016	75,841	90,103	428,940	304,926

	RIHEBC	RIRRC	RIHEAA	RIPTA	RIIFC
Condensed statement of net assets:					
Other assets	$ 9,593	$ 115,007	$ 24,493	$ 16,822	$ 1,169
Capital assets - nondepreciable		15,159	194	24,048	
Capital assets - depreciable (net)	45	44,944	1,255	70,875	
Due from primary government				3,751	
Total assets	9,638	175,110	25,942	115,496	1,169
Long term debt		15,210	303		
Other liabilities	126	97,625	1,911	33,017	853
Due to primary government		3,000		7,939	
Total liabilities	126	115,835	2,214	40,956	853
Net assets:					
Invested in capital assets, net of related debt	45	52,380	1,450	86,983	
Restricted					
Debt service					
Other		284	22,278		
Other nonexpendable					
Unrestricted	9,467	6,611		(12,443)	316
Total net assets	9,512	59,275	23,728	74,540	316
Condensed statement of activities:					
Program expenses					
Personal services		12,466	2,971	70,049	
Supplies, materials, and services		18,583	10,443	20,794	97
Interest expense					
Depreciation, depletion, and amortization	12	10,408	244	9,814	
Other program expenses	2,443	2,040	12,237	5,120	17
Total program expenses	2,455	43,497	25,895	105,777	114
Program revenue					
Charges for services	2,212	45,526	14,986	34,010	77
Operating grants and contributions			574	21,181	
Capital grants and contributions				20,657	
Net program (expense) revenue	(243)	2,029	(10,335)	(29,929)	(37)
Interest and investment earnings	51	1,628	559	104	5
Miscellaneous	(3)	1,026	133	3,078	(125)
Payments from primary government		(7,500)	7,284	33,613	
Change in net assets	(195)	(2,817)	(2,359)	6,866	(157)
Beginning net assets as restated	9,707	62,092	26,087	67,674	473
Ending net assets	9,512	59,275	23,728	74,540	316

	RICWFA	RIIRBA	RIWRBC	RIPTCA	TCCRI
Condensed statement of net assets:					
Other assets	$ 991,518	$ 3,953	$ 3,685	$ 997	$ 5,334
Capital assets - nondepreciable		181		1,354	
Capital assets - depreciable (net)	37	339		5,423	9
Due from primary government					
Total assets	991,555	4,473	3,685	7,774	5,343
Long term debt	619,218		6,714	222	
Other liabilities	12,086	842	401	510	1,110
Due to primary government				232	
Total liabilities	631,304	842	7,115	964	1,110
Net assets:					
Invested in capital assets, net of related debt	37	520		6,777	9
Restricted					
Debt service	336,939				
Other			(3,502)	889	1,747
Other nonexpendable					
Unrestricted	23,275	3,111	72	(856)	2,477
Total net assets	360,251	3,631	(3,430)	6,810	4,233
Condensed statement of activities:					
Program expenses					
Personal services	583			3,505	2,190
Supplies, materials, and services		119	27	141	41
Interest expense	27,651				5
Depreciation, depletion, and amortization	423	14	104	968	16
Other program expenses	3,204	21	298	1,556	1,634
Total program expenses	31,861	154	429	6,170	3,886
Program revenue					
Charges for services	22,877	784	1,097	4,045	3,328
Operating grants and contributions	8,186				
Capital grants and contributions					
Net program (expense) revenue	(798)	630	668	(2,125)	(558)
Interest and investment earnings	9,630	41	70	(125)	(757)
Miscellaneous			3	53	
Payments from primary government				2,018	528
Change in net assets	8,832	671	741	(179)	(787)
Beginning net assets as restated	351,419	2,960	(4,171)	6,989	5,020
Ending net assets	360,251	3,631	(3,430)	6,810	4,233

	URI	RIC	CCRI	CFSD	Totals
Condensed statement of net assets:					
Other assets	$ 245,659	$ 45,789	$ 25,244	$ 3,994	$ 5,116,234
Capital assets - nondepreciable	13,503	11,750	4,960		669,796
Capital assets - depreciable (net)	435,647	79,859	41,592	3,261	1,409,636
Due from primary government	5,747	1,294	2,016	2,763	50,815
Total assets	700,556	138,692	73,812	10,018	7,246,481
Long term debt	237,989	17,933	8,586	1,633	4,366,313
Other liabilities	59,605	19,452	11,770	8,616	596,811
Due to primary government		18,637		21	29,829
Total liabilities	297,594	56,022	20,356	10,270	4,992,953
Net assets:					
Invested in capital assets, net of related debt	268,682	60,246	39,100	3,209	1,130,528
Restricted					
Debt service					633,706
Other	30,597	3,805	5,349	217	141,985
Other nonexpendable	78,022	15,177			95,611
Unrestricted	25,661	3,441	9,007	(3,678)	251,697
Total net assets	402,962	82,669	53,456	(252)	2,253,527
Condensed statement of activities:					
Program expenses					
Personal services	252,676	87,383	73,393	44,002	610,703
Supplies, materials, and services	116,579	25,107	27,349	11,492	281,182
Interest expense					131,158
Depreciation, depletion, and amortization	21,204	5,106	3,089	260	85,997
Other program expenses	27,911	7,294	3,651	8	126,408
Total program expenses	418,370	124,890	107,482	55,762	1,235,448
Program revenue					
Charges for services	343,431	80,457	62,257	12,894	915,127
Operating grants and contributions		2,591	820		40,267
Capital grants and contributions	48,267	9,861	1,222		157,775
Net program (expense) revenue	(26,672)	(31,981)	(43,183)	(42,868)	(122,279)
Interest and investment earnings	(18,839)	(3,350)	(64)	11	8,853
Miscellaneous	14,372	17			15,973
Payments from primary government	62,319	39,895	44,809	41,572	247,492
Change in net assets	31,180	4,581	1,562	(1,285)	150,039
Beginning net assets as restated	371,782	78,088	51,894	1,033	2,103,488
Ending net assets	402,962	82,669	53,456	(252)	2,253,527

Significant transactions between primary government and component units

	(Revenue) Expense	Description
Governmental activities		
General		
R.I. Higher Education Assistance Authority	$ 7,284	Operating assistance
R.I. Economic Development Corporation	13,085	Operating and capital assistance
University of Rhode Island	62,290	Operating assistance
Rhode Island College	40,068	Operating assistance
Community College of Rhode Island	45,177	Operating assistance
Central Falls School District	40,884	Operating assistance
R.I. Public Transit Authority	9,277	Operating assistance
R.I. Resource Recovery Corporation	(7,600)	Surplus remitted pursuant to law
ISTEA		
R.I. Public Transit Authority	34,545	Operating assistance
RI Economic Development Corporation	34,812	Capital assistance-primarily Intermodal train station
Bond Capital		
RI Economic Development Corporation	7,905	Construction, improvements primarily at Quonset
University of Rhode Island	27,410	Construction, improvement or purchase of assets
Rhode Island College	5,497	Construction, improvement or purchase of assets
Certificates of Participation		
University of Rhode Island	8,412	Construction, improvement or purchase of assets
R. I. Capital Plan		
University of Rhode Island	12,250	Construction, improvement or purchase of assets
Total Governmental Activities	$ 341,296	

Note 18. Other Information

A. Elimination Entries

When the governmental fund statements and the internal service funds statements are combined into one column for governmental activity on the government-wide financial statements interfund balances and activity should be eliminated. The following are the eliminations (expressed in thousands) that were made.

	Total Governmental Funds	Internal Service Funds	Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 16,584	$ 2,663	$ 19,247	$ (18,160)	$ 1,087
Loans to other funds	112,951	1,732	114,683	(113,601)	1,082
Total assets	$ 129,535	$ 4,395	$ 133,930	$ (131,761)	$ 2,169
Liabilities					
Due to other funds	$ 16,166	$ 1,994	$ 18,160	$ (18,160)	$
Loans from other funds	108,691	4,910	113,601	(113,601)	
Total liabilities	$ 124,857	$ 6,904	$ 131,761	$ (131,761)	$
Program revenue					
General government	$ 29	$ 317,439	$ 317,468	$ (317,468)	
Human services		6,570	6,570	(6,570)	
Public safety		14,022	14,022	(14,022)	
Expenses					
General government	29	317,852	317,881	(317,881)	
Human services		6,996	6,996	(6,996)	
Public safety		13,183	13,183	(13,183)	
Net revenue (expenses)	$	$	$	$	$
Transfers					
Operating transfers in	$ 622,212	$	$ 622,212	$ (306,804)	$ 315,408
Operating transfers out	(304,351)	(2,453)	(306,804)	306,804	
Net transfers	$ 317,861	$ (2,453)	$ 315,408	$	$ 315,408

	Total Business-type Activities		Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 613	$	$ 613	$ (613)	$
	$ 613	$	$ 613	$ (613)	$
Liabilities					
Due to other funds	$ 1,700	$	$ 1,700	$ (613)	$ 1,087
	$ 1,700	$	$ 1,700	$ (613)	$ 1,087
Transfers					
Operating transfers in	$ 30,369	$	$ 30,369	$ (30,369)	$
Operating transfers out	(345,777)		(345,777)	30,369	(315,408)
Net transfers	$ (315,408)	$	$ (315,408)	$	$ (315,408)

B. Related Party Transactions

The R.I. Public Rail Corporation received $7,500,000 from the State of Rhode Island to fund an indemnity reserve which was required by a multi-party agreement in relation to the Intermodal Transportation Facility Project in Warwick Rhode Island. The project, which involves bringing rail service to the T.F. Green Airport in Warwick, Rhode Island, is being constructed by the Rhode Island Airport Corporation with funding through the federal and state governments. Insurance requirements mandated by the project participants included the funding of an indemnity reserve in the amount of $7,500,000. The indemnity reserve was funded with the proceeds from the State until such time as a letter of credit could be obtained to meet the indemnity reserve requirement. The funds obtained from the State to fund the indemnity reserve are due to the State (primary government) upon satisfaction of the indemnity requirement or upon obtaining a letter of credit to meet such requirement.

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, whereby the State has agreed to lease various assets to RIAC. The agreement requires RIAC to reimburse the State for principal and interest payments for certain airport related General Obligation Bonds. The term of the agreement is 30 years beginning July 1, 1993, with annual rent of $1.00. In the event RIAC does not have sufficient funds to make the required lease payments when due, the amount is payable in the next succeeding fiscal year and remains an obligation of RIAC until paid in full. The State has no rights to terminate the agreement as long as there are bonds and subordinate indebtedness outstanding.

The R.I. Student Loan Authority (RISLA) and the R.I. Higher Education Assistance Authority (RIHEAA), component units of the State, are related parties. RISLA is a public instrumentality created to provide a statewide student loan program through the acquisition and origination of student loans. RIHEAA is a public instrumentality created for the dual purpose of guaranteeing loans to students in eligible institutions and administrating other programs of post-secondary student financial assistance assigned by law.

Transactions between RISLA and RIHEAA as of and during the year ended June 30, 2009 were as follows:

Guaranteed loans outstanding at June 30, 2009	$664,795,000
Loans guaranteed during the year	301,412,000
Guarantee claims paid during the year	18,967,000

The R.I. Housing and Mortgage Finance Corporation (RIHMFC) and the State have entered into a contractual relationship whereby RIHMFC assumed the responsibility for the State Rental Subsidy Program for the period July 1, 1994 through June 30, 1997. In addition, RIHMFC 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 made, nor have any payments for transfers totaling $39,485,000 made during the years ended June 30, 1998 through 2009 been made.

In November 2004, the voters of Rhode Island authorized the issuance of $30 million in general obligation debt for the construction of a new residence hall at Rhode Island College (RIC). Of this amount, $20 million will be repaid to the State. The residence hall was finished and in service by September 2007 at which time RIC began collecting revenues to pay for its share of the debt service. Debt service obligation is to be split two-thirds to RIC, one-third to the State for all payments after September 2007. RIC will repay the State for the debt service paid on its behalf on a straight-line basis amortized over the remaining life of the bonds, which carry rates ranging from 3-5% and a life of nineteen years beginning in fiscal year 2009. RIC recognized $20 million as a liability to the State for its two-thirds of the debt service as a result of these issuances. Additionally, RIC has recorded $10 million of contributed capital by the State.

The Narragansett Bay Commission has approximately $269,000,000 of loans payable to the R.I. Clean Water Finance Agency.

C. Restatements, Reclassifications and Other Changes in Presentation

	Governmental Activities	Discretely Presented Component Units	Governmental Funds
June 30, 2008			
Net assets as previously reported	$ 829,461	$ 2,116,645	
Fund balance as previously reported			$ 685,191
Correction of errors	57,394	(13,157)	
GASB pronouncement - Pollution Remediation	(11,201)		
New component unit	534		134
June 30, 2008 net assets/fund balance as restated	$ 876,188	$ 2,103,488	$ 685,325

The beginning net assets of Governmental Activities within the government-wide financial statements increased by $57,394,000 due to an error in the recording of infrastructure and decreased by ($11,201,000) due to the implementation of GASB 49- *Accounting and Financial Reporting for Pollution Remediation Obligations*. Also, the beginning net assets of Governmental Activities within the government-wide financial statements and beginning fund balance of the Statement of Revenues, Expenditures, and Changes in Fund Balances in the fund financial statements were increased by $534,000 and $134,000, respectively. This increase is the result of the R.I.Public Rail Corporation being added as a blended component unit for the fiscal year ended June 30, 2009.

The beginning net assets of certain discretely presented component units decreased by an aggregate amount of approximately $13,000,000 to correct errors in prior periods. This decrease primarily consists of a $7.8 million decrease in net assets for the R.I. Resource Recovery Corporation due to the implementation of GASB 49- *Accounting and Financial Reporting for Pollution Remediation Obligations* and a decrease in net assets of the R. I. Public Transit Authority of $5.4 million due to a correction in the calculation of the casualty reserve and a change in accounting for debt service owed to the State.

D. Budgeting, Budgetary Control, and Legal Compliance

Budget Preparation

An annual budget is adopted on a basis consistent with generally accepted accounting principles. The budget encompasses the General Fund and certain special revenue funds. Preparation and submission of the budget is governed by the State Constitution and the Rhode Island General Laws. The budget, as enacted, contains a complete plan of proposed expenditures from all sources of funds (general, federal, restricted, and transfers in). Revenues upon which the budget plan is based are determined as part of the State's Revenue Estimating Conference. The Conference, held twice each year, results in a consensus estimate of revenues for the next fiscal year and an update of prior revenue estimates for the current fiscal year.

As required by the Constitution and the Rhode Island General Laws, annual appropriations are limited to 97.8 percent of estimated general revenues. The remaining 2.2 percent is contributed to the Budget Reserve Account until such account equals 3.4 percent of total general revenues and opening surplus. Excess contributions to the Budget Reserve Account are transferred to the Rhode Island Capital Plan Fund to be used for capital projects.

The annual budget is adopted on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the "actual" column that have no corresponding budget amount. These amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

Budgetary Controls

The legal level of budgetary control, i.e., the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch.

Budgetary controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations, accounting system controls to limit expenditures in excess of authorized amounts, and budgetary monitoring controls.

Budgetary Compliance

The General Fund ended fiscal 2009 with an operating deficit of $36.7 million resulting from a shortfall in anticipated tax revenues. Actual general revenues were $63.3 million less than budget and actual general revenue expenditures were $74 thousand less than the final budget. An appropriation of $22 million was made from the Budget Reserve and Cash Stabilization Account to reduce the anticipated deficit.

E. Individual Fund Deficits

The following Internal Service Funds had cumulative fund deficits at June 30, 2009:

- Assessed Fringe Benefits Fund ($206,000)
- Central Utilities ($90,000)
- State Telecommunications ($429,000)
- Central Pharmacy ($2,000)
- Records Center ($83,000)
- Health Insurance – Teacher Retirees ($38,000)
- Capitol Police ($1,000)

The deficits will be eliminated through charges for services in fiscal year 2010.

Note 19. Subsequent Events

Primary Government

The State sold $350 million of General Obligation Tax Anticipation Notes in August 2009. The notes bear interest at 2.5% and are due on June 30, 2010.

Subsequent to June 30, 2009, the R.I. Public Rail Corporation (RIPRC) obtained a letter of credit in the amount of $7.5 million with a bank. Upon obtaining the letter of credit, RIPRC returned the $7.5 million that had been advanced by the State to fund an indemnity reserve account.

As of March 26, 2010 the State had borrowed $203.6 million from the Federal Unemployment Trust Fund to partially fund unemployment insurance benefits paid under the Rhode Island unemployment insurance program.

The General Laws were amended to increase the debt authorization limit for the Rhode Island Industrial Recreational Building Authority from $20 million to $60 million.

In response to a request by the Governor, Rhode Island was declared a major disaster area in March 2010 because of severe storms and flooding. Numerous residents and businesses were impacted by the flooding as well as governmental infrastructure (roads, dams, and bridges) in affected areas. Damage estimates have not been accumulated. Additional federal assistance is expected to assist in the clean-up and economic recovery.

Component Units

On July 7, 2009, the R.I. Student Loan Authority (RISLA) issued $25.6 million in Tax-Exempt Fixed Rate 2009 Senior Series A Student Loan Program Revenue Bonds. The proceeds from the 2009 Senior Series A will be used to finance student loans.

In September 2009, the RISLA refinanced approximately $70 million in Stafford and PLUS loans that were funded by the Loan Participation Program created under the Ensuring Continued Access to Student Loans Act (ECASLA). RISLA plans to finance loans with the Straight A Funding asset backed commercial paper conduit authorized under ECASLA. The Straight A Funding Conduit issues commercial paper and the proceeds are used to purchase eligible student loans at a pre-arranged price. Under this program, the Department of Education provides liquidity to the facility by entering into forward purchase commitments with eligible lenders. The program is set to expire in January 2014.

Subsequent to June 30, 2009 RISLA has purchased on various dates from certain holders of its auction rate bonds debt amounting to $34,900,000. The bonds had various original maturity dates ranging from December 1, 2030 to December 1, 2040. RISLA retired that debt immediately after the purchase.

On October 1, 2009 R.I. Housing and Mortgage Finance Corporation (RIHMFC) instructed its trustees to redeem the Homeownership Opportunity Bonds in the amount of $3.2 million.

On November 25, 2009, RIHMFC issued three series of bonds: $30 million Series 1-A, $45 million Series 1-B and $83 million Series 2. The Series 1 and 2 bonds were issued to make funds available to purchase Program Loans to finance the ownership or improvement of single family housing. Series B Bond proceeds will be held in escrow as security for the Series 2 Bonds only.

On December 9, 2009, RIHMFC issued $65.1 million of Multi-Family Funding Bonds, Series 2009A (Escrow Bonds).

Subsequent to June 30, 2009 the Rhode Island Clean Water Finance Agency had the following significant transactions:

- On July 23, 2009 the agency issued $15 million in short term notes.
- On October 1, 2009 the agency retired $29.9 million of bonded debt.
- On October 6, 2009 the agency sold $41.6 of bonds.
- On October 27, 2009 the agency issued $4.0 million in short term notes.
- On November 19, 2009 the agency sold $9.9 million of bonds.

Subsequent to June 30, 2009 the Community College of Rhode Island (CCRI) reached a settlement with one of the two contractors involved in the contingency referred to in Note 12 above. The settlement was in the amount of $155,000. Therefore, the remaining $3,166,208 is still recognized as a liability by CCRI pending final settlement.

Subsequent to June 30, 2009 the R.I. Health & Educational Building Corporation issued on behalf of Rhode Island College Higher Education Facility Revenue Bonds in the amount of $10,280,000.

Subsequent to June 30, 2009 the R.I. Health & Educational Building Corporation issued on behalf of the University of Rhode Island Higher Education Facility Revenue Bonds in the amount of $13,725,000.

On September 29, 2009 Rhode Island Resource Recovery Corporation sold approximately 5.38 acres of land located in the industrial park for $1,150,000.

State of Rhode Island
and Providence Plantations

REQUIRED SUPPEMENTARY INFORMATION

June 30, 2009

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, 2009
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Revenues:				
General Revenues:				
Personal Income Tax	$ 1,124,235	$ 970,600	$ 940,514	$ (30,086)
General Business Taxes:				
Business Corporations	161,000	112,000	104,437	(7,563)
Public Utilities Gross Earnings	100,000	115,000	126,665	11,665
Financial Institutions	1,100	4,130	5,359	1,229
Insurance Companies	77,824	80,400	78,017	(2,383)
Bank Deposits	1,700	1,700	1,803	103
Health Care Provider Assessment	47,432	48,400	46,030	(2,370)
Sales and Use Taxes:				
Sales and Use	863,100	823,200	807,947	(15,253)
Motor Vehicle	45,668	50,800	47,926	(2,874)
Motor Fuel	1,200	1,000	1,325	325
Cigarettes	114,500	131,000	130,503	(497)
Alcohol	11,100	10,800	10,812	12
Other Taxes:				
Inheritance and Gift	38,000	30,200	28,097	(2,103)
Racing and Athletics	2,600	2,500	2,451	(49)
Realty Transfer Tax	10,900	7,500	6,811	(689)
Total Taxes	2,600,359	2,389,230	2,338,697	(50,533)
Departmental Revenue	347,628	330,151	318,804	(11,347)
Total Taxes and Departmental Revenue	2,947,987	2,719,381	2,657,501	(61,880)
Other Sources				
Gas Tax Transfer	4,630	4,400	4,328	(72)
Other Miscellaneous	19,400	18,400	17,813	(587)
Lottery	365,500	338,100	337,515	(585)
Unclaimed Property	9,200	8,200	8,044	(156)
Total Other Sources	398,730	369,100	367,700	(1,400)
Total General Revenues	3,346,717	3,088,481	3,025,201	(63,280)
Federal Revenues	1,721,939	2,110,349	2,001,605	(108,744)
Restricted Revenues	150,414	152,892	133,872	(19,020)
Other Revenues	36,776	61,915	57,660	(4,255)
Total Revenues	5,255,846	5,413,637	5,218,338	(195,299)
Expenditures:				
General government	742,355	811,550	768,576	42,974
Human services	2,606,913	2,695,673	2,711,957	(16,284)
Education	1,329,713	1,298,936	1,235,480	63,456
Public safety	413,489	431,746	403,109	28,637
Natural resources	91,637	88,509	69,094	19,415
Total Expenditures	5,184,107	5,326,414	5,188,216	138,198
Transfer of Excess Budget Reserve to RI Capital Fund			66,818	
Total Expenditures	5,184,107	5,326,414	5,255,034	
Change in Fund Balance			(36,696)	
Fund balance - beginning			106,655	
Fund balance - ending			$ 69,959	

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, 2009
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Expenditures by Source:				
General Revenues	$ 3,274,978	$ 3,001,258	$ 3,001,184	$ 74
Federal Funds	1,721,939	2,110,349	2,002,158	108,191
Restricted Receipts	150,414	152,892	126,742	26,150
Other Funds	36,776	61,915	58,132	3,783
	$ 5,184,107	$ 5,326,414	$ 5,188,216	$ 138,198

Reconciliation of General Revenue Budget Variance to Unreserved Fund Balance in General Fund

General Revenue Expenditures - Variance - Final Budget to Actual	$ 74
General Revenue - Variance - Final Budget to Actual	(63,280)
Change in Appropriations Carried Forward - Restricted & Other	6,105
Budget Reserve Appropriation	22,000
Other Adjustments	(1,595)
Net Change in Fund Balance - for the fiscal year ended June 30, 2009	(36,696)
Fund Balance - beginning	106,655
Fund Balance - ending	$ 69,959

Debt service expenditures are included in the above respective categories:

General government	$ 149,662
Human services	791
Education	18,209
Public safety	1,133
Natural resources	161
	$ 169,956

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, 2009
(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	$ 138,900	$ 132,000	$ 129,831	$ (2,169)
Departmental restricted revenue	1,447	1,450	157	(1,293)
Federal grants	263,437	286,069	217,211	(68,858)
Other revenues	8,321	4,338	3,573	(765)
Total revenues	412,105	423,857	350,772	(73,085)
Other financing sources:				
Operating transfers in			40,937	40,937
Payments from component units			10	10
Total revenues and other financing sources	412,105	423,857	391,719	(32,138)
Expenditures:				
Central Management				
Gasoline Tax	1,916	1,911	1,766	145
Federal Funds	17,372	12,706	3,040	9,666
Total - Central Management	19,288	14,617	4,806	9,811
Management and Budget				
Gasoline Tax	2,162	1,352	173	1,179
Total - Management and Budget	2,162	1,352	173	1,179
Infrastructure - Engineering				
Gasoline Tax	46,425	46,620	43,701	2,919
State Infrastructure Bank	1,344	1,388		1,388
Land Sale Revenue	5,598	2,000	1,332	668
Highway Logo Program	100	100		100
Federal Funds	246,066	273,364	214,223	59,141
Restricted Receipts	1,447	1,450	370	1,080
Subtotal - Infrastructure - Engineering	300,980	324,922	259,626	65,296
State Match - FHWA			45,337	(45,337)
Total - Infrastructure - Engineering	300,980	324,922	304,963	19,959
Infrastructure - Maintenance				
Gasoline Tax	39,336	42,901	45,293	(2,392)
Outdoor Advertising	264	500	313	187
Utility Permit Applications	1,000			
Radio System Upgrade		335	329	6
Nonland Surplus	15	15		15
Total - Infrastructure - Maintenance	40,615	43,751	45,935	(2,184)
Total Expenditures	363,045	384,642	355,877	28,765
Other financing uses:				
Transfers to other funds				
Gas tax			46,331	
USTF fee			2,238	
Other			304	
Total expenditures and other financing uses			404,750	
Net change in fund balance			(13,031)	
Fund balance - beginning			48,431	
Fund balance - ending			$ 35,400	

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
June 30, 2009
(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)
06/30/2008	6,745,323	11,077,328	4,332,005	60.9%	1,573,398	275.3%
06/30/2007	6,231,410	11,083,014	4,851,604	56.2%	1,619,417	299.6%
06/30/2006	5,651,066	10,575,851	4,924,786	53.4%	1,559,966	315.7%

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)
06/30/2008	54,927	69,030	14,102	79.6%	16,699	84.5%
06/30/2007	45,997	60,428	14,431	76.1%	15,836	91.1%
06/30/2006	36,315	42,216	5,901	86.0%	13,475	43.8%

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)
06/30/2008	34,670	42,455	7,785	81.7%	6,602	117.9%
06/30/2007	29,631	35,355	5,725	83.8%	6,452	88.7%
06/30/2006	23,873	27,504	3,631	86.8%	6,313	57.4%

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Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-State Employees

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	0	679,538	679,538	0%	626,145	108.5%
06/30/2005	0	580,041	580,041	0%	575,613	100.8%

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-Teachers

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	0	10,243	10,243	0%	NA	NA
06/30/2005	0	8,477	8,477	0%	NA	NA

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-Judges

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	0	14,024	14,024	0%	9,888	141.8%
06/30/2005	0	76	76	0%	5,685	1.3%

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-State Police

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	0	54,620	54,620	0%	15,977	341.9%
06/30/2005	0	51,037	51,037	0%	13,821	369.3%

State of Rhode Island and Providence Plantations
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Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-Legislators

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	0	29,764	29,764	0%	1,592	1869.6%
06/30/2005	0	3,919	3,919	0%	1,509	259.7%

Budget and Actual

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund and certain special revenue funds. 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 annual budget is adopted on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the "actual" column that have no corresponding original or final budget amount. These amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

The 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, and any unexpended balances designated by the General Assembly.

A more detailed budgetary comparison is available on the State Controller’s website, http://controller.admin.ri.gov/index.php.

Schedules of Funding Progress-Other Postemployment Benefits

The June 30, 2005 actuarial valuation for the Rhode Island Retiree Health Care Benefits Plans was restated to reflect the changes in the plan provisions due to the enactment of Public Law 2008-09. Those changes in plan provisions became effective for employees retiring on or after October 1, 2008.

The June 30, 2007 actuarial valuation reflects clarification of employees eligible for retiree health care within the judges and legislators plans as well as the benefits received upon attainment of Medicare eligibility. Further for teachers, the required contribution for teachers is not presented as a percentage of payroll since the required contribution by the State is for the Tier I subsidy for teachers who have elected to participate in the State's Retiree Health Care Benefit Plan.

Schedule of Expenditures of Federal Awards

Office of the Auditor General
General Assembly

Schedule of Expenditures of Federal Awards

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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, 2009

Federal Grantor Program Title	CFDA Number		Total Expenditures
U.S. Department of Agriculture			
Plant and Animal Disease, Pest Control, and Animal Care	10.025	$	163,555
Avian Influenza Surveillance	10.029		35,914
Federal-State Marketing Improvement Program	10.156		92
Inspection Grading and Standardization	10.162		15,249
Market Protection and Promotion	10.163		172
Specialty Crop Block Grant Program	10.169		175,455
Very Low to Moderate Income Housing Loans (See Note 2)	10.410		310,549
Rural Housing Preservation Grants	10.433		8,996
State Mediation Grants	10.435		59,755
Food Distribution (See Note 2)	10.550		3,106,519
Supplemental Nutrition Assistance Program (SNAP) Cluster			
Supplemental Nutrition Assistance Program (SNAP)	10.551		140,678,640
Supplemental Nutrition Assistance Program (SNAP) - ARRA Funded	10.551		5,659,782
State Administrative Matching Grants for SNAP Program	10.561		8,294,881
Child Nutrition Cluster:			
School Breakfast Program	10.553		5,826,687
National School Lunch Program	10.555		23,343,382
Special Milk Program for Children	10.556		81,466
Summer Food Service Program for Children	10.559		767,062
Special Supplemental Nutrition Program for Women, Infants, and Children (See Note 4)	10.557		24,220,229
Child and Adult Care Food Program	10.558		6,776,348
State Administrative Expenses for Child Nutrition	10.560		947,954
Emergency Food Assistance Cluster:			
Emergency Food Assistance Program (Administrative Costs)	10.568		207,135
Emergency Food Assistance Program (Food Commodities) (See Note 2)	10.569		2,191,414
WIC Farmers' Market Nutrition Program (FMNP)	10.572		144,968
Team Nutrition Grants	10.574		58,564
Senior Farmers Market Nutrition Program	10.576		24,532
Fresh Fruit and Vegetable Program	10.582		312,243
Cooperative Forestry Assistance	10.664		633,957
Forest Legacy Program	10.676		3,602,357
Watershed Surveys and Planning	10.906		(1,034)
Wildlife Habitat Incentive Program	10.914		17
Total U.S. Department of Agriculture		$	227,646,840
U.S. Department of Commerce			
Personal Census Search	11.006	$	(732)
Economic Development - Support for Planning Organizations	11.302		109,825
Public Works and Economic Development Cluster:			
Economic Adjustment Assistance (See Note 2)	11.307		12,316,689
Interjurisdictional Fisheries Act of 1986	11.407		118,498
Sea Grant Support	11.417		2,116
Coastal Zone Management Administration Awards	11.419		1,382,223
Coastal Zone Management Estuarine Research Reserves	11.420		487,764
Marine Fisheries Initiative	11.433		445,197
Habitat Conservation	11.463		2,216
Unallied Science Program	11.472		318,632
Atlantic Coastal Fisheries Cooperative Management Act	11.474		244,007
Public Safety Interoperable Communications Grant Program	11.555		33,691
Total U.S. Department of Commerce		$	15,460,126

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Federal Grantor Program Title	CFDA Number		Total Expenditures
U.S. Department of Defense			
Procurement Technical Assistance for Business Firms	12.002	$	153,171
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113		283,171
Civil Defense - Architect/Engineer Faculty Development	12.300		7,275
National Guard Military Operations and Maintenance (O&M) Projects	12.401		8,664,843
Total U.S. Department of Defense		$	9,108,460
U.S. Department of Housing and Urban Development			
Mortgage Insurance - Homes (See Note 2)	14.117	$	59,323,584
Home Equity Conversion Mortgages (See Note 2)	14.183		1,835,465
Qualified Participating Entities (QPE) Risk Sharing (See Note 2)	14.189		24,042,996
Section 8 Project-Based Cluster:			
Section 8 Housing Assistance Payments Program-Special Allocations	14.195		126,048,927
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856		578,555
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228		6,468,680
Emergency Shelter Grants Program	14.231		341,768
Supportive Housing Program	14.235		3,361,292
Shelter Plus Care	14.238		996,273
HOME Investment Partnerships Program	14.239		4,958,660
Housing Opportunities for Persons with AIDS	14.241		550,963
Fair Housing Assistance Program - State and Local	14.401		148,286
Demolition and Revitalization of Severely Distressed Public Housing	14.866		8,840
Section 8 Housing Choice Vouchers	14.871		11,211,282
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		605,196
Total U.S. Department of Housing and Urban Development		$	240,480,767
U.S. Department of Interior			
Fish and Wildlife Cluster:			
Sport Fish Restoration Program	15.605	$	1,919,848
Wildlife Restoration	15.611		715,103
Cooperative Endangered Species Conservation Fund	15.615		86,370
Clean Vessel Act	15.616		146,184
State Wildlife Grants	15.634		1,602,164
Historic Preservation Fund Grants-In-Aid	15.904		494,105
Outdoor Recreation - Acquisition, Development and Planning	15.916		589,476
Save America's Treasures	15.929		15,369
Total U.S. Department of Interior		$	5,568,619
U.S. Department of Justice			
State Domestic Preparedness Equipment Support Program	16.007	$	(271,906)
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202		146,482
Comprehensive Approaches to Sex Offender Management Discretionary Grant (CASOM)	16.203		66,820
Juvenile Accountability Block Grants	16.523		114,464
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540		748,049
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541		296,467
Missing Children's Assistance	16.543		124,823
Victims of Child Abuse	16.547		41,754
State Justice Statistics Program for Statistical Analysis Centers	16.550		49,736

Federal Grantor Program Title	CFDA Number		Total Expenditures
National Criminal History Improvement Program (NCHIP)	16.554		62,551
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560		154,535
Crime Victim Assistance	16.575		1,676,539
Crime Victim Compensation	16.576		609,062
Edward Byrne Memorial Formula Grant Program	16.579		605,188
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		77,105
Crime Victim Assistance/Discretionary Grants	16.582		4,694
Drug Court Discretionary Grant Program	16.585		153,757
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586		(3,658)
Violence Against Women Formula Grants	16.588		1,442,342
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590		31,513
Residential Substance Abuse Treatment for State Prisoners	16.593		43,190
State Criminal Alien Assistance Program	16.606		1,182,527
Enforcing Underage Drinking Laws Program	16.727		232,821
Protecting Inmates and Safeguarding Communities	16.735		(162)
Edward Byrne Memorial Justice Assistance Grant Program	16.738		652,925
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742		60,235
Anti-Gang Initiative	16.744		21,522
Congressionally Recommended Awards	16.753		34,476
Total U.S. Department of Justice		$	8,357,851
U.S. Department of Labor			
Labor Force Statistics	17.002	$	830,021
Compensation and Working Conditions	17.005		14,063
Employment Services Cluster:			
Employment Service/Wagner-Peyser Funded Activities	17.207		2,214,178
Employment Service/Wagner-Peyser Funded Activities - ARRA Funded	17.207		19,903
Disabled Veterans' Outreach Program (DVOP)	17.801		119,596
Local Veterans' Employment Representative Program	17.804		237,367
Unemployment Insurance (See Note 5)	17.225		542,556,245
Unemployment Insurance (See Note 5) - ARRA Funded	17.225		38,159,017
Senior Community Service Employment Program	17.235		427,399
Trade Adjustment Assistance	17.245		1,411,029
Welfare-to-Work Grants to States and Localities	17.253		(314)
WIA Cluster:			
WIA Adult Program	17.258		3,108,913
WIA Adult Program - ARRA Funded	17.258		22,605
WIA Youth Activities	17.259		2,433,832
WIA Youth Activities - ARRA Funded	17.259		381,334
WIA Dislocated Workers	17.260		5,159,540
WIA Dislocated Workers - ARRA Funded	17.260		40,163
WIA Pilots, Demonstrations, and Research Projects	17.261		115,752
Employment and Training Administration Evaluations	17.262		16,842
Work Incentive Grants	17.266		91,654
Consultation Agreements	17.504		448,840
Total U.S. Department of Labor		$	597,807,979

Federal Grantor Program Title	CFDA Number		Total Expenditures
U.S. Department of Transportation			
Airport Improvement Program	20.106	$	9,183,248
Highway Planning and Construction Cluster:			
Highway Planning and Construction	20.205		208,794,670
Highway Planning and Construction - ARRA Funded	20.205		5,411,803
Motor Carrier Safety	20.217		270,683
National Motor Carrier Safety	20.218		748,253
Federal Transit Cluster:			
Federal Transit - Capital Investment Grants	20.500		11,409,883
Federal Transit - Formula Grants	20.507		24,127,591
Federal Transit Managerial Training Grants	20.503		130,002
Federal Transit - Metropolitan Planning Grants	20.505		260,203
Urban Mass Trasnsportation Demonstration Grants	20.506		124,138
Formula Grants for Other Than Urbanized Areas	20.509		633,081
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513		567,897
State Planning and Research	20.515		14,360
Job Access-Reverse Commute	20.516		667,965
Clean Fuels	20.519		36,280
New Freedom Program	20.521		9,035
Highway Safety Cluster:			
State and Community Highway Safety	20.600		1,418,535
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601		433,184
Occupant Protection Incentive Grants	20.602		139,382
Safety Incentive Grants for Use of Seatbelts	20.604		191
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605		(700)
Safety Belt Performance Grants	20.609		63,043
State Traffic Safety Information System Improvement Grants	20.610		166,749
Incentive Grant Program to Prohibit Racial Profiling	20.611		29,853
Incentive Grant Program to Increase Motorcyclist Safety	20.612		75,079
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608		951,256
National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants	20.614		138,236
Pipeline Safety	20.700		67,758
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		67,382
Total U.S. Department of Transportation		$	265,939,040
Equal Opportunity Employment Commission			
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002	$	318,799
Total Equal Opportunity Employment Commission		$	318,799
General Services Administration			
Donation of Federal Surplus Personal Property (See Note 2)	39.003	$	29,681
Total General Services Administration		$	29,681

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Federal Grantor Program Title	CFDA Number		Total Expenditures
National Foundation on the Arts and the Humanities			
Promotion of the Arts - Partnership Agreements	45.025	$	698,153
Grants to States	45.310		813,465
National Leadership Grants	45.312		383
Total National Foundation on the Arts and the Humanities		$	1,512,001
National Science Foundation			
Education and Human Resources	47.076	$	20,279
Total National Science Foundation		$	20,279
U.S. Department of Veterans Affairs			
Grants to States for Construction of State Home Facilities	64.005	$	20,944
Veterans Domiciliary Care	64.008		5,487,277
Veterans Housing-Guaranteed and Insured Loans (See Note 2)	64.114		428,115
All-Volunteer Force Educational Assistance	64.124		55,634
State Cemetery Grants	64.203		2,056,995
Total U.S. Department of Veterans Affairs		$	8,048,965
Environmental Protection Agency			
Air Pollution Control Program Support	66.001	$	846,977
State Indoor Radon Grants	66.032		283,886
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034		130,459
Congressionally Mandated Projects	66.202		4,982
State Public Water System Supervision	66.432		360,536
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	66.436		12,014
Water Quality Management Planning	66.454		72,701
National Estuary Program	66.456		134,124
Capitalization Grants for Clean Water State Revolving Funds	66.458		4,256,143
Capitalization Grants for Drinking Water State Revolving Funds	66.468		6,588,992
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471		27,116
Beach Monitoring and Notification Program Implementation Grants	66.472		168,925
Water Protection Grants to the States	66.474		8,150
Performance Partnership Grants	66.605		3,728,978
Surveys, Studies, Investigations and Special Purpose Grants	66.606		3,833
Environmental Information Exchange Network Grant Program and Related Assistance	66.608		(1)
Environmental Policy and Innovation Grants	66.611		6,164
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701		102,766
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707		91,855
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802		821,237

Federal Grantor Program Title	CFDA Number		Total Expenditures
State and Tribal Underground Storage Tanks Program	66.804		10,501
Leaking Underground Storage Tank Trust Fund Program	66.805		658,816
Solid Waste Management Assistance Grants	66.808		92,088
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809		170,521
Brownfield Pilots Cooperative Agreements	66.811		87,888
State and Tribal Response Program Grants	66.817		814,066
Brownfields Assessment and Cleanup Cooperative Agreements	66.818		570,704
Environmental Policy and State Innovation Grants	66.940		161,225
Total Environmental Protection Agency		$	20,215,646
U.S. Department of Energy			
State Energy Program	81.041	$	459,373
Weatherization Assistance for Low-Income Persons	81.042		1,128,575
Office of Science Financial Assistance Program	81.049		8,439
Regional Biomass Energy Programs	81.079		(4)
University Nuclear Science and Reactor Support	81.114		43,109
Total U.S. Department of Energy		$	1,639,492
U.S. Department of Education			
Adult Education - State Grant Program	84.002	$	2,369,090
Adult Education - State Grant Program - ARRA Funded	84.002		67,608
Civil Rights Training and Advisory Services	84.004		(2,332)
Student Financial Assistance Cluster: (See Note 6)			
Federal Supplemental Educational Opportunity Grants	84.007		2,553,947
Federal Family Education Loans (See Note 2)	84.032		42,348,586
Federal Work-Study Program	84.033		1,561,408
Federal Perkins Loan Program - Federal Capital Contributions (See Note 2)	84.038		15,384,076
Federal Pell Grant Program	84.063		27,424,044
Federal Direct Student Loans (See Note 2)	84.268		77,039,611
Academic Competitiveness Grants	84.375		695,062
Title I Grants to Local Educational Agencies	84.010		51,961,469
Title I Program for Neglected and Delinquent Children	84.013		479,681
Undergraduate International Studies and Foreign Language Programs	84.016		(5,614)
Special Education Cluster:			
Special Education - Grants to States	84.027		39,926,134
Special Education - Preschool Grants	84.173		1,537,693
Federal Family Education Loans (Guaranty Agency) (See Note 2)	84.032		3,864,452
TRIO Cluster:			
TRIO-Student Support Services	84.042		644,424
TRIO-Talent Search	84.044		443,388
TRIO-Upward Bound	84.047		576,421
TRIO-Educational Opportunity Centers	84.066		768,026
Vocational Education - Basic Grants to States	84.048		5,215,578
Leveraging Educational Assistance Partnership	84.069		362,782
Rehabilitation Services -Vocational Rehabilitation Grants to States	84.126		13,217,797
National Institute on Disability and Rehabilitation Research	84.133		17,333
Independent Living - State Grants	84.169		294,482
Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	84.177		232,799
Special Education - Grants for Infants and Families With Disabilities	84.181		1,139,379

Federal Grantor Program Title	CFDA Number		Total Expenditures
Safe and Drug-Free Schools and Communities - National Programs	84.184		320,053
Byrd Honors Scholarships	84.185		156,000
Safe and Drug-Free Schools and Communities - State Grants	84.186		1,310,063
Supported Employment Services for Individuals with Severe Disabilities	84.187		554,743
Education for Homeless Children and Youth	84.196		230,215
Even Start - State Educational Agencies	84.213		360,438
Fund for the Improvement of Education	84.215		1,927
Assistive Technology	84.224		307,934
Tech-Prep Education	84.243		177,814
Rehabilitation Training-Continuing Education	84.264		4,642
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265		3,134
Twenty-First Century Community Learning Centers	84.287		4,775,837
State Grants for Innovative Programs	84.298		192,981
Education Technology State Grants	84.318		1,081,996
Special Education - State Personnel Development	84.323		574,277
Research in Special Education	84.324		196,754
Special Education-Personnel Development to Improve Services and Results for Children with Disabilities	84.325		158,190
Special Education-Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326		77,646
Advanced Placement Program	84.330		26,361
Grants to States for Incarcerated Youth Offenders	84.331		66,945
Comprehensive School Reform Demonstration	84.332		3,208
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		2,859,374
Teacher Quality Enhancement Grants	84.336		1,557,522
Vocational Education-Occupational and Employment Information State Grants	84.346		10,419
Title I Accountability Grants	84.348		561,601
Reading First State Grants	84.357		3,011,040
English Language Acquisition Grants	84.365		1,419,406
Mathematics and Science Partnerships	84.366		825,263
Improving Teacher Quality State Grants	84.367		14,036,127
Grants for Enhanced Assessment Instruments	84.368		994,605
Grants for State Assessments and Related Activities	84.369		4,504,445
National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376		84,000
College Access Challenge Grant Program	84.378		211,628
State Fiscal Stabilization Fund Cluster (ARRA Funded)			
State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394		36,358,945
State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397		19,900,000
National Writing Project	84.928		65,623
Other Department of Education Awards	N/A		161,650
Total U.S. Department of Education		$	387,260,130
National Archives and Records Administration			
National Historical Publications and Records Grants	89.003	$	9,871
Total National Archives and Records Administration		$	9,871
Elections Assistance Commission			
Help America Vote Act Requirements Payments	90.401	$	770,583
Total Elections Assistance Commission		$	770,583

Federal Grantor Program Title	CFDA Number		Total Expenditures
U.S. Department of Health and Human Services			
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006	$	164,283
Special Programs for the Aging-Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041		31,303
Special Programs for the Aging-Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042		77,716
Special Programs for the Aging-Title III, Part D - Disease Prevention and Health Promotion Services	93.043		81,568
Aging Cluster:			
Special Programs for the Aging-Title III, Part B - Grants for Supportive Services and Senior Centers	93.044		1,836,710
Special Programs for the Aging-Title III, Part C - Nutrition Services	93.045		3,055,730
Nutrition Services Incentive Program	93.053		433,823
Special Programs for the Aging-Title IV- and Title II - Discretionary Projects	93.048		364,390
Alzheimer's Disease Demonstration Grants to States	93.051		242,650
National Family Caregiver Support, Title III, Part E	93.052		688,277
Public Health Emergency Preparedness	93.069		5,559,188
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104		1,936,575
Maternal and Child Health Federal Consolidated Programs	93.110		367,374
Environmental Health	93.113		119,458
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		423,909
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118		(5,638)
Emergency Medical Services for Children	93.127		117,628
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130		110,261
Injury Prevention and Control Research and State and Community Based Programs	93.136		444,416
Projects for Assistance in Transition from Homelessness (PATH)	93.150		319,416
Disabilities Prevention	93.184		3,370
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197		789,664
Family Planning - Services	93.217		1,121,910
Consolidated Knowledge Development and Application (KD&A) Program	93.230		2,245,672
Traumatic Brain Injury State Demonstration Grant Program	93.234		38,395
Abstinence Education Program	93.235		(1)
Grants for Dental Public Health Residency Training	93.236		107,346
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238		15
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		1,469,346
Universal Newborn Hearing Screening	93.251		194,281
Immunization Grants (See Note 2)	93.268		13,319,657
Substance Abuse and Mental Health Services-Access to Recovery	93.275		3,291,549
Drug Abuse National Research Service Awards for Research Training	93.278		108,544
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283		7,017,939
Student Financial Assistance Cluster: (See Note 6)			
Health Professions Student Loans, Including Primary Care Loans / Loans for Disadvantaged Students (See Note 2)	93.342		1,684,760
Nursing Student Loans (See Note 2)	93.364		1,420,202
Cancer Detection and Diagnosis Research	93.394		38,502
Promoting Safe and Stable Families	93.556		1,285,468

Federal Grantor Program Title	CFDA Number	Total Expenditures
Temporary Assistance for Needy Families	93.558	78,254,314
Child Support Enforcement	93.563	6,781,775
Refugee and Entrant Assistance - State Administered Programs	93.566	436,601
Low-Income Home Energy Assistance	93.568	33,396,100
Community Services Block Grant	93.569	3,305,669
Community Services Block Grant - ARRA Funded	93.569	608,002
CCDF Cluster:		
Child Care and Development Block Grant	93.575	22,753,844
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	12,122,264
Refugee and Entrant Assistance - Discretionary Grants	93.576	33
State Court Improvement Program	93.586	348,940
Grants to States for Access and Visitation Programs	93.597	110,724
Chafee Education and Training Vouchers Program (ETV)	93.599	200,150
Head Start	93.600	124,673
Adoption Incentive Payments	93.603	124
Voting Access for Individuals with Disabilities - Grants to States	93.617	38,911
Developmental Disabilities Basic Support and Advocacy Grants	93.630	476,809
Developmental Disabilities Projects of National Significance	93.631	237,531
University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632	521,401
Children's Justice Grants to States	93.643	86,814
Child Welfare Services - State Grants	93.645	872,270
Foster Care - Title IV-E	93.658	15,377,695
Foster Care - Title IV-E - ARRA Funded	93.658	830,890
Adoption Assistance	93.659	7,723,573
Adoption Assistance - ARRA Funded	93.659	546,891
Social Services Block Grant	93.667	13,343,820
Child Abuse and Neglect State Grants	93.669	259,310
Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671	915,438
Chafee Foster Care Independence Program	93.674	532,357
Children's Health Insurance Program	93.767	32,145,498
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	13
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	784,780
State Survey and Certification of Health Care Providers and Suppliers	93.777	2,748,835
Medical Assistance Program (See Note 4)	93.778	993,515,819
Medical Assistance Program (See Note 4) - ARRA Funded	93.778	151,447,227
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	1,211,760
Seed Grants to States for Qualified High-Risk Pools	93.781	87,316
State Pharmaceutical Assistance Programs	93.786	(18,687)
Alternate Non-Emergency Service Providers or Networks	93.790	101,961
Medicaid Transformation Grants	93.793	625,546
Child Health and Human Development Extramural Research	93.865	143,785
Health Care and Other Facilities	93.887	196,690
National Bioterrorism Hospital Preparedness Program	93.889	1,889,657
Grants to States for Operation of Offices of Rural Health	93.913	135,274
HIV Care Formula Grants	93.917	5,395,459
Special Projects of National Significance	93.928	60,874

Federal Grantor Program Title	CFDA Number		Total Expenditures
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938		462,439
HIV Prevention Activities - Health Department Based	93.940		1,656,569
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944		167,356
Block Grants for Community Mental Health Services	93.958		1,784,021
Block Grants for Prevention and Treatment of Substance Abuse	93.959		6,340,189
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977		323,168
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988		730,711
Preventive Health and Health Services Block Grant	93.991		426,227
Maternal and Child Health Services Block Grant to the States	93.994		1,499,221
Total U.S. Department of Health and Human Services		$	1,454,574,287
Corporation for National and Community Service			
Learn and Serve America - School and Community Based Programs	94.004	$	175,339
Foster Grandparent/Senior Companion Cluster:			
Senior Companion Program	94.016		34,189
Total Corporation for National and Community Service		$	209,528
Social Security Administration			
Disability Insurance/SSI Cluster:			
Social Security - Disability Insurance	96.001	$	6,851,518
Social Security - Research and Demonstration	96.007		388
Total Social Security Administration		$	6,851,906
U.S. Department of Homeland Security			
State Homeland Security Cluster: (See Note 7)			
State Domestic Preparedness Equipment Support Program	97.004	$	253,791
Homeland Security Grant Program	97.067		8,519,297
State and Local Homeland Security Training Program	97.005		543,998
Urban Areas Security Initiative	97.008		100,000
Boating Safety Financial Assistance	97.012		871,457
Community Assistance Program - State Support Services Element (CAP-SSSE)	97.023		86,284
Flood Mitigation Assistance	97.029		(120,652)
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		(12,160)
Hazard Mitigation Grant	97.039		1,501
National Dam Safety Program	97.041		13,035
Emergency Management Performance Grants	97.042		1,774,721
Assistance to Firefighters Grant	97.044		62,609
Pre-Disaster Mitigation	97.047		51,385
State and Local All Hazards Emergency Operations Planning	97.051		57,813
Emergency Operations Centers	97.052		71,037
Citizen Corps	97.053		43,863
Community Emergency Response Teams	97.054		(192,384)
Interoperable Communications Equipment	97.055		6,109,679
Port Security Grant Program	97.056		93,222
Homeland Security Advanced Research Projects Agency	97.065		188,093

Federal Grantor Program Title	CFDA Number		Total Expenditures
Homeland Security Information Technology Research, Testing, Evaluation and Demonstration Program	97.066		46
Map Modernization Management Support	97.070		52,088
Metropolitan Medical Response System	97.071		152,587
National Explosives Detection Canine Team Program	97.072		111,750
State Homeland Security Program (SHSP)	97.073		(202,761)
Law Enforcement Terrorism Prevention Program (LETPP)	97.074		527,960
Rail and Transit Security Grant Program	97.075		879,379
Buffer Zone Protection Program (BZPP)	97.078		385,890
Real ID Program	97.089		277,419
Law Enforcement Officer Reimbursement Agreement Program	97.090		144,422
Total U.S. Department of Homeland Security		$	20,845,369
Research and Development Cluster:			
U.S. Department of Agriculture			
Agricultural Research-Basic and Applied Research	10.001	$	4,583
Plant and Animal Disease, Pest Control, and Animal Care	10.025		12,977
Grants for Agricultural Research, Special Research Grants	10.200		565,941
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203		2,702,208
Grants for Agricultural Research - Competitive Research Grants	10.206		938,947
Food and Agricultural Sciences National Needs Graduate Fellowship Grants	10.210		44,706
Sustainable Agriculture Research and Education	10.215		139,361
1890 Institution Capacity Building Grants	10.216		5,775
Integrated Programs	10.303		1,230,904
Homeland Security-Agricultural	10.304		26,614
Crop Insurance	10.450		9,330
Crop Insurance Education in Targeted States	10.458		132,259
Cooperative Extension Service	10.500		230,894
Soil and Water Conservation	10.902		93,740
Soil Survey	10.903		10,061
Environmental Quality Incentives Program	10.912		183,399
Wildlife Habitat Incentive Program	10.914		21,523
Other Research and Development	N/A		26,008
U.S. Department of Commerce			
Economic Development-Support for Planning Organizations	11.302		57,196
Sea Grant Support	11.417		2,519,693
Coastal Zone Management Administration Awards	11.419		231,113
Coastal Zone Management Estuarine Research Reserves	11.420		16,095
Climate and Atmospheric Research	11.431		21,654
Office of Oceanic and Atmospheric Research (OAR) Joint and Cooperative Institutes	11.432		49,016
Cooperative Science and Education Program	11.455		209,747
Weather and Air Quality Research	11.459		135,405
Special Oceanic and Atmospheric Projects	11.460		130,976
Habitat Conservation	11.463		80,344
Unallied Science Program	11.472		1,262,867
Coastal Services Center	11.473		367,321
Center for Sponsored Coastal Ocean Research - Coastal Ocean Program	11.478		993,274
Other Research and Development	N/A		71,015

Federal Grantor Program Title	CFDA Number	Total Expenditures
U.S. Department of Defense		
Civil Defense - Architect/Engineer Faculty Development	12.300	5,143,424
Military Medical Research and Development	12.420	104,002
Basic Scientific Research	12.431	201,573
Air Force Defense Research Sciences Program	12.800	361,651
Research and Technology Development	12.910	23,162
Other Research and Development	N/A	281,362
U.S. Department of Interior		
Fish, Wildlife, and Parks Programs on Indian Lands	15.039	653
Fish and Wildlife Management Assistance	15.608	76,095
Assistance to State Water Resources Research Institutes	15.805	72,109
U.S. Geological Survey - Research and Data Collection	15.808	280,500
National Center for Preservation Technology and Training	15.923	17,060
Other Research and Development	N/A	622,138
U.S Department of Justice		
National Institute of Justice W.E.B. DuBois Fellowship Program	16.566	157,594
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	40,098
Other Research and Development	N/A	211,059
U.S. Department of State		
Professional and Cultural Exchange Programs - Citizen Exchanges	19.415	72,433
Other Research and Development	N/A	156,419
U.S. Department of Transportation		
Highway Planning and Construction	20.205	67,127
Highway Training and Education	20.215	4,546
University Transportation Centers Program	20.701	1,266,389
University Transportation Centers	20.760	250,703
Other Research and Development	N/A	(3,769)
National Aeronautics and Space Administration		
Aerospace Education Services Program	43.001	47,421
Technology Transfer	43.002	602,124
National Foundation on the Arts and the Humanities		
Laura Bush 21st Century Librarian Program	45.313	4,265
Promotion of the Humanities-Division of Preservation and Access	45.149	4,878
National Science Foundation		
Engineering Grants	47.041	524,151
Mathematical and Physical Sciences	47.049	477,148
Geosciences	47.050	5,842,160
Geosciences - ARRA Funded	47.050	28,842
Computer and Information Science and Engineering	47.070	305,392
Biological Sciences	47.074	714,196
Social, Behavioral, and Economic Sciences	47.075	280,014
Education and Human Resources	47.076	6,022,913
Polar Programs	47.078	348,020
International Science and Engineering (OISE)	47.079	466,365
Other Research and Development	N/A	213,934

Federal Grantor Program Title	CFDA Number	Total Expenditures
Department of Veterans Affairs		
Veterans Rehabilitation-Alcohol and Drug Dependence	64.019	5,657
Environmental Protection Agency		
National Estuary Program	66.456	292,457
National Wetland Program Development Grants and Five-Star Restoration Training Grant	66.462	2,400
Science to Achieve Results (STAR) Research Program	66.509	74,594
Office of Research and Development Consolidated Research/Training/Fellowships	66.511	22,592
Surveys, Studies, Investigations and Special Purpose Grants	66.606	74,279
Pollution Prevention Grants Program	66.708	49,698
U. S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006	64,758
U.S. Department of Energy		
Renewable Energy Research and Development	81.087	30,596
Defense Nuclear Nonproliferation Research	81.113	206,590
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	355,648
Other Research and Development	N/A	5,311
U.S. Department of Education		
Undergraduate International Studies and Foreign Language Programs	84.016	189,120
Magnet Schools Assistance	84.165	29,144
State Grants for Innovative Programs	84.298	(1,266)
Education Technology State Grants	84.318	329,214
Teacher Quality Enhancement Grants	84.336	1,439,697
U.S. Department of Health and Human Services		
Alzheimer's Disease Demonstration Grants to States	93.051	1,508
Innovations in Applied Public Health Research	93.061	53,450
Environmental Health	93.113	739,507
Biometry and Risk Estimation-Health Risks from Environmental Exposures	93.115	109,788
Grants to Increase Organ Donations	93.134	83,134
Grants to Increase Organ Donations - ARRA Funded	93.134	2,322
Research and Training in Complementary and Alternative Medicine	93.213	2,111
Research on Healthcare Costs, Quality and Outcomes	93.226	27,526
National Center on Sleep Disorders Research	93.233	248,766
Advanced Education Nursing Grant Program	93.247	48,660
Alcohol Research Programs	93.273	719,121
Drug Abuse and Addiction Research Programs	93.279	2,292,522
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	4,408
Advanced Education Nursing Traineeships	93.358	49,608
Nursing Research	93.361	768,442
National Center for Research Resources	93.389	3,831,522
Cancer Cause and Prevention Research	93.393	525,278
Cancer Detection and Diagnosis Research	93.394	929,860
Cancer Biology Research	93.396	329,176
Developmental Disabilities Basic Support and Advocacy Grants	93.630	469,970
Trans - NIH Recovery Act Research Support	93.701	5,930
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	734,791
Cariovascular Diseases Research	93.837	28,274
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	48,889
Allergy, Immunology and Transplantation Research	93.855	2,062
Microbiology and Infectious Disease Research	93.856	551,822

Federal Grantor Program Title	CFDA Number	Total Expenditures
Biomedical Research and Research Training	93.859	178,890
Child Health and Human Development Extramural Research	93.865	16,871
Aging Research	93.866	257,205
NINR Career Transition Award	93.961	97,345
Geriatric Education Centers	93.969	293,247
Other Research and Development	N/A	72,914
Corporation for National and Community Service		
AmeriCorps	94.006	92,580
U.S. Department of Homeland Security		
Centers for Homeland Security	97.061	834,636
Competitive Training Grants	97.068	141,626
Agency for International Development		
USAID Foreign Assistance for Programs Overseas	98.001	589,876
Global Development Alliance	98.011	10,490
Other Agency for International Development Awards	N/A	2,067,840
Total Research and Development Cluster		$ 58,245,553
Other Expenditures of Federal Awards	N/A	$ 13,567
Total Other Expenditures of Federal Awards		$ 13,567
Total Expenditures of Federal Awards (See Note 2)		$ 3,330,935,339

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

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 the CFDA number is not available from the State or component unit's accounting records then N/A 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. Therefore total expenditures of federal awards presented for some federal funding agencies do not include expenditures for R&D programs. When one CFDA number has been assigned to a program funded in part by the American Reinvestment and Recovery Act (ARRA), a second line with the same CFDA number is shown to indicate the amount of expenditures of federal awards funded by ARRA.

Cash assistance is presented using the same basis of accounting as that used in reporting the expenditures (or expenses) of the related funds and component units in the State's basic financial statements (see Note 1 to the basic financial statements – Summary of Significant Accounting Policies – D. Measurement Focus Basis of Accounting and Financial Statement Presentation). Negative amounts shown in the schedule generally result from expenditure refunds or adjustments relating to prior periods.

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

- Food Distribution (CFDA 10.550) and Emergency Food Assistance (Food Commodities) (CFDA 10.569) – reported at the fair market value of food distributed.

- Economic Adjustment Assistance (CFDA 11.307) – includes the outstanding principal balance of loans originated under, the balance of cash and cash equivalents of the Revolving Loan Fund, and the administrative expenses paid from income earned.

- 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); Home Equity Conversion Mortgages (CFDA 14.183): Qualified Participating Entities (QPE) and Risk Sharing (CFDA 14.189); and Veterans Housing Guaranteed and Insured Loans (CFDA 64.114).

- Donation of Federal Surplus Personal Property (CFDA 39.003) – reported at the fair market value of the donated property at the time of receipt.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation (continued)

- Federal Family Education Loans – (CFDA 84.032) and Federal Direct Student Loans – (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, 2009.

- Immunization Grants (CFDA 93.268) – includes the value of vaccines received at the contracted price (amount paid by the federal Centers for Disease Control to the manufacturer).

NOTE 2. NON-CASH ASSISTANCE

CFDA Number	Loan, Loan Guarantee and Insurance Programs	Non-cash amounts included in the Schedule of Expenditures of Federal Awards - Year Ended June 30, 2009	Insurance, Loans and Loan Guarantees Outstanding - June 30, 2009
10.410	Very Low to Moderate Income Housing Loans	$ 310,549	$ 4,027,255
11.307	Economic Adjustment Assistance	8,674,835	8,674,835
14.117	Mortgage Insurance – Homes	59,323,584	155,829,078
14.183	Home Equity Conversion Mortgages	1,835,465	
14.189	Qualified Participating Entities (QPE) Risk Sharing	24,042,996	107,569,883
64.114	Veterans Housing Guaranteed and Insured Loans	428,115	20,577,322
84.032	Federal Family Education Loans	34,580,462	
84.032	Federal Family Education Loans (Guaranty Agency)	(a)	1,706,197,815
84.038	Federal Perkins Loan Program – Federal Capital Contributions	15,384,076	15,384,076
84.268	Federal Direct Student Loans	77,039,611	
93.342	Health Professions Student Loans, Including Primary Care Loans/ Loans for Disadvantaged Students	1,684,760	1,684,760
93.364	Nursing Student Loans	1,420,202	1,420,202
	Other Non-Cash Assistance		
10.550	Food Distribution	3,106,519	
10.569	Emergency Food Assistance (Food Commodities)	2,191,414	
39.003	Donation of Federal Surplus Personal Property	29,681	
93.268	Immunization Grants (Vaccines)	11,802,932	
	Total Non-Cash Assistance	$ 241,855,201	

(a) Administrative cost allowances (cash assistance) totaling $ 3,864,452 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 Federal Family Education Loans (Guaranty Agency) Program – CFDA 84.032.

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, $6 million relates to the Research and Development Cluster of which all is unidentified as to the pass-through entity. Of the remaining amount ($457,705), approximately $267,000 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 2009:

Program	CFDA Number		Rebate Amount
Medical Assistance Program	93.778	$	20,001,172
Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	10.557	$	5,478,837

Manufacturers of infant formula (WIC) and prescription drugs (Medical Assistance) remitted 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 ($12.8 million) earned during fiscal year 2009. WIC program expenditures include amounts funded by rebates earned as well as direct federal assistance.

NOTE 5. UNEMPLOYMENT INSURANCE EXPENDITURES

Expenditures of federal awards for Unemployment Insurance (CFDA Number 17.225) represent $454.3 million funded from the State's account in the federal Unemployment Trust Fund, $70 million loaned to the Trust Fund, $38.2 million in ARRA funds for program administration and benefits and $18.2 million funded by federal grants.

NOTE 6. STUDENT FINANCIAL ASSISTANCE CLUSTER

Expenditures for the Student Financial Assistance Cluster are listed under two separate departments, Department of Education and Department of Health and Human Services. The total expenditures for the cluster are $170 million.

NOTE 7. HOMELAND SECURITY CLUSTER

The OMB A-133 Compliance Supplement (March 2009) included guidance on reporting expenditures of federal awards made by the Department of Homeland Security. Consistent with that guidance, expenditures are reported in the Schedule of Expenditures of Federal Awards using the CFDA number(s) shown on the notice of award for the period in which the funds were awarded. Certain expenditures reported under other than the *Homeland Security Cluster* programs (CFDA numbers 97.004 and 97.067) have been considered part of the cluster for Type A program determination and audit testing purposes.

Auditor's Reports

Auditor's Reports

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DENNIS E. HOYLE, CPA
ACTING AUDITOR GENERAL
dennis.hoyle@oag.ri.gov

STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

♦ *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, 2009, which collectively comprise the State's basic financial statements and have issued our report thereon dated April 6, 2010. Our report was modified to include a reference to 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. As described in our report on the State's financial statements, other auditors audited the financial statements of:

- certain component units which represent 2% of the assets and 1% of the revenues of the governmental activities and 1% of the assets and 14% of the revenues and net additions of the fiduciary funds within the aggregate remaining fund information;

- the Convention Center Authority, a major fund, which also represents 70% of the assets and 1% of the revenues of the business-type activities; and

- component units which represent 100% of the assets and 100% of the revenues of the aggregate discretely presented component units.

This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

86 WEYBOSSET STREET ♦ PROVIDENCE, RHODE ISLAND 02903-2800 ♦ www.oag.ri.gov ♦ TEL 401.222.2435 ♦ FAX 401.222.2111

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we and the other auditors identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the State's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the State's financial statements that is more than inconsequential will not be prevented or detected by the State's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting: Findings 2009-1, 2009-2, 2009-3, 2009-4, 2009-5, 2009-6, 2009-7, 2009-8, 2009-9, 2009-10, 2009-11, 2009-12, 2009-13, 2009-14, 2009-15, 2009-16, 2009-17, 2009-18, 2009-19, 2009-20, 2009-21, 2009-25, 2009-26, 2009-27, 2009-28, 2009-29, 2009-30, 2009-31, and 2009-32.

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

Our consideration of the internal control over financial reporting and the reports of the other auditors was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Findings 2009-1, 2009-2, 2009-6, 2009-10, 2009-15, 2009-16, 2009-17, 2009-20, 2009-21, 2009-25, 2009-26, 2009-27, 2009-31, and 2009-32 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests and the reports of the other auditors disclosed instances of noncompliance or other matters that are required to be reported under *Government*

Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as Findings 2009-22, 2009-23 and 2009-24.

We also noted certain matters that we will report to management of the State in a separate communication. Other auditors noted certain matters that they have communicated to management of the component units.

The State's response to the findings identified in our audit are described in the accompanying Corrective Action Plan. We did not audit the State's response and accordingly, we express no opinion on it.

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.

Dennis E. Hoyle, CPA
Acting Auditor General

April 6, 2010

STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS
GENERAL ASSEMBLY
OFFICE of the AUDITOR GENERAL

DENNIS E. HOYLE, CPA
ACTING AUDITOR GENERAL
dennis.hoyle@oag.ri.gov

♦ *INTEGRITY*
♦ *RELIABILITY*
♦ *INDEPENDENCE*
♦ *ACCOUNTABILITY*

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, 2009. With respect to certain major programs, we did not audit the compliance of the State with the requirements described in the preceding sentence. These major federal programs had combined expenditures of federal awards representing 15% of the reporting entity's total major federal program expenditures of federal awards in fiscal year 2009. Those audits were performed by other auditors whose reports on compliance with requirements applicable to the major federal programs were furnished to us, and this report, insofar as it relates to those programs that were audited by other auditors, is based solely on the reports of the other auditors. The State's major federal programs are identified in the 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.

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.

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As described in Finding 2009-44 in the accompanying schedule of findings and questioned costs, the State did not comply with the special tests and provisions requirement regarding materials testing that is applicable to its Highway Planning and Construction program (CFDA 20.205). Compliance with this requirement is necessary, in our opinion, for the State to comply with the requirements applicable to that program.

As described in Finding 2009-45 in the accompanying schedule of findings and questioned costs, the State did not comply with the subrecipient monitoring requirement that is applicable to its Highway Planning and Construction program (CFDA 20.205). Compliance with this requirement is necessary, in our opinion, for the State to comply with the requirements applicable to that program.

As described in Finding 2009-47 in the accompanying schedule of findings and questioned costs, the State did not comply with the cash management requirement that is applicable to its Highway Planning and Construction program (CFDA 20.205). Compliance with this requirement is necessary, in our opinion, for the State to comply with the requirements applicable to that program.

As described in Finding 2009-55 in the accompanying schedule of findings and questioned costs, the State did not comply with the special tests and provisions requirement regarding automated data processing risk analysis and review that is applicable to its Temporary Assistance to Needy Families Program (CFDA 93.558), Child Care Cluster (CFDA 93.575 and 93.596), Social Services Block Grant (CFDA 93.667), Children's Health Insurance Program (CFDA 93.767) and Medicaid Cluster (CFDA 93.775, 93.777, and 93.778). Compliance with this requirement is necessary, in our opinion, for the State to comply with the requirements applicable to those programs.

As described in Finding 2009-61 in the accompanying schedule of findings and questioned costs, the State did not comply with the cash management requirement that is applicable to its Low Income Home Energy Assistance Program (CFDA 93.568). Compliance with this requirement 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 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, 2009. The results of our auditing procedures and the reports of the other auditors also disclosed other 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 2009-38, 2009-67, 2009-79, 2009-82, and 2009-83.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

Other auditors have audited certain major federal programs administered by the State and its 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 2009. The other auditors have furnished us their reports on their consideration and testing of the internal control over compliance with requirements that could have a direct and material effect on a major federal program.

Our consideration, and the other auditors consideration, of internal control over compliance was for the limited purpose described in the second preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we considered to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the State's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of a compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the State's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2009-33, 2009-34, 2009-35, 2009-36, 2009-37, 2009-39, 2009-40, 2009-41, 2009-42, 2009-43, 2009-44, 2009-45, 2009-46, 2009-47, 2009-48, 2009-49, 2009-50, 2009-51, 2009-52, 2009-53, 2009-54, 2009-55, 2009-56, 2009-57, 2009-58, 2009-59, 2009-60, 2009-61, 2009-62, 2009-63, 2009-64, 2009-65, 2009-66, 2009-68, 2009-69, 2009-70, 2009-71, 2009-72, 2009-73, 2009-74, 2009-75, 2009-76, 2009-77, 2009-78, 2009-80, 2009-81, 2003-84, 2009-85 and 2009-86 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the State's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider Findings 2009-33, 2009-44, 2009-45, 2009-47, 2009-49, 2009-50, 2009-55, 2009-61, 2009-66, 2009-71, 2009-73, 2009-74, 2009-75 and 2009-84 to be material weaknesses.

The State's response to the findings identified in our audit are described in the accompanying Corrective Action Plan. We did not audit the State's response and accordingly, we express no opinion on it.

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.

Dennis E. Hoyle, CPA
Acting Auditor General

April 30, 2010

Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs

Table of Contents

Basic Financial Statements

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

Opinion Unit	**Opinion**
Governmental Activities	Unqualified
Business–type Activities	Unqualified
Aggregate Discretely Presented Component Units	Unqualified
Major funds –	
General	Unqualified
Intermodal Surface Transportation	Unqualified
GARVEE	Unqualified
Lottery	Unqualified
Convention Center Authority	Unqualified
Employment Security	Unqualified
Aggregate Remaining Fund Information	Unqualified

2) The audit of the basic financial statements disclosed significant deficiencies and material weaknesses in internal control over financial reporting.

3) The audit disclosed instances of noncompliance which are material to the basic financial statements and other matters which are required to be reported in accordance with *Government Auditing Standards.*

Federal Awards

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

5) The independent auditor's report on compliance for major programs expressed an unqualified opinion for all major programs except for the following programs in which it expressed a qualified opinion:

Program	CFDA #
Highway Planning and Construction Cluster: Highway Planning and Construction	20.205
Temporary Assistance to Needy Families	93.558
Low-Income Home Energy Assistance Program	93.568
Child Care Cluster: Child Care and Development Block Grant – CFDA Child Care Mandatory and Matching Funds of the Child Care and Development Fund – CFDA	 93.575 93.596
Social Services Block Grant	93.667
Children's Health Insurance Program	93.767
Medicaid Cluster: State Medicaid Fraud Control Units State Survey and Certification of Health Care Providers and Suppliers Medical Assistance	 93.775 93.777 93.778

6) The audit disclosed findings that must be reported under OMB Circular A-133 provisions.

7) Major programs are listed in the table below.

Major Programs

Program Title	**CFDA Number**
Supplemental Nutrition Assistance Program (SNAP) Cluster:	
Supplemental Nutrition Assistance Program (SNAP)	10.551
State Administrative Matching Grants for SNAP 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
Qualified Participating Entities (QPE) Risk Sharing	14.189
Section 8 Project Based Cluster:	
Section 8 Housing Assistance Payments Program – Special Allocations	14.195
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856
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
Highway Planning and Construction Cluster:	
Highway Planning and Construction	20.205
Federal Transit Cluster:	
Federal Transit – Capital Investment Grants	20.500
Federal Transit – Formula Grants	20.507
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
Academic Competiveness Grants	84.375
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342
Nursing Student Loans	93.364

Major Programs (continued)

Program Title	CFDA Number
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
State Fiscal Stabilization Fund (SFSF) Cluster:	
SFSF - Education State Grants, Recovery Act	84.394
SFSF - Government Services, Recovery Act	84.397
Immunization Grants	93.268
Temporary Assistance for Needy Families	93.558
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
Social Services Block Grant	93.667
Children's Health Insurance Program	93.767
Medicaid Cluster:	
State Medicaid Fraud Control Units	93.775
State Survey and Certification of Health Care Providers and Suppliers	93.777
Medical Assistance Program	93.778
Research and Development Cluster	Various

8) The dollar threshold used to distinguish between Type A and Type B programs was $9,992,806.

9) The State did not qualify as a low-risk auditee as defined by OMB Circular A-133.

Finding 2009-1

COMPLETE IMPLEMENTATION OF A COMPREHENSIVE FULLY-INTEGRATED STATE ACCOUNTING SYSTEM

The Rhode Island Financial and Accounting Network System (RIFANS) is used to meet the State's accounting and financial reporting responsibilities. Originally envisioned as a multi-module, integrated accounting system, full implementation has stalled and various functionalities are not operational. Consequently, many of the intended benefits for improved efficiency, enhanced management information, and reduced incompatibility and redundancy of accounting applications throughout state government have not been achieved. This weakens overall controls over financial reporting due to necessary, but nonetheless undesirable, procedures to utilize incompatible accounting systems for certain transactions or use RIFANS system capabilities in unintended ways.

Continued progress is needed to achieve the intended goal of a comprehensive, integrated accounting system for the State. At a minimum, the following functionalities must be included within RIFANS:

- *revenue/receivables* – receipts/revenue are currently recorded via journal entry transactions (directly to the general ledger) instead of through a revenue/receivables module as part of the fully integrated Oracle accounting system. This weakens controls by providing numerous individuals the access to initiate and approve general ledger transactions that would otherwise not need such access. This further weakens controls over financial reporting because receivables are tracked by numerous departmental accounting systems that cannot be integrated into RIFANS. A revenue/receivables module would improve control over the recording of revenue and receivables and improve information available to management.

- *human resources* (personnel/payroll) – this module should be implemented to automate, standardize and streamline employee time and effort reporting and perform various payroll related processing functions.

- *grants management* – this module should be implemented to improve the State's controls over the administration of numerous federal grant programs which are a critical component of State operations. The State uses multiple departmental cost allocation systems, many of which are outdated, cannot be upgraded, and cannot be integrated into RIFANS. Cost allocation among grant programs, as currently performed, is labor intensive, prone to error and lacks appropriate statewide controls.

- *cash management* – this module is necessary to integrate the cash management, investing, and accounts payable functions which is critical to improving the efficiency and effectiveness of the State's overall cash management process.

- *budget preparation* – annual budget preparation should be integrated into the accounting system to reduce the time and effort devoted to this process. The existing budget templates utilize the legacy account structure (pre-fiscal 2002) which requires continual updating of account conversions and crosswalks.

- *capital projects* - the State accumulates its construction in progress component of capital assets external to RIFANS. With the implementation of a capital projects module, controls over this significant component of capital outlay could be enhanced as well as facilitate preparation of the annual capital budget.

Current budgetary challenges will likely impact the pace with which additional functionalities (modules) can be implemented. However, control weaknesses over financial reporting and deferred realization of operational efficiency and effectiveness will result if complete system implementation is further delayed.

RECOMMENDATION

2009-1 Complete installation of remaining modules necessary to achieve a comprehensive fully-integrated accounting system.

Finding 2009-2

CONTROLS OVER ACCOUNTING AND FINANCIAL REPORTING – STATEWIDE ACCOUNTING SYSTEM - RIFANS

Access roles are assigned to all RIFANS users and controlled through unique passwords. 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 the viewing of data or the actual entry or changing of system information.

Transaction level controls are further effected through agency hierarchies, which define specific functionalities and dollar limits, by individual within each department. Other transaction specific authorization controls are managed through workflow directories within RIFANS.

We found that various individuals had system access that was in excess of what was required for their respective duties or functions. Additionally, certain aspects of the RIFANS control structure can be better documented to demonstrate the adequacy of the design and to facilitate monitoring compliance.

RIFANS Logical Access Controls

Logical access controls provide reasonable assurance that computer resources (systems and data files, application programs, etc.) are protected against unauthorized modification, disclosure, loss, or impairment. Logical access controls involve the use of computer hardware and software to prevent or detect unauthorized access by requiring a user to input a user identification number, password, or other similar identifiers that are linked to predefined access privileges.

Identification and authentication are critical elements of computer security since they are the basis for most types of access control and for establishing user accountability. Identification and authentication are technical measures that prevent unauthorized individuals from entering an automated system. Passwords are used to authenticate a person’s identity or to authorize a person’s specific access to data. Basic design factors to be considered in the implementation and use of a password system are: composition, length range, lifetime, source, ownership, distribution, storage, entry, transmission, and authentication period. Effective administration and control of users’ computer access is essential to maintaining strong systems security. User account management focuses on identification, authentication, and access authorizations. Further, user accounts that are inactive on the system for a specified period should be flagged for required review and corrective action. The process of periodically verifying the legitimacy of current accounts and access authorizations is a key element in this process. Access for employees who are reassigned, promoted, terminated, or retired must be reviewed on a scheduled basis.

The Division of Information Technology (DoIT) has formalized policies and procedures to secure logical access over the RIFANS accounting system. We noted the following weaknesses within the area of logical access controls:

- Valid and invalid user authentications attempts are not reviewed by DoIT personnel. *(Policy 10-07: IT Security Handbook Technical Controls, § 1.3.4)*

- Activities of privileged users (system administrators) are recorded by the system but not reviewed. *(Policy 10-07: IT Security Handbook Technical Controls, § 1.3.4)*

- Individual user access is not reviewed and/or recertified on a scheduled basis. *(Policy 10-06: IT Security Handbook Operational Controls, § 1.3.2.2)*

<u>RECOMMENDATIONS</u>

2009-2a Strengthen access controls over the RIFANS accounting system by ensuring user access is appropriate for the user's assigned functions. Apply the principles of "separation of duties" and "least privilege" when establishing an individual's RIFANS access privileges, ensuring these are based on job duties and responsibilities.

2009-2b Review RIFANS user accounts on a scheduled basis to ensure the assigned access privileges are appropriate.

<u>RIFANS Control Structure – Agency Hierarchies</u>

RIFANS employs complex agency initiation and approval hierarchies along with transaction workflow processes to control system transactions. Agency approval hierarchies are a key control within RIFANS to ensure adequate separation of duties is maintained between the initiation and approval of transactions. The hierarchies outline the authorization limits at which specific agency personnel can initiate and approve transactions.

During fiscal 2009, the State significantly improved the separation of duties and overall documentation of agency hierarchies relating to accounts payable transactions. However, documentation and consideration of agency hierarchies relating to general ledger transactions was still insufficient to demonstrate effective evaluation and monitoring of the control structure over these transactions. Due to the significant amount of financial activity recorded in RIFANS through general ledger transactions, controls over these transactions must be improved.

We found that most agency hierarchies established within RIFANS were not designed to prevent individual users from both initiating and approving significant general ledger transactions. RIFANS users had incompatible access for the initiation and approval of significant transactions in most agencies and departments. Our testing noted 19 out of 60 transactions where secondary or higher-level approval by a knowledgeable official at the agency was not required. We acknowledge that implementing appropriate segregation of duties over general ledger transactions may be more difficult in smaller agencies with limited staff.

Controls over general ledger transactions could be most effectively enhanced from implementation of additional Oracle modules that would eliminate the need for agencies to have widespread general ledger access. RIFANS controls are weakened by providing general ledger access to agency users that would not otherwise require it. General ledger/journal entry posting capability in most accounting systems is limited to specific general ledger accounting staff and those with responsibility for financial reporting. Journal entries are subjected to fewer controls within RIFANS than invoice transactions controlled through the accounts payable module – they are often initiated and approved by the same individual. In many instances, no supporting documentation is attached to facilitate review and final approval by the Office of Accounts and Control.

While there has been significant attention during fiscal 2009 and subsequently to ensuring agency hierarchies are consistent with the State's control objectives, further improvement regarding the analysis and documentation of general ledger hierarchies is needed. This should include documentation of review and approval of agency requests to modify the general ledger hierarchy for an agency.

RIFANS Control Structure – Transaction Workflows

System workflows (routings of transactions to specific agencies or officials for subsequent approvals) are designed into RIFANS to control specific categories of transactions. These include cash receipts, accounting adjustments, legal expenditures, and the purchase of information systems equipment and services. System workflows provide additional control by routing transactions to officials external to the initiating agency for approval. For example, cash receipts are routed to the General Treasurer's office so that the underlying cash deposit or transfer is validated. Accounting adjustments initiated by user agencies are routed to the Office of Accounts and Control for approval prior to posting to the general ledger.

During fiscal 2009, we noted significant improvement in system workflow documentation for accounts payable transactions. Documentation or explanation of general ledger workflows was not adequate.

Management must continually assess and monitor the RIFANS agency hierarchies and system workflows to ensure controls remain operational and effective over its financial reporting process.

RECOMMENDATIONS

2009-2c Formalize procedures to ensure that agency hierarchies and system workflows for general ledger transactions are documented and maintained to provide adequate documentation of accounting controls within RIFANS.

2009-2d Ensure that modifications to agency hierarchies and system workflows are documented and approved by designated managers within the Office of Accounts and Control prior to implementation.

2009-2e Implement additional RIFANS modules such that general ledger access can be appropriately limited among RIFANS users.

Recording Cash Transfers Between Funds and Bank Accounts within RIFANS

Certain RIFANS general ledger transactions commonly referred to as "CSH" transactions, (CSH is the prefix of the transaction identification number) are utilized to record cash transfers between State bank accounts. During fiscal 2009, "CSH" transactions, upon approval by the Office of Accounts and Control, were routed by workflow to the Office of the General Treasurer (Treasury) for final approval. This modification was an attempt to address previous control issues noted; however, it fails to appropriately restrict Treasury involvement in the recording of accounting transactions. Treasury should just have responsibility for executing the move of funds but have no responsibility for authorizing the accounting entry. This is the practice when transactions originate in the accounts payable module; however, that same functionality does not exist for general ledger transactions.

RECOMMENDATION

2009-2f Improve controls over "CSH" transactions within RIFANS to ensure proper segregation of duties is maintained between transaction recording, movement of cash, and bank reconciliation functions.

Recording of Payments made from Subsidiary Accounting Systems

Treasury posts expenditures to RIFANS for certain payments (Medicaid provider payments, DLT benefit payments, TANF benefits, etc.) processed and issued through subsidiary payment systems of the State. These payments are normally made through checks or ACH payments issued by other departments and agencies, or through fiscal agents on behalf of the State. These expenditures are subsequently recorded in RIFANS by journal entry. In certain instances, the journal entries also record the movement of cash to the fiscal agent.

Treasury currently initiates, departmentally approves, and final approves most of these payment transactions. Additionally, Treasury is responsible for the movement of cash and the bank reconciliation process. In the past, the time sensitivity of the required cash movement prompted Treasury's involvement in the entire process rather than segregating certain duties consistent with normal control procedures. As noted above, Treasury should just have responsibility for executing funds transfer but have no responsibility for authorizing accounting entries.

The State should evaluate the types of transactions that are currently recorded through this process to determine how internal control could be improved. These processes should be reorganized to restore segregation of duties while ensuring that the cash is moved on a timely basis as required.

RECOMMENDATION

2009-2g Ensure proper segregation of duties over the recording of payments made through subsidiary accounting systems of the State or by contracted fiscal agents on behalf of the State.

Finding 2009-3

CONTROLS OVER THE EMPLOYEE PAYROLL ACCOUNTING SYSTEM – RETIREMENT PLAN CODES

Controls need to be improved within the State's payroll accounting system and related processing procedures to ensure that all employees meeting eligibility criteria for required membership in the various retirement plans for State employees have the appropriate employee contribution rate withheld from their biweekly wages and the State contributes the related employer share.

Most state employees are required to participate in the Employees' Retirement System of Rhode Island (ERSRI) which includes plans for regular state employees, judges and state police. Some employees of the colleges and university (principally faculty) participate in other defined contribution pension plan options (e.g., TIAA-CREF). Certain employees may be ineligible for participation in a retirement plan due to their part-time status or be exempt from participation due to their status as a legislator or constitutional general officer.

We tested a sample of employee payroll transactions during fiscal 2009 to assess compliance with the State's control procedures over payroll. We found one individual in our sample who was not contributing to the ERSRI; however, this employee did not meet any of the situations that would prohibit or exempt them from membership in ERSRI. The employee should have contributed 8.75% of payroll effective on the date of hire (2/18/2007) and the State should have contributed the required employer contribution rate (21.64%) for the same time period.

The State payroll system (master file information) includes a retirement code data field which is intended to record a single letter code (e.g., R = regular retirement, P = State Police retirement, E = Exempt) which corresponds to the specific retirement plan to which the employee is a member. The data field does <u>not</u> require an entry; if left blank then no retirement plan contribution will be withheld from the employee's wages or paid by the employer. The data field for the employee discovered in our test sample was left blank which resulted in no retirement contribution being made. Controls should be enhanced within the payroll system by requiring an entry in the retirement code data field. The payroll master file data entry process should not be able to be completed without an entry in that data field.

Despite the existence of a retirement code which signifies exemption from participation in a retirement plan (E = exempt), the exemption code is never used. We found that none of the 15,442 employees within the payroll system as of June 3, 2009 were coded as exempt. We did find 1,784 employees with a blank retirement code data field. We requested that the Office of Accounts and Control determine the status of those employees with no entry in the retirement code data field. The Office of Accounts and Control determined that 17 additional employees should have been contributing to a retirement plan but were not due to the incorrect coding included in the payroll system. In effect, a blank data field rather than an exempt code signified employees exempt from participation in a retirement plan.

We estimate the collective contributions that should have been made to ERSRI by these 17 employees and the required employer contribution to be approximately $400,000. Any interest on the contributions that may be owed to ERSRI is not included in this estimated amount.

In addition to requiring an entry in the retirement code data field within the payroll master file, specific exemption codes should be established that are specific to and descriptive of the exemption situation. For example, unique codes should be established describing exemption from retirement plan membership for categorical situations such as part-time status, constitutional general officer, legislator, and judges or state police hired before a certain date. These categorical exemptions should be consistent with other payroll master file information such as regularly scheduled work week, job title, and date of birth/date of hire. Any other exemptions should be separately coded and should require review of documentation submitted by the hiring department or agency to the Office of Accounts and Control and Division of Personnel within the Department of Administration as well as the Employees' Retirement System. Concurrence with the exempt status of these employees should be documented. For these non-categorical exemptions, documentation should be retained by the Office of Accounts and Control in addition to the hiring department or agency. Presently, no documentation is maintained at the Office of Accounts and Control or Division of Personnel for those determined to be exempt from participation in a retirement plan nor is any monitoring being performed. In the event that a specific exemption situation requires time for review and consideration by all parties, contributions should be withheld from employee wages until a valid approved exemption has been documented. Contributions can be refunded by ERSRI to the employee in the event a valid exemption is subsequently documented.

Upon establishing specific exemption codes as described above, all employees with a blank data field corresponding to a retirement code within the payroll master file should be reassessed and retroactively coded with the appropriate retirement or exemption code. Documentation of the preliminary review by the Office of Accounts and Control of such employees was incomplete and prevented us from concurring that, except for the additional 18 employees identified during the review, all other employees with a blank retirement code data field were appropriately exempt. Retroactively recoding all such employees, as recommended above, would in effect constitute final documentation of the Office of Accounts and Control review.

Employees found to be eligible for required membership in ERSRI, but not contributing, have been billed for their required contributions. Similarly, the State must remit their employer share of contributions which were not made.

ERSRI Membership Application

ERSRI membership applications are mailed to new employees and the employee is responsible for returning the completed application to ERSRI rather than being completed at the time of hire along with other payroll related forms and documentation. We recommended to ERSRI previously that the State and ERSRI revise its current policy which requires each new member to independently submit a membership application and instead require hiring departments to submit membership applications (or a waiver of membership) on behalf of the new employee/ERSRI member. This change in process would enhance controls over determination and documentation of the appropriate plan membership and/or exemption of membership determination process.

RECOMMENDATIONS

2009-3a Reprogram the employee payroll system to require an entry in the data field corresponding to retirement plan code.

2009-3b Establish coding to signify specific categorical exemptions for retirement plan participation as well as non-categorical exemption situations.

2009-3c Re-examine and recode (with the appropriate plan or exemption code) all employees who presently have a blank retirement code data field.

2009-3d Obtain concurrence from the Division of Personnel, Office of Accounts and Control and Employees' Retirement System for all employees determined to be non-categorically exempt from participation in a retirement plan. Document valid exemptions within the Office of Accounts and Control – Payroll Section.

2009-3e Initiate payment of the employee and employer share of contributions to ERSRI that should have been made for non-exempt employees.

2009-3f Revise the new employee intake process to require completion of an ERSRI membership application (or waiver of membership) at the time of hire with submission by the employer department or agency.

Finding 2009-4

COMPREHENSIVE INFORMATION SYSTEMS SECURITY POLICIES AND PROCEDURES

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

The oversight and management of the State's information security program relies upon the implementation of DoIT's comprehensive information systems security plan that was finalized during fiscal 2006. The information systems security plan consists of detailed policies, procedures, standards, and guidelines that are designed to safeguard all of the information contained within the State's critical systems. The plan is comprehensive in its coverage of all security issues and reflects the security needs of the State's diverse information systems. The information security plan also includes appropriate consideration of disaster recovery/business continuity planning aspects as well.

Although the development of a comprehensive information systems security plan was a significant accomplishment, the State is still deficient in ensuring that all of its critical information systems are compliant with these formalized policies and procedures. In addition to information systems within the Department of Administration, DoIT should also ensure that critical information systems within other State agencies and departments (i.e., MMIS (DHS), RICHIST (DCYF), INRHODES (DHS), etc.) also comply with the State's mandated information systems security policies and procedures.

During fiscal 2009, the State started a process of evaluating each mission critical information system's compliance with formalized system security standards. The State must continue this process to identify those mission critical systems that represent significant information system security risks within its operations. Once completed, the State should prepare a corrective action plan that prioritizes significant security risks identified and ensures that all security deficiencies are addressed in a timely manner. In addition, new information systems or significant system modifications should be subjected to a formalized systems security certification by DoIT prior to becoming operational.

RECOMMENDATIONS

2009-4a Complete an initial assessment of compliance with newly promulgated systems security standards for the State's mission critical systems.

2009-4b Prepare a corrective action plan that prioritizes significant system security risks with the goal of achieving compliance of all significant State systems with DoIT's formalized system security standards.

2009-4c Require systems security certification procedures to be performed by DoIT prior to any significantly modified systems becoming operational.

2009-4d Consider additional information system security personnel resources to assist in the daily information systems security monitoring procedures.

Finding 2009-5

CONTROLS OVER LONG-TERM ACCOUNT BALANCES USED IN PREPARING THE GOVERNMENT-WIDE FINANCIAL STATEMENTS

Controls over financial reporting can be improved by accounting for all long-term asset and liability account balances within RIFANS. Governmental financial reporting involves two perspectives; the fund perspective, which for governmental funds focuses on current available resources, and the government-wide financial statements, which are full-accrual entity-wide financial statements.

The State has developed a full-accrual set of financial records within RIFANS that accumulates fund level transactions and records capital outlays as asset additions. Long-term asset and liability balances, not recorded for the fund perspective, are reported by RIFANS; however, fiscal year activity and changes in those balances are not accumulated through the system. Instead, balances were adjusted at June 30, 2009 to reflect activity captured on off-line spreadsheets. RIFANS currently lacks the functionality to account for additions and reductions to long-term receivable and liability balances as transactions occur during the year. This current process lacks control, is manually intensive, provides only limited financial reporting information during the fiscal year, and is prone to error.

Controls over financial reporting should be improved by accounting for all long-term assets and liabilities in the general ledger and ensuring that changes in those balances are recorded within the system and subject to accounting controls. When there is sufficient detail to warrant a subsidiary system (e.g., bonds and COPS payable), accounting controls should include periodic reconciliation of general ledger balances to the subsidiary system (e.g., DBC Debt Management System). This would strengthen controls over financial reporting, allow for more useful management information during the year, and reduce the effort required at year-end to generate the government-wide financial statements.

RECOMMENDATION

2009-5 Improve controls over financial reporting by accounting for all long-term assets and liabilities, and changes in those balances within RIFANS.

Finding 2009-6

ACCOUNTING CONTROLS OVER FEDERAL REVENUE AND EXPENDITURES

The State needs to improve controls over recording federal revenue to ensure (1) amounts are consistent with the limitations of grant awards from the federal government and (2) claimed expenditures on federal reports are consistent with amounts recorded in the State's accounting system. Federal revenue within the governmental activities was nearly $2.2 billion for fiscal 2009.

Generally, federal revenue is recognized as reimbursable expenditures are incurred for federal grant programs. Some federal grants are open-ended entitlement programs where the federal government will reimburse the State for all allowable costs incurred under the program. Other federal grants are limited by a specific award amount and grant period. These grant periods are often for the federal fiscal year and are not aligned with the State's fiscal year.

Expenditures could be recorded in a specific federal program account yet not be reimbursable from the federal government either because grant funds have been exhausted or the expenditures do not meet the specific program limitations. Further, official claims for reimbursement from the federal government as documented on federal reports should be reconciled to amounts considered reimbursable per the RIFANS accounting system.

We noted the following control deficiencies over federal revenue and expenditures:

- Federal programs are administered at the department level. Knowledge of grant requirements, spending authorizations, and limitations on reimbursable expenditures all rests with departmental managers. Accordingly, the Office of Accounts and Control, in preparing the State's financial statements, relies solely on the coding of expenditures within the RIFANS accounting system. All expenditures recorded in federal accounts are considered reimbursable from the federal government and federal revenue is recorded to match those expenditures. From an overall statewide perspective, controls over financial reporting are ineffective to ensure that all federal expenditures are reimbursable and federal revenue is recognized appropriately.

- Departments and agencies administering federal programs are responsible for monitoring expenditure amounts compared to grant awards and preparing federal reports detailing this information. In some instances, agencies are making necessary adjustments on federal reports but not adjusting the State's accounting system. Timely recording of such adjustments in the RIFANS accounting system is necessary 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 requires departments and agencies to submit an annual Federal Grants Information Schedule (FGIS). The FGIS was substantially revised for fiscal 2009 in an attempt to have departments perform more detailed and meaningful reconciliation between federal grant reports and amounts reported in RIFANS. Departments found the revised FGIS challenging and time consuming to complete and thus several agencies did not complete the form as required. For those schedules that were completed, no formalized or coordinated review of the schedules was performed by the Office of Accounts and Control to validate their accuracy or to determine if any variances were noted between federal reports and RIFANS reported amounts. The State needs to reconsider its FGIS process or another process to ensure the reconciliation of:

- federal expenditures reported in RIFANS with federal expenditures reported on federal reports (cash-basis);
- federal revenue reported in RIFANS with cash basis drawdowns made during the fiscal year; and
- deferred revenue or federal receivable balances recorded at year-end by the Office of Accounts and Control utilizing revenue and expenditure amounts recorded for the fiscal year.

Internal controls, as well as coordination between the departments administering federal programs and the Office of Accounts and Control, need to be enhanced to ensure federal revenue is recorded appropriately.

- The State's accounting system is ineffective in handling adjustments to prior year federal revenue and expenditures. The federal government often adjusts federal grant amounts relating to prior fiscal years or disallows expenditures that were already claimed and reported on the State's financial statements. In most instances, current period federal activity is adjusted in the State's accounting system to reflect these changes to prior period claimed expenditures. This practice can cause the current federal period activity to be misstated and result in non-compliance relating to period of availability requirements for federal grants. Segregating prior period adjustments in the accounting system would facilitate reconciliation of current period claimed expenditures to RIFANS amounts as well as improve financial reporting by isolating amounts that may warrant consideration of restatement of prior periods financial statements. In fiscal 2010, the Office of Accounts and Control established natural accounts to be used specifically to record prior period adjustments.

The potential impact of these control weaknesses on federal revenue and expenditures within the State's financial statements requires that statewide controls be improved through allocating more resources within the Office of Accounts and Control. Specifically, an additional senior level position should be added to coordinate accounting and statewide control procedures for federal programs, oversee cash management, and serve as a liaison to the departments and agencies directly administering federal programs.

RECOMMENDATIONS

2009-6a Improve the design and utilization of the Federal Grants Information Schedule (FGIS) or implement other processes to ensure that reported federal program expenditures, amounts due from the federal government, and available grant awards are consistent with amounts recorded within the State accounting system.

2009-6b Ensure that variances identified on the FGIS are fully resolved prior to the preparation of draft financial statements.

2009-6c Establish accounting procedures that distinctly identify adjustments to prior period federal activity in the State's RIFANS accounting system.

2009-6d Create an additional senior level position within the Office of Accounts and Control to enhance statewide controls over the financial reporting aspects of federal programs.

Finding 2009-7

CONTROLS OVER STATE PAYROLL PROCESSING

The State utilizes two separate and distinct information systems to manage personnel information for State employees. Payroll costs total more than $916 million annually. The personnel system stores all critical personnel information such as employee name, address, hire date, salary, etc.. The payroll system calculates the State's biweekly payroll and related withholdings and tax liabilities. Any changes in personnel information impacting payroll needs to be recorded in both systems. The use of two separate systems increases the risk that required changes will not be consistently and accurately made in both systems. This control weakness could be resolved through implementation of the Oracle human resources module as an integrated RIFANS component.

A data match conducted by the State with the Social Security Administration resulted in reports of social security numbers that are associated with deceased individuals, numbers that are potentially invalid due to number/name match discrepancies and inconsistencies with the individual's date of birth/social security number issue date. We noted instances where deceased individuals were not removed from the State's payroll system. We also noted incorrect employee data within the State's payroll system most likely resulting from data entry errors and incomplete data records for certain employees.

Controls should be strengthened to ensure the integrity and completeness of employee data within the State's personnel and payroll systems. Improvements should include: 1) matching the data elements periodically within the two systems; 2) removing deceased, terminated and inactive employees on a timely basis from the files; and 3) resolving any discrepancies relating to the two systems.

Subsequent to June 30, 2009, the Office of Accounts and Control matched data between the payroll and personnel systems and resolved discrepancies existing between the two systems.

RECOMMENDATIONS

2009-7a Correct data integrity issues noted by the payroll system data match with the social security verification service.

2009-7b Match data periodically between the State's personnel and payroll systems to identify and correct discrepancies existing between the systems.

2009-7c Review data fields in the State's payroll system periodically to identify missing or incomplete data.

Finding 2009-8

TRANSACTIONS WITH COMPONENT UNITS

The State does not adequately align transactions between the primary government and discretely presented component units (transfers to and from component units and amounts due to and from component units). This results in inconsistent reporting of transactions between the primary government and component units within the State's financial statements. These inconsistencies generally are caused by differences between the manner in which the component unit classifies the transaction and how it is recorded in the State's accounting system. Timing differences may also cause inconsistencies between the financial statements of the primary government and the component units. Instances also exist where the primary government is recording a receivable from a component unit without recognition of a liability by the component unit.

The following are examples of inconsistent financial reporting between the State and its component units:

- The State recorded $8.9 million in receivables that were not classified consistently with the corresponding component units, including amounts due from the State's Colleges and University, RI Higher Education Assistance Authority, and RI Public Telecommunications Authority.

- The Central Falls School District recorded $2.7 million in receivables from the State for reimbursement due for the administration of federal programs. These payments were recorded as accounts payable in the State's General Fund rather than Due to Component Units. This amount also included over $1 million in payments due for federal fiscal stabilization funds that had not been recorded as a liability in the State's General Fund.

- The State's Colleges and University recorded approximately $9 million as due from the State's RI Capital Plan Fund for appropriated capital projects. These funds were not classified consistently between the State and the Colleges and University. The recording of these transactions was further complicated because the Colleges and University did not report the related receivables from the State in a consistent manner.

- The RI Economic Development Corporation reported amounts due from the State totaling $287,720 for one of its component units. The State's Bond Capital Fund reflected these liabilities to the component unit within accounts payable.

- As part of their lease agreement with the State, the RI Airport Corporation reports long-term liabilities totaling in excess of $10 million for amounts due to the State for general obligation debt that the State has issued on behalf of the Airport Corporation. The corresponding receivable was not consistently recorded by the State and required audit adjustments to bring the amounts into balance between the State and the component units.

The Office of Accounts and Control should provide more specific guidance to component units in reporting these transactions and obtain the specific transaction detail that supports the amounts recorded on their financial statements. Additionally, the Office of Accounts and Control should include such information in its review of draft component unit financial statements to ensure that transactions between the State and its component units are recorded appropriately and consistently.

RECOMMENDATIONS

2009-8a Provide more specific guidance to the State's component units on recording transactions with the primary government and obtain the specific transaction detail that supports the amounts recorded in their financial statements.

2009-8b Review draft component unit financial statements prior to issuance to ensure that transactions between the State and its component units are recorded appropriately and consistently.

Finding 2009-9

LEGACY SYSTEMS – ACCOUNT STRUCTURE CONVERSION

Various subsidiary accounting systems (e.g., employee payroll and departmental cost allocation) which process material classes of expenditures have not been converted to the current account structure used within the RIFANS accounting system. These subsidiary accounting systems continue to use an old account structure that has not been utilized since July 2001. Consequently, account conversion tables must be continually maintained which increases the risk that data may be misposted in the accounting system. This adds unnecessary complexity to the overall internal control structure and requires that certain employees remain knowledgeable about and even create new accounts (to match new activities or programs within RIFANS) in an account structure that was discontinued more than seven years ago.

RECOMMENDATION

2009-9 Complete conversion of subsidiary accounting systems using the legacy account structure to the new RIFANS account structure.

Finding 2009-10

ACCOUNTING AND PHYSICAL CONTROL OVER CAPITAL ASSETS

The State’s capital asset reporting module within RIFANS has provided a more integrated process of identifying capital assets by isolating transactions charged to specific natural accounts designated for capital asset acquisitions. These “flagged” transactions are then analyzed and added to the State’s capital asset inventory consistent with the State’s capitalization policies. The lack of a capital projects module within RIFANS, however, still causes the Office of Accounts and Control to accumulate costs outside of RIFANS for capital assets that originate from capital projects.

We continue to note control weaknesses in the process for identifying and recording capital assets. These control deficiencies led to the following misstatements in recording the State’s capital assets for fiscal 2009:

- Capital assets totaling in excess of $6.1 million, most of which were building improvement projects in the implementation or construction phase as of June 30, 2009, were not recorded in the capital asset accounting records. In some of these instances, significant project expenditures relating to multi-year building improvement projects were not capitalized because the magnitude and scope of the project was not understood through the analysis of only the current period’s expenditures. This results from a weakness in the State’s accumulation of expenditures for project based capital assets. Project-based capital asset acquisitions are tracked manually, independent of the automated process employed within RIFANS. Functionality to track project based expenditures involving multiple transactions that could span more than one accounting period should be integrated into the RIFANS accounting system. This could be accomplished by “flagging” transactions as potential capital asset additions by designated line item (for project-based capital assets) as well as by natural account.

- Various misstatements relating to the State's reporting of infrastructure were noted during fiscal 2009. The most significant misstatements related to the State's omission of $57.4 million in design costs from infrastructure capitalized in the prior fiscal years. The State also misstated infrastructure currently under construction by $8.2 million (net) when it reclassified these amounts to infrastructure and began depreciating the assets prior to the project being placed in service.

- Controls over asset disposals were improved slightly during fiscal 2009 with the Office of Accounts and Control's physical inspection of one of the State's largest agencies. The State also improved its recording of vehicle disposals during fiscal 2009. The State, however, still needs to improve its process to ensure that all material furniture and equipment disposals are being recorded. During fiscal 2009, the State disposed of only $600,000 of the $231 million (0.25%) of furniture and equipment recorded in the State's financial statements. Inadequate controls to identify disposals could prevent the State from identifying and reporting gains and losses on disposals of capital assets. As discussed more fully below, performing more extensive periodic physical inventories can partly mitigate this control deficiency.

Audit adjustments and restatements of beginning net asset balances, when appropriate, were proposed to correct these identified misstatements relating to the recording of capital assets in the financial statements. Improved coordination between the Office of Accounts and Control and the various State agencies that are responsible for the acquisition, maintenance, and disposal of capital assets is essential to improve the overall accuracy of capital asset data reported in the State's financial statements.

Capital Assets Acquired with Federal Funds

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 RIFANS system does not currently have reports designed to identify capital assets by funding source. Additionally, 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.

Capital Leases

The State does not have adequate controls in place to identify capital assets (mostly machinery and equipment) acquired through capital leases. The State's RIFANS accounting system and established capital asset policies and procedures do not provide an effective means to identify and properly record capital assets and the related capital lease obligations. Further, the State has not routinely recorded capital lease transactions in accordance with generally accepted accounting principles (GAAP). GAAP require that capital lease transactions, in which the government is the lessee, be accounted for as though the capital acquisition had, in fact, been financed through a third party lender. That is, GAAP require that a governmental fund report, at the inception of the capital lease, both an "other financing source" and an "expenditure" equal to the net present value of the future minimum lease payments. The State currently does not record such amounts and instead only records lease payments made annually as expenditures in governmental funds. Additionally, the State does not have processes in place to accumulate the information necessary to identify capital lease obligations and related capital assets for financial reporting purposes. Revised control procedures should be implemented to prompt identification of potential capital lease transactions and result in the appropriate financial reporting for such transactions. These new control procedures should be integrated into accounting policies and procedures for the RIFANS capital asset module.

Periodic Physical Inventories

Periodic physical inventories of the State's capital assets should be performed to ensure the accuracy of the State's capital asset accounting records and to serve as an important element of physical control over capital assets. As indicated above, the State did perform a physical inventory of one of the State's largest agencies during fiscal 2009 as well as several smaller agencies. Most state agencies, however, have not been inventoried in several years. Physical inventories should be performed on a cyclical basis such that each agency is visited every three years.

The State will need to address missing data elements relating to its reported capital assets to ensure that the correct asset location information is present in RIFANS. This process will allow developed capital asset inventory reports to accurately report the location of capital assets and enhance the efficiency of physical inventory inspections being conducted.

Transportation Infrastructure Reporting

Amounts reported as capitalized infrastructure are derived from project level data contained in the RIDOT FMS. Controls should be improved over this process to ensure accurate reporting of infrastructure expenditures including related design costs. Controls can also be improved to accurately identify when infrastructure assets are placed in service thereby commencing depreciation.

The process performed by RIDOT to determine the amounts to be reported in the financial statements is manually intensive and requires reconciliation to the State's accounting system. The project information obtained from FMS can approximate 18,000 lines of data that must be sorted, subtotaled, categorized and reconciled. This volume of transactions and the data manipulation that occurs increase the risk of error. During fiscal 2009, RIDOT did not perform the reconciliation between the FMS project detail data and the State's accounting system. We identified $2.8 million of IST infrastructure not being reported due to errors in RIDOT's analysis.

RIDOT's process to accumulate infrastructure capital outlays utilizes actual construction expenditures but includes estimated amounts for design costs. The current methodology estimates design costs at 19% of construction expenditures. We found the estimate to be inaccurate in certain instances since the 19% estimate is more reflective of large, complex construction projects. Further, this results in a timing mismatch since the design costs are not occurring in the period when they are being capitalized. Design costs are not linked to the accumulation of total project costs within the RIDOT FMS. For larger projects, actual design costs should be accumulated and linked to the total of all project costs which are capitalized as infrastructure. Estimates may be appropriate for smaller projects. During fiscal 2009, a material adjustment and restatement of prior period amounts was required to recognize design costs which had not been included in prior year infrastructure capital outlay.

We noted instances where large-scale multi-phase project expenditures all remained in construction in progress despite significant parts of the project were in use. Conversely, we noted projects that were moved from construction in progress when in fact the projects were not substantially complete.

RECOMMENDATIONS

2009-10a Develop procedures to track project-based capital projects within RIFANS.

2009-10b Improve controls over the recording of infrastructure assets in the State's financial statements.

2009-10c	Improve accounting controls to ensure the identification of federal funds utilized to purchase or construct capital assets.
2009-10d	Implement procedures to ensure that all capital lease activity is identified and recorded in accordance with GAAP in the State's financial statements.
2009-10e	Enhance controls over furniture and equipment disposals by performing physical inventories of capital assets utilized by the State's departments and agencies on a cyclical basis.
2009-10f	Refine the process for recording the State's investment in infrastructure assets to ensure that when specific criteria is met, previously capitalized costs are disposed as infrastructure assets are substantially replaced or reconstructed.
2009-10g	Improve controls over the identification of infrastructure capital outlay by reconciling RIFANS and RIDOT FMS data.
2009-10h	Improve the methodology to determine whether infrastructure assets are placed in service to appropriately reflect large multi-phase projects and to ensure projects meet substantially complete criteria.
2009-10i	Accumulate and link actual design costs as part of total infrastructure capital outlay for larger projects. Refine the estimate of design costs as a percentage of construction costs for smaller projects.

Finding 2009-11

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 preventing a clear audit trail. System access controls need to be improved by utilizing the user identification to track all transactions initiated by an individual user. Management may decide to identify key data fields to track transactions by specific user identification.

In June 2006, a new payroll sub-system was implemented to capture and log selected data changes within the "Employee Time Keeping / Attendance Reporting" system. While this action improves control over this component of the payroll system, changes in the payroll master file, which contains a multitude of data elements that have a direct effect on payroll for state employees, are not similarly captured and logged. Logging these data element changes should be implemented to provide adequate control over changes to the payroll master file.

RECOMMENDATION

2009-11 Identify critical data elements to be tracked as changes occur. Capture and maintain the unique user identification for each transaction resulting in changes to critical payroll master file data elements.

Finding 2009-12

INFORMATION TECHNOLOGY (IT) SYSTEMS - PROGRAM CHANGE CONTROLS

Procedural Issues

Program change management controls are a critical IT control component with regard to maintaining highly reliable systems that meet the defined service levels of the organization. Almost all custom developed computer programs require changes or updates during their production lifecycle. Users may encounter errors, seek new programmable features, or require adaptations to accommodate ever changing demands in their business environments. Because such requests can become a frequent occurrence, strong change management control is essential to the success of program-modification efforts.

The primary goal of formalized *Program Change Management Policies and Procedures* is to accomplish IT application changes in the most efficient manner while minimizing the business impact, costs, and risks. Strong change management controls are needed to ensure that standardized methods and procedures are used for efficient handling of all application specific changes and are a required component within formal departmental level IT policies and procedures.

DoIT Program Change Management Control - Policy Directives

DoIT has issued two departmental policy statements that deal directly with Program Change Management Controls. Policy # 01-02, *IT Applications Development Requirements Approval*, states that “programmer managers must ensure any request for application development be documented in writing, tracked, understood and approved prior to putting any new or changes to existing applications into production.” In related Policy #01-03, *IT Enhancements Move to Production Approval*, DoIT requires that “programming teams must take care to ensure best practices regarding product quality have been utilized prior to putting any new (or changes to existing) systems into production.”

These policy directives are designed to be a component of a high level overall plan that embraces the general goals and directives of DoIT. These directives are somewhat ‘general’ in the description of their subject matter and are designed as a statement of principles. Detailed standards, practices and procedural guides governing the actions of DoIT personnel should be developed from these general policy directives.

DoIT Program Change Management Control - Procedural Guidance

Procedural guidance provides detailed information pertaining to the specific activities that need to be implemented to accomplish the stated goals and directives of a related policy statement. This type of guidance would provide DoIT personnel with detailed instructions pertaining to the development and correct use of mandated internal control practices and procedures, thus ensuring compliance with the corresponding policy directive.

Our review determined that while DoIT has developed and published general policy directives regarding program change management, it has not published any type of formal, standardized procedural guidance manuals for this vital control area. Within its published policies directives, DoIT makes numerous references to DoIT personnel using "best practices" concerning program change control procedures, yet it offers no specific procedural guidance regarding what it considers to be the required 'best practices."

DoIT needs to design and develop formal procedural guidance manuals detailing specifically what is required as DoIT's "best practices" regarding program change control. Standard, uniform practices and procedures need to be developed to control the process of requesting, analyzing, approving, developing, tracking, implementing, and 'quality control' reviewing of all application program changes. Published reference manuals, specific to this area of control, are available from NIST, ISACA, ITIL and other sources. Once developed, these DoIT guidance manuals would need to be reviewed and periodically updated and readily available to all DoIT personnel via the division's internal operational Intranet.

<u>Program Change Control – Current Operational Issues</u>

Strong, effective controls over all changes to application program code are required to ensure the integrity and reliability of the State's mission-critical systems. In response to prior audit recommendations, DOA/DoIT purchased two software packages designed to better maintain and control IBM mainframe application program change requests. The ClearQuest package provides change request tracking, process automation, reporting, and lifecycle traceability. ClearCase provides version control, workspace management, parallel development support and version 'build' auditing. These packages offered processes that were designed to utilize newer, more stringent controls over the application's source code program change process. Taxation and the Employee Payroll systems were the first two DoIT applications to utilize the new program change control protocols beginning in fiscal 2007.

Our update of this issue for fiscal 2009 found that the ClearQuest package was working to expectations but ClearCase was not. Users of ClearCase reported that instead of making the program change process more efficient and productive, the process was extremely cumbersome and time consuming. Software/hardware problems, improper installation/configuration and slow download speeds contributed to product dissatisfaction and resulting nonuse. Further, application programmers were able to circumvent DoIT's change control process thereby rendering the controls ineffective.

DoIT needs to review its use of the ClearCase software package to determine what combination of operational, procedural and/or technical adjustments are required to use the package in a manner that results in adequate program change control over critical computer applications supporting financial reporting. Further, DoIT should implement a formal program change control process for its mainframe applications.

<u>RECOMMENDATIONS</u>

2009-12a DoIT needs to design, develop, formalize and implement procedural guidance manuals detailing specifically what is required as DoIT's "best practices" regarding program change control.

2009-12b Assess use of the ClearCase software package to determine what combination of operational, procedural and/or technical adjustments are required to use the package in a manner that results in adequate program change control over critical computer applications supporting financial reporting.

Finding 2009-13

FUNDS ON DEPOSIT WITH FISCAL AGENT

Funds on Deposit with Fiscal Agent on the Statement of Net Assets – Governmental Activities totaled more than $426 million at June 30, 2009. These assets result from the issuance of certain debt (Grant Anticipation Revenue Vehicle (GARVEE), Motor Fuel Revenue Bonds, Certificates of Participation, and Historic Preservation Tax Credit Financing Bonds) by the State. Unlike the issuance of general obligation bonds of the State where the proceeds are received by the General Treasurer and disbursed through the State accounting system for authorized purposes, these debt proceeds are retained by a trustee. A trust agreement entered into at the time of issuance governs (a) the establishment of various trust accounts and restrictions on their use, (b) permitted investments of the bond proceeds, (c) documentation required to release the funds for valid project expenditures and (d) various other legal and operational matters.

Because these debt proceeds are not actually "received" directly by the State, the manner in which they are accounted for, monitored, and invested differs from other funds of the State. Aside from the trustee holding the assets, it is unclear who within State government has responsibility for monitoring the investments held within the various trustee accounts. The importance of this responsibility was highlighted during fiscal 2009 when the credit ratings assigned to a corporate issuer of certain investment agreements was downgraded causing the State/trustee to opt out of the investment agreement and request return of the funds.

Because of the dollar significance of these assets, compliance monitoring, and controls over financial reporting should be enhanced. We observed the following weaknesses:

- Once the debt is issued, the State Investment Commission or the Office of the General Treasurer has no role in investing, monitoring or disbursing the funds on deposit with the fiscal agent. Generally, the State Investment Commission and Office of the General Treasurer have statutory authority for the custody and investment of state funds. Consequently, the control procedures in place over the investment and disbursement of state funds (employed by the Office of the General Treasurer and Office of Accounts and Control) do not apply to these amounts. Responsibility for monitoring investments made with unexpended debt proceeds is unclear and should be clarified. The State Investment Commission, which establishes investment policy and the General Treasurer's Office do not appear to have responsibility and control for these investments but it is not clear who does. Subsequent to fiscal year end, the importance of monitoring fiscal agent investments was evident as guaranteed investment contracts held within these accounts became subject to risk of default.

- Control over funds on deposit with fiscal agent is not centralized – some trustee activity and reporting is controlled at the department level while other activity is controlled at the Office of Accounts and Control.

- Trustee activity statements are not all stored in a central area under common control.

- Duties related to recording and reconciling trustee activity with balances in the State accounting system are not sufficiently segregated.

- The role of the trustee should be clarified to assess whether they have a responsibility to monitor various compliance features (e.g., permitted investments – credit quality of corporate issuer of investment agreements) or provide various reports and disclosure information.

RECOMMENDATIONS

2009-13a Enhance controls over funds on deposit with fiscal agent by centralizing oversight responsibilities, segregating certain duties, and clarifying the role and responsibilities of the trustee.

2009-13b Clarify State responsibility for oversight and monitoring of investments held by fiscal agents resulting from the issuance of debt.

Finding 2009-14

DISCLOSURE OF DEPOSIT AND INVESTMENT RISKS

Generally accepted accounting principles (GAAP) require detailed disclosures in the notes to the financial statements regarding deposits with financial institutions and investments. The disclosures focus on custodial, credit, interest rate, and foreign currency risks. The amounts subject to such disclosures exceed $870 million at June 30, 2009 (exclusive of pension trust funds and discretely presented component units).

The information required to meet these disclosures is complex and must reflect changes in depository insurance regulations, actual investment practices, market conditions, and investment and deposit policies employed by the Office of the General Treasurer. The process for accumulating the disclosure information did improve over the prior year; however, additional enhancements can be made to ensure the completeness and accuracy of the required disclosures. Additional coordination between the Offices of Accounts and Control and General Treasurer is necessary since staff at the Office of the General Treasurer have the needed information regarding the State's deposit and investment balances and their unique characteristics (e.g., collateralization requirements, credit rating, FDIC insurance provisions, etc.). Accordingly, staff of the Office of the General Treasurer should be more involved in the preparation and review of the State's deposit and investment disclosures.

Collateralization of Deposit Balances

The General Laws require financial institutions to collateralize public deposits if they represent time deposits greater than 60 days or if an institution fails to maintain their minimum capital standing as required by their federal regulator. In addition to this statutory requirement, during fiscal 2009, the Office of the General Treasurer instituted a policy requiring collateralization of the uninsured balance of all deposits held by financial institutions on behalf of the State.

While the policy initiative was prudent to further protect the State's significant balances on deposit with financial institutions, the Office of the General Treasurer can improve the administration of its deposit collateralization program to enhance security of the State's deposits and to provide the information needed to meet the deposit disclosure requirements of GAAP at fiscal year end.

The Office of the General Treasurer's initiative to require collateralization of all public deposits was not formally communicated to the State's depositories and therefore, the specific balances to be collateralized, the amount and types of acceptable collateral, as well as the custody and registration of the collateral was not clearly specified. Further, a formal monitoring process had not been established to accumulate the collective uninsured bank balances by institution each day for comparison to the fair value of the collateral pledged by the institution. Collateral was held in an inconsistent manner – some in a joint custody account (bank and State) at the Federal Reserve Bank and some representing just a bookkeeping segregation within the financial institution's accounting system. Guidelines put forth by the Governmental Accounting Standards Board consider deposits to be exposed to custodial risk if uninsured or collateralized by securities that are not held by an independent custodian or registered in the name of the State. Approximately $47 million of the State's deposits at June 30, 2009 were exposed to custodial credit risk.

The Office of the General Treasurer should implement a formal deposit collateral monitoring process which would demonstrate whether each depository institution was complying with the General Treasurer's deposit collateralization policy. The Government Finance Officer's Association has adopted "best practice" guidance on the collateralization of public deposits, which includes written agreements with depositories, third party custody of collateral, periodic marked to market of collateral and an overall monitoring process.

RECOMMENDATIONS

2009-14a Enhance the coordination and accumulation of information needed to meet the GAAP disclosures for deposit and investment risks between the Offices of Accounts and Control and General Treasurer.

2009-14b Implement a formal deposit collateralization monitoring process to assess depository compliance with the Office of the General Treasurer's collateralization requirements.

Finding 2009-15

TAXATION – CONTROLS OVER ELECTRONIC FUNDS TRANSFER (EFT) 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 (Taxation) by the State's bank that contains abbreviated tax payment data (taxpayer identification number, payment amount, tax type, tax period). This electronic file is in an open text file format that allows, rather than restricts, manipulation of data prior to recording in Taxation's computer systems.

A select group of Taxation 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 mainframe computer systems. Taxation has taken steps to segregate duties regarding the processing of EFT receipts; however, certain individuals still have access that allows them to perform multiple functions.

The EFT process was revised to the extent that the tasks of downloading, processing, and uploading payment detail files was placed under the control of an automated system that monitors and records the movement and processing of these payment files. Near the close of fiscal 2006, Taxation, in coordination with the Division of Information Technology (DoIT), implemented an automated system that logs all changes made to these files and maintains version control over each individual data file. This type of automated system is required to ensure that all changes made were required, authorized, and available for management review or audit.

This automated control process was not consistently in operation during the fiscal year. DoIT staff was actively resolving operational issues but the control process was not fully restored until near the close of the fiscal year. Taxation and DoIT personnel need to closely monitor this process to ensure continued operation as designed. Additionally, no formal reporting system has been developed to audit/review the changes made to the EFT data files. Such a system should be used to ensure that all EFT transactional changes were required, authorized, and properly applied.

RECOMMENDATIONS

2009-15a Develop monitoring and reporting procedures for the automated logging system control process over EFT receipts. These procedures should identify and report any operational problems within the system's daily production cycle and ensure the control process remains operational.

2009-15b Develop a formal reporting system to audit/review changes made to the EFT data files to ensure that all EFT transactional changes were required, authorized, and properly applied.

Finding 2009-16

TAXATION – CONTROLS OVER THE RECORDING OF ACCOUNTS RECEIVABLE CORRECTION ADJUSTMENTS

The Division of Taxation (Taxation) should strengthen controls over Accounts Receivable Correction (ARC) transactions posted to their mainframe systems. Taxation currently requires supervisory approval of all ARC transactions for sales, withholding, and corporate taxes before they are posted to those respective systems. However, ARC transactions relating to personal income taxes do not require supervisory review prior to posting. Over $72 million in ARC transactions were posted to the personal income tax system in fiscal 2009. There were five individual ARC transactions over $1 million each. While it would be impractical for a supervisor to review each ARC posted to the system due to the number of ARC transactions processed, we believe that a supervisor should at least review all ARCs over an established threshold.

In addition, controls are not in place to ensure that the total of ARC transactions posted to each mainframe tax system matches the amount approved for data entry. The lack of data entry controls could result in an ARC transaction being incorrectly posted to the mainframe system and not being detected by management.

RECOMMENDATIONS

2009-16a Establish a threshold for supervisory review of accounts receivable corrections of personal income tax accounts.

2009-16b Improve data entry controls over ARC transactions.

Finding 2009-17

TAXATION – CONTROLS OVER TAX REVENUE RECOGNITION

Controls over tax revenue recognition should be strengthened by improving procedures for fiscal year end cut-off and calculation of estimates (allowance for uncollectible amounts and refunds). Taxes receivable and the corresponding tax revenue are recorded in the State's accounting system at fiscal year end based upon the receivable balances reported in Taxation's systems. We found that the receivable balances reported in these systems at fiscal year end did not always reflect the most current taxpayer information. We found instances where receivable balances did not reflect taxpayer payments. While Taxation is attentive to cut-off procedures for cash receipts, there is less attention to recording all taxpayer changes (field audit, hearings, accounts receivable corrections, etc.) in the detail tax systems. Consequently, timing differences were identified when we confirmed balances with taxpayers or performed other detail testing of account balances.

Taxation was aware of these situations before fiscal year end, but the receivable balances were not adjusted prior to providing the balances to the Office of Accounts and Control for financial reporting purposes. An audit adjustment was proposed but not booked to decrease taxes receivable by $3.3 million, and the related allowance by $2.2 million, for a net decrease in taxes receivable of $1.1 million.

The Office of Accounts and Control estimates tax refunds payable at June 30 based on the July refunds paid in the subsequent fiscal year. Due to staff shortages, Taxation has not been able to process all prior period adjustments by July of the following fiscal year. Therefore, processing of certain refunds has been delayed with processing occurring in August or later. An audit adjustment of $3.9 million was proposed (but not booked) to increase tax refunds payable and decrease tax revenue. Similarly, an audit adjustment was booked to increase refunds payable related to gas tax for $1.1 million. The Office of Accounts and Control should revise its method for estimating refunds that is based on payment history instead of refunds paid immediately after fiscal year end.

RECOMMENDATIONS

2009-17a Improve controls over processing taxpayer data (i.e., returns, payments, etc.) to ensure timely and accurate posting to taxpayer accounts particularly at fiscal year-end.

2009-17b Revise the methodology for estimating tax refunds payable which is based on an analysis of tax refund payment history rather than refunds paid immediately after fiscal year-end.

Finding 2009-18

CONTROLS OVER TAX REVENUE RESULTING FROM DATA WAREHOUSE BILLINGS

The Department of Revenue – Division of Taxation implemented a data warehouse to (1) collect data from Division of Taxation systems and external sources for data analysis purposes, and (2) attempt to identify taxes potentially owed to the State of Rhode Island. During fiscal 2009, the Division used the enhanced analytical capabilities of the data warehouse to identify taxpayers that should have filed tax returns or potentially underreported and underpaid taxes to the State. While the effort to identify unreported tax liabilities to the State is noteworthy, use of the data warehouse affected the State's recognition of tax revenue during fiscal 2009.

Notices are generated from the data warehouse, which is independent of the Division of Taxation's various tax systems. These tax systems are the official record of tax revenues and receivables for financial reporting purposes. Upon generation of the tax notice from the data warehouse, data is uploaded to the respective tax system(s). A 60-day threshold has been established before the "notice" information results in recognition of a tax receivable balance within the Division's tax systems. The 60-day waiting period reflects the nature of a notice as representing a high likelihood but yet uncertain claim of taxes owed. The notice is in essence a request for additional information from the taxpayer to either file and pay or explain the filing discrepancy.

During fiscal 2009, use of the data warehouse affected controls over recognition of tax revenue as follows:

- The 60-day waiting period before notices generated from the data warehouse are officially recognized as tax revenue/receivables results in arbitrary and inconsistent recognition of tax revenue. For example, notices sent before May 1 would all be recognized as revenue/receivables in the fiscal year ending June 30 – no amounts would be recognized for those sent after May 1 regardless of the underlying time-period related to the tax balance or the validity of the claim against the taxpayer.

- Coding within the tax systems is not adequate to identify tax balances that resulted from analysis within the data warehouse. Consequently, amounts cannot be readily identified within Taxation's systems as resulting from data warehouse notices. Being able to segregate these amounts is desirable due to the inherently different collection characteristics of the notices vs. a known tax balance due. An allowance for uncollectible amounts, reflective of the unique characteristics of the data warehouse tax billings should be developed and used for financial reporting purposes. In fiscal 2009, determination of the allowance for uncollectible taxes receivable did not reflect the unique characteristics of these balances.

- While the notice data is within Taxation's systems, the data is held in a "suspense" mode until the 60-day period elapses. During this time, the data can be modified or adjusted if the taxpayer provides information indicating that the notice is in error or the balance potentially owed is less. However, these changes are not subject to the same control procedures that would apply to other adjustments or entries recorded in the system.

Due to the age and inflexibility of certain tax systems, the Division intends to use its data warehouse more extensively. Policies should be reviewed to ensure that tax receivable information emanating from the data warehouse is recognized as revenue consistent with the Office of Accounts and Controls policies and that an appropriate allowance for uncollectible amounts is established which reflects the unique nature of these receivable balances. Further, the Division should enhance controls over the modification of tax notice information residing in the tax systems prior to the elapse of the 60-day waiting period.

RECOMMENDATIONS

2009-18a Recognize tax revenue/receivables consistent with the Office of Accounts and Control's established policies and procedures.

2009-18b Identify notices and balances emanating from the Taxation's data warehouse within the tax systems with a unique code to allow separate identification for analysis and collection purposes.

2009-18c Establish a unique allowance for uncollectible taxes receivable, which reflects the unique collection characteristics of the data warehouse notices/billings.

2009-18d Enhance controls over the modifications of tax notice information residing in the tax systems prior to the elapse of the 60-day waiting period.

Finding 2009-19

ACCOUNTING CONTROLS OVER CAPITAL PROJECTS FUNDED WITH DEBT PROCEEDS

Most of the State's largest capital projects are funded through general obligation bonds or certificates of participation (COPS). Accounting controls over capital projects funded with debt proceeds should be improved by (1) accumulating the costs of these projects within the State's RIFANS accounting system and (2) reconciling project authorizations and cumulative expenditures with the unexpended bond or COPS proceeds invested and held by a third party.

Project Codes

Capital projects funded by the issuance of general obligation bonds are approved for a specific amount by the voters. Bonds are sold by the State periodically to collectively fund various projects or phases of projects. Upon issuance, bond proceeds are invested until disbursed for eligible project expenditures. The proceeds of each bond issuance are segregated for investment purposes and to allow calculation of arbitrage rebate in accordance with Internal Revenue Service regulations.

Disbursements for each specific project must be mapped to the appropriate bond proceed accounts. Projects can be funded from more than one bond issuance particularly when the project spans several years. Project codes have been established to denote the appropriate issuance year from which the withdrawals should be made. For instance, a project code "07000" would denote a withdrawal from the 2007 bond issuance. Department personnel have been instructed to use the appropriate project code when initiating project disbursements. We noted the following weaknesses:

- If no project code is entered, the system defaults to a "00000" project code which is also a valid code (signifying bonds issued in 2000). There is no control that requires departments to enter the appropriate project code or to enter a project code at all.

- Departments may be unaware of when to change the project code when more than one issuance of bonds fund a project.

Consequently, disbursements may be mapped and withdrawn from the wrong bond proceeds account and not be detected. We observed instances of numerous transactions that had no assigned project code. Many of these were later adjusted to include an appropriate project code but not all. There is no system control to identify missing or incorrect project codes, instead they are typically identified upon review by the Budget Office which is required to review capital project expenditures prior to disbursement. The account configuration should be reconsidered to align one project code with one project expenditure account thereby eliminating the opportunity to either omit a project code on invoice transactions or record an incorrect project code.

In addition, the State must ensure compliance with various legal requirements over the use of bond proceeds. Bond proceeds can only be used for authorized projects and cannot be used interchangeably to fund other projects.

<u>Accumulating Project Expenditures</u>

All project expenditures are recorded in the RIFANS accounting system. Projects funded with general obligation bond proceeds are disbursed through RIFANS, those funded with COPS are disbursed by a trustee which holds the State's unexpended proceeds. To simplify arbitrage rebate calculations, funds are typically withdrawn once per month rather than daily. The Office of Accounts and Control utilizes a database report that extracts expenditure data from the RIFANS system for the various accounts in which capital projects are accumulated. Accounts and Control then summarizes the expenditures by sub-account mapped to the appropriate bond proceed accounts. This report is reconciled to the accounting system to ensure it includes only actual disbursements and excludes accruals and adjustments. This process could be improved by developing a RIFANS report that contains only the required transactions.

Further, RIFANS cannot accumulate expenditures over multiple fiscal years. Many projects are active over a period of years and consequently total project expenditures are accumulated on spreadsheets within the Budget Office using annual data extracts from RIFANS. These cumulative project expenditure worksheets are the only full accounting of costs from project inception. These worksheets are not subject to appropriate control procedures that should be in place for key accounting information. This data should be accumulated within the overall RIFANS accounting system; however, functionalities that would allow this are not currently operational within the system (see Finding 2009-1).

To improve controls, responsibilities which are currently shared among various groups (Accounts and Control, Budget Office, and the Office of the General Treasurer) should be better coordinated to ensure all control and compliance features are covered. Additionally, accounting system processes and functionalities have changed over the last several years, however, the capital projects accounting process has not been comprehensively reviewed or redesigned to ensure all control and compliance features are in place.

<u>RECOMMENDATIONS</u>

2009-19a Strengthen control over the accumulation of project expenditures within the RIFANS control structure particularly for projects spanning more than one fiscal year. Revisit the configuration and use of project codes to map expenditures to the appropriate source of bond proceeds.

2009-19b Initiate a review of the responsibilities performed by various groups with respect to accounting for capital projects to ensure comprehensive control procedures are in place.

Finding 2009-20

FINANCIAL REPORTING – IST AND GARVEE FUNDS – USE OF RIDOT FMS AND RIFANS ACCOUNTING SYSTEMS

Financial statements for the IST and GARVEE funds are prepared primarily from the State's RIFANS accounting system; however, a significant amount of data required for financial reporting is also derived from RIDOT's Financial Management System (FMS). Because these two accounting systems were not designed to easily share data or be compatible, preparation of the annual financial statements for these two funds is unduly complex. This complexity, the need for extensive reconciliation of data between the two systems, and correction of multiple errors delayed the timely completion of the financial statements for the funds as well as the State's overall financial reporting for fiscal 2009.

The RIDOT FMS is an integrated multi-module system intended to meet all of RIDOT's project accounting needs, including purchasing, billing, construction management and general ledger functions. While the majority of RIDOT financial transactions originate in the FMS, the FMS is dependent on the State's accounting system to process cash disbursements to vendors, and for payroll processing. A significant interrelationship exists between the two systems requiring each system to generate transmission files to pass transaction data back and forth to complete various processing cycles. By design, all financial transactions (some in summary) are intended to be replicated within the State's RIFANS accounting system. While recording transactions in two accounting systems is inherently duplicative, this would be less problematic if the configuration and accounting conventions were the same. For example:

- RIDOT FMS and RIFANS each utilize separate and distinct account structures, which necessitate a mapping scheme to "crosswalk" the two charts of accounts.

- Since no direct interface exists between the two systems, transmission files are utilized to transfer expenditure data between the RIDOT FMS and RIFANS to disburse vendor payments. Timing differences exist and have to be identified as part of the reconciliation process.

- RIDOT establishes and maintains purchase order balances on a detailed line item basis for the entire project duration; purchase order balances in RIFANS are in summary form and only for the amount expected to be expended during that fiscal year.

- Expenditures are recorded in the RIDOT FMS after disbursement in RIFANS; expenditures are recorded in RIFANS when entered and approved for payment.

- RIDOT FMS tracks activity at the project level as this is the level at which funding sources (e.g., federal, state and other) are determined and infrastructure or maintenance categorizations are made. RIFANS accumulates activity at the major program level (e.g., interstate highways).

In essence, the RIDOT FMS contains detailed project-level data which loses its project character when transmitted to RIFANS. The project-level data; however, is needed in some instances for financial reporting purposes. When the project level RIDOT FMS data is used, it must be reconciled and adjusted to conform to RIFANS accounting conventions.

"Work-arounds" and reconciliation processes have been implemented to yield the information needed for financial reporting. The results have been mixed over the years and the situation was again problematic in fiscal 2009.

We believe that an analysis should be performed to determine whether continued use of the two accounting systems in the current configuration is the best way to accomplish financial reporting for the IST and GARVEE funds. Options include better aligning the design and configuration of the two systems or alternatively using the RIDOT FMS for financial reporting purposes rather than RIFANS. Recognizing that a significant investment has already been made and that further integration of the two systems would require additional investment, RIDOT should establish a short-term and longer-term goals to ensure reliable information is available to support timely financial reporting.

RECOMMENDATION

2009-20 Reevaluate how the RIDOT FMS and RIFANS accounting systems are used to support financial reporting for the IST and GARVEE funds. Establish short-term and longer-term goals to ensure reliable information is available to support timely financial reporting.

Finding 2009-21

INTERMODAL SURFACE TRANSPORTATION AND GARVEE FUND - FINANCIAL REPORTING

The Intermodal Surface Transportation (IST) Fund has been established as a special revenue fund to account for transportation related activities of the State including the highway construction program. The GARVEE fund accounts for the expenditure of proceeds from the State's Grant Anticipation Revenue Vehicle (GARVEE) bonds and matching Motor Fuel bonds for specific highway construction related projects. Debt service on the bonds is repaid with federal funds and a dedicated portion of the State's gas tax. Bond proceeds held by a trustee pending disbursement for eligible project costs totaled $275 million at June 30, 2009.

Controls can be improved over the preparation of financial statements for both funds to ensure consistent and accurate reporting of fund activity in accordance with generally accepted accounting principles.

Controls over the Preparation of Financial Statements

Several account balances reflected in the fiscal 2009 draft financial statements required material audit adjustment due to weaknesses in controls over financial reporting.

Accounts payable **–** Controls over the reporting of accounts payable can be improved to ensure all material amounts are included in the financial statements. Accounts payables required numerous adjustments by the Office of Accounts and Control, RIDOT and the Office of the Auditor General to be materially correct, which occurred over several months after the draft financial statements were presented for audit. Additionally, RIDOT currently does not have a process to record the likely settlements of claims against the fund for financial statement purpose.

Fund balance reservation – Weaknesses in control over financial reporting required audit adjustments to classify fund balance components appropriately within the funds:

- Fund balance within the IST fund includes general obligation bond proceeds transferred in prior years in excess of the required state match to federal funds. Such amounts were not reported as a reserved component of fund balance to reflect legal limitations on their use for only voter approved transportation projects. Additionally, the department was unable to explain changes in net assets caused by federal funding source when it was different from expectations.

- Fund balance within the GARVEE fund includes Reserved for Debt and Unreserved for Capital Projects. The Reserved for Debt component of Fund Balance is not available for project expenditures and should be presented as a reservation of fund balance on the financial statements. Amounts that should be reserved for future debt service include:

    - a debt service reserve fund created at the time of issuance of the bonds, and
    - any amounts available from the dedicated portion of the State's gas tax that were not required to meet current debt service.

Investment activity – Funds pending disbursement in the GARVEE fund are invested and held by a trustee. Changes were made in the type of investments held by the trustee during fiscal 2009 which required more analysis and accounting adjustments to reflect the investments at fair value as required by generally accepted accounting principles. Reconciling items were highlighted between the trustee's balances and the State's accounting systems relating to this investment activity; however, audit adjustments were required to appropriately reflect the investment activity on the financial statements.

Reconciliation between the GARVEE Trustee, RIDOT FMS and RIFANS

GARVEE project disbursements originates in the RIDOT FMS however, disbursement is made by the trustee and the transactions must also be recorded in RIFANS. Periodic reconciliation between all three sources is necessary to ensure that all GARVEE project disbursements have been recorded in RIFANS which serves as the basis for the fund financial statements.

RIDOT's reconciliation focused on asset balances rather than specific transaction types or accounts (e.g., gas tax transfers in, expenditures, investment income, and debt service). The trustee statement to RIFANS reconciliation highlighted significant reconciling or outstanding items which were not adjusted as required on the RIFANS accounting system. RIDOT's reconciliation process can be further improved to include reconciliation by transaction type. This will ensure financial statement activity is not materially misstated.

RECOMMENDATIONS

2009-21a Strengthen control procedures over financial reporting to ensure accurate identification of accounts payable and reservations of fund balance.

2009-21b Analyze the change in fund balance by funding source to ensure the results are consistent with the programs being administered through the IST Fund.

2009-21c Expand the reconciliation between the trustee and the State accounting system to encompass transactions at the account level to ensure financial statement activity is not materially misstated.

2009-21d Improve controls over ensuring funds on deposit with fiscal agent are properly recorded in RIFANS and supported by the trustee statements.

Finding 2009-22

MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

The General Fund of the State ended fiscal 2009 with an operating deficit of $36.7 million and an unreserved cumulative deficit of $62.3 million. Actual general revenues were $63.3 million less than budget and actual general revenue expenditures were $74 thousand less than final budget. An appropriation of $22 million was made from the Budget Reserve and Cash Stabilization Account to reduce the anticipated deficit.

Finding 2009-23

RI LOTTERY - OTHER MATTER REQUIRED TO BE REPORTED UNDER *GOVERNMENT AUDITING STANDARDS*

Subsequent to June 30, 2009, the Lottery became aware of a potential fraud involving the operation of the bonus play rewards program ("bonus play program") at Twin River, a licensed video lottery facility. The bonus play program at Twin River became operational in June 2008 and was authorized by the Lottery. Due to weaknesses in controls over Twin River's administration of the bonus play program including a lack of segregation of duties, inappropriate access rights, and system design weaknesses, a Twin River employee responsible for the administration of the program was able to create invalid player reward accounts and unauthorized free play credits. The free play credits resulted in video lottery prize awards being paid. The Lottery plans to seek reimbursement from Twin River for the amount of any loss attributable to this unauthorized activity.

This incident has been investigated by Twin River management, Lottery management and the Rhode Island State Police. Corrective action is planned by Twin River to improve controls over the administration of the bonus play program.

Finding 2009-24

CONVENTION CENTER AUTHORITY – FUNDING OF THE OPERATING RESERVE AND RENEWAL AND REPLACEMENT RESTRICTIVE COVENANTS

During the fiscal year ended June 30, 2009, the Convention Center Authority was unable to fund the Operating Reserve, Debt Service Reserve, and Renewal and Replacement components of its restrictive covenants pursuant to the bond indentures. The Authority will fund the Operating Reserve, Debt Service Reserve and Renewal and Replacement components noted above provided there is sufficient cash flow.

Finding 2009-25

RI TURNPIKE AND BRIDGE AUTHORITY - FINANCIAL REPORTING CLOSE PROCESS

The annual financial close process relating to the preparation of the Authority's financial statements was not effective in the timely preparation of accurate financial statements that comply with accounting principles generally accepted in the United States (U.S. GAAP). Several corrections to the Authority's general ledger account balances and subsidiary records and schedules resulted in proposed audit adjustments that were material to the financial statements. We also noted a lack of timely recording of revenue and cash transactions resulting from the implementation of the E-Z Pass system which became operative in January 2009. This affected many general ledger accounts and caused delays in the audit process.

RECOMMENDATION

2009-25 We recommend that the Authority evaluate the adequacy of its financial close process, the capabilities of its finance department personnel and controls surrounding the timely recording of financial information, including the preparation of complete and accurate financial statements in accordance with U.S. GAAP. Performing regular account reconciliations, accurately recording activities in the general ledger monthly, and timely review of financial information and financial statements by a capable individual will assist in the timely and accurate preparation of both monthly and year-end financial statements and provide the Board of Directors with reliable monthly financial information. In addition, maintaining schedules with a financial statement focus will facilitate the relatively quick turnaround required for the annual year-end financial state submission to the State.

Finding 2009-26

RI TURNPIKE AND BRIDGE AUTHORITY – CAPITAL ASSETS

It has historically been the Authority's policy to capitalize (record as an asset) expenditures related to contracted projects in a Construction in Progress account, a non-depreciating account. The Authority generally had not begun depreciating such expenditures or reviewed them against appropriate capitalization criteria until the contract had expired, all work had been completed (including inspections) and final payments (including retainage) had been made. However, as brought to the Authority's attention last year, some of the contracts extend over a multi-year period, during which time much of the work is, in fact, substantially complete and being used by the Authority and its customers or is of such a nature that it does not meet capitalization criteria. U.S. GAAP requires placing into service and depreciating such assets once substantially complete. In addition, we noted capitalized expenditures related to bridge inspections and studies which do not qualify to be capitalized as defined by U.S. GAAP requires placing into service and depreciating such assets once substantially complete. In addition, we noted capitalized expenditures related to bridge inspections and studies which do not qualify to be capitalized as defined by U.S. GAAP and which should be expensed.

RECOMMENDATION

2009-26 We recommend that the Authority reclassify from construction in progress to the capital asset accounts any contract expenditures that have been placed in service, whether or not the contract is completed or all payments have been made thereon. Furthermore, depreciation of such capital expenditures should begin once the asset is placed in service. Expenditures that do not meet capitalization criteria should be expensed as incurred in accordance with the accrual basis of accounting. Enhanced communication between engineering and the finance department will facilitate the timely recording of capital and non-capital activity. Inquires should be made by finance personnel upon the inception of a contracted project to determine if the related expenditures will meet the criteria of a capital asset and, if so, the useful life over which the asset will be amortized. In addition, inquiries should be made towards the end of reporting periods regarding the status of construction projects to ensure appropriate financial recording and reporting.

Finding 2009-27

RI TURNPIKE AND BRIDGE AUTHORITY - TOLL COLLECTIONS AND E-ZPASS SYSTEM

With the implementation of the E-ZPass automated toll collection system, the Authority contracted with ACS to perform transaction processing and recording. Under this contract, ACS summarizes key financial accounting and reporting information. It is critical that the Authority's management and finance personnel evaluate the controls with which ACS processes these transactions and summarizes data in the form of monthly and ad hoc reports. It is equally important for the Authority to implement controls to analyze reported data from ACS and reconcile such to its own reports and schedules. Otherwise, the Authority will be relying solely on ACS and will not be able to identify errors or potential fraud.

We noted that the Authority has not assessed the integrity of internal controls in place at ACS. Furthermore, the Authority did not obtain a copy of the SAS 70 report from ACS related to New Hampshire's system (which appears somewhat similar to Rhode Island's) until August 2009 and, as a result, the recommended user controls for the E-ZPass system were not implemented timely. It appears that the information necessary to timely and properly record E-ZPass transactions is provided by ACS.

RECOMMENDATION

2009-27 We recommend that the Authority ensure that a SAS 70 audit is performed over ACS's internal controls and that this report cover at least six months of the Authority's fiscal year. This report should be evaluated and a determination should be made as to whether the Authority will rely upon ACS's transaction processing and summarized information by implementing the appropriate user controls recommended by the SAS 70 auditors. In addition, the Authority should design and implement its own processes and internal controls, which will likely include controls over the physical safeguarding of electronic toll collection equipment, transponders, hardware and software which may not be covered by the SAS 70 report. In the event that the Authority chooses not to obtain a SAS 70 report, we recommend that controls be designed utilizing the Telvent information system to corroborate the information provided by ACS and that any discrepancies be reconciled prior to recording of ACS recommended entries. Any differences between ACS and Telvent should be investigated before the Authority posts revenue to its general ledger.

Finding 2009-28

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY- EQUITY RECONCILIATION AND ACCOUNT ANALYSES

The June 30, 2009 general ledger that was provided to the auditors had not been adequately reviewed; for example, the net asset balance was different from the prior year's financial statement net assets balance. The auditors were unable to locate the cause and proposed an adjustment to correct the Authority's net asset balance.

In the prior year, the Authority provided a reserve for remediation of certain environmental issues that had come it its attention. At June 30, 2009, although inquiries had been made, a review had not been performed as to whether the remediation reserve was adequate for future costs to be incurred or if, in fact, the remediation had been satisfactorily completed. As a result, the unadjusted reserve remained on the general ledger. Such inquiries and review should have been performed prior to the commencement of the audit.

RECOMMENDATION

2009-28 We recommend that Authority personnel gain a better understanding of the accounting software and reconcile the Authority's net assets annually before significant other transactions are posted to the general ledger. Furthermore, we recommend that all accruals and reserves from prior years be investigated to determine whether such amounts should remain outstanding or removed from the general ledger.

Finding 2009-29

CENTRAL FALLS SCHOOL DISTRICT - FINANCIAL REPORTING

An entity's system of internal controls should be designed and operate to allow the entity to prepare accurate financial statements in conformance with generally accepted accounting principles and be designed and operate to prevent and detect misstatements in the financial statements.

The financial reports prepared by the Central Falls School District for the year ended June 30, 2009 had misstatements that resulted in the proposal of several audit adjustments that were considered material. The misstatements included unrecorded receivables and accrued expenses at year-end, revenue recorded to the incorrect funds and interfund balances that did not reconcile. The misstatements resulted from the inadequate reconciliation and review of the financial statement accounts at year-end. Central Falls School District's internal controls over financial reporting are not operating as intended and did not prevent and detect misstatements in the year-end financial reports.

The School District's internal control procedures do not include a monthly reconciliation of significant general ledger accounts for all funds and the formal preparation and review of monthly and year-end financial reports. The internal control process also does not include the distribution of monthly financial reports to the Board of Trustees and Superintendent.

RECOMMENDATION

2009-29 We recommend that the School District implement internal control procedures that include monthly reconciliation of all significant account balances. The procedures should also include the preparation and review of monthly and year-end financial reports for all funds. The monthly reconciliations and financial reports should also be reviewed and approved by the Director of Finance and then the financial reports submitted to the Superintendent and the Board of Trustees.

Finding 2009-30

CENTRAL FALLS SCHOOL DISTRICT - CAPITAL ASSETS

The School District does not have formal policies and procedures and an accounting system in place to properly maintain and account for their capital assets on a perpetual basis. Although a list of capital assets and depreciation expense were prepared as of June 30, 2009, the list was prepared after year-end and was incomplete and several audit adjustments were proposed to correct the list of capital assets. The School District does not have procedures in place to maintain the list of capital assets on a perpetual basis or to provide for the periodic inventory of capital assets.

RECOMMENDATION

2009-30 We strongly recommend that the School District implement policies and procedures and an accounting system to account for the addition and deletion list of capital assets throughout the year. We also recommend that the School District inventory capital assets and compare the inventory to its list of capital assets at least annually. This will ensure proper recording and safeguarding of capital assets.

Finding 2009-31

FISCAL AGENT OVERSIGHT – MEDICAL ASSISTANCE PROGRAM

As described in Finding 2009-71 (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 2009-32

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

As described in Finding 2009-55 (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 2009 totaled over $2 billion. 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.

Table of Findings by Federal Program		
Program Title	**CFDA**	**Applicable Findings**
Supplemental Nutrition Assistance Program (SNAP) Cluster:		
Supplemental Nutrition Assistance Program (SNAP)	10.551	09-35
State Administrative Matching Grants for SNAP Program	10.561	09-33, 09-34
Child Nutrition Cluster:		
School Breakfast Program	10.553	09-33, 09-36, 09-37
National School Lunch Program	10.555	09-33, 09-36, 09-37
Special Milk Program for Children	10.556	09-33, 09-36
Summer Food Service Program for Children	10.559	09-33, 09-36, 09-37
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	09-33, 09-34, 09-38
Public Works and Economic Development Cluster:		
Economic Adjustment Assistance	11.307	None
Mortgage Insurance – Homes	14.117	None
Qualified Participating Entities (QPE) Risk Sharing	14.189	None
Section 8 Project Based Cluster:		
Section 8 Housing Assistance Payments Program – Special Allocations	14.195	None
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	None
Section 8 Housing Choice Vouchers	14.871	None
Unemployment Insurance	17.225	09-33, 09-34, 09-39, 09-40
WIA Cluster:		
WIA Adult Program	17.258	09-33, 09-41, 09-42
WIA Youth Activities	17.259	09-33, 09-41
WIA Dislocated Workers	17.260	09-33, 09-41, 09-42
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	09-33, 09-34, 09-43, 09-44, 09-45, 09-46, 09-47
Federal Transit Cluster:		
Federal Transit – Capital Investment Grants	20.500	None
Federal Transit – Formula Grants	20.507	None
Student Financial Assistance Cluster:		
Federal Supplemental Educational Opportunity Grants	84.007	None
Federal Family Education Loans	84.032	None
Federal Work-Study Program	84.033	None
Federal Perkins Loan Program – Federal Capital Contributions	84.038	None
Federal Pell Grant Program	84.063	None
Federal Direct Student Loans	84.268	None
Academic Competitiveness Grants	84.375	09-53
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	None
Nursing Student Loans	93.364	None

Program Title	CFDA	Applicable Findings
Title I Grants to Local Educational Agencies	84.010	09-33, 09-48, 09-49, 09-50, 09-51
Special Education Cluster:		
Special Education – Grants to States	84.027	09-33, 09-48
Special Education – Preschool Grants	84.173	09-33, 09-48
Federal Family Education Loans (Guaranty Agency)	84.032	None
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	09-33, 09-34, 09-52
Improving Teacher Quality State Grants	84.367	09-33, 09-48
State Fiscal Stabilization Fund (SFSF) Cluster:		
SFSF - Education State Grants, Recovery Act	84.394	09-33, 09-49
SFSF - Government Services, Recovery Act	84.397	09-33
Immunization Grants	93.268	09-33, 09-54
Temporary Assistance for Needy Families	93.558	09-33, 09-35, 09-55, 09-56, 09-57, 09-58, 09-59, 09-60
Low-Income Home Energy Assistance	93.568	09-33, 09-61, 09-62, 09-63, 09-64, 09-65, 09-66
CCDF Cluster:		
Child Care and Development Block Grant	93.575	09-33, 09-35, 09-55, 09-56
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	09-33, 09-35, 09-55, 09-56
Foster Care – Title IV-E	93.658	09-33, 09-34, 09-67, 09-68
Social Services Block Grant	93.667	09-33, 09-35, 09-55, 09-69
Children's Health Insurance Program	93.767	09-33, 09-35, 09-55, 09-70, 09-71, 09-72
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	09-33
State Survey and Certification of Health Care Providers and Suppliers	93.777	09-33
Medical Assistance Program	93.778	09-33, 09-35, 09-55, 09-57, 09-69, 09-71, 09-72, 09-73, 09-74, 09-75, 09-76, 09-77, 09-78, 09-79, 09-80, 09-81, 09-82, 09-83, 09-84, 09-85, 09-86
Research and Development Cluster	Various	None

Finding 2009-33

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 (Treasury/State 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 subsequent disbursement, generally considered to be no more than a three-day supply of cash on hand.

Each department is responsible for drawing federal funds for the programs it manages. During fiscal 2009, a comprehensive and uniform control process to ensure that federal funds were drawn in accordance with the specific requirements of the Treasury/State agreement was not in place. Centralized monitoring procedures were not operational to ensure compliance. We noted draw techniques specified in the Treasury/State agreement that did not reflect actual disbursement patterns and therefore were not followed. Additionally, state accounting system reports to facilitate compliance with the Treasury/State agreement were not available. We reported material noncompliance with cash management requirements for two major programs (Highway Planning and Construction - CFDA 20.205 and LIHEAP - CFDA 93.568).

Draw techniques are expenditure driven based on expenditure data recorded in the State's centralized accounting system known as RIFANS. Due to the lack of specific reports available within RIFANS and/or guidance to query the system appropriately to meet cash management requirements, departments utilized their own queries of RIFANS data (or other web-based reports available to users) to determine amounts to be drawn. Since RIFANS is an accrual-based system, there is a risk is that expenditures that have been scheduled, but not yet paid may impact the amount of cash drawn from the federal government.

The following table summarizes major programs administered by the primary government.

Fiscal 2009 major programs/clusters administered by the primary government	19
Fiscal 2009 major programs included in the Treasury/State agreement	12
Total number of components/funding techniques utilized for programs included	27
Total number of components/funding techniques being executed in compliance with the agreement	10

In previous audits, where techniques specified in the agreement were not consistently followed, funds were generally drawn later than permitted. In some instances, draws were timed such that no excess federal cash was on hand, but the method for determining the drawdown amount was not in compliance with the Treasury/State agreement. However, during fiscal 2009, enhanced budgetary controls over expenditures impacted balances authorized in anticipation of federal funds. These lower "authorized red balances" (ARBs) were intended to force departments to draw funds promptly to improve cash flow. However, on occasion we observed more funds were drawn than needed to lessen the impact of tighter budgetary controls.

Subsequent to June 30, 2009, attention has been focused on improving controls over federal cash management. Draw techniques specified in the Treasury/State Agreement have been modified to more accurately reflect program disbursement patterns and actual practice. These efforts should continue to streamline administration of federal cash management and to improve overall compliance with the Treasury/State agreement. Many of the drawdown techniques were changed in a modification to the 2010 Treasury State Agreement. Additionally, in fiscal 2010 a new state accounting system (RIFANS) report was developed to assist departments in drawing cash for federal programs. The report effectively isolates cash disbursements by CFDA number, deriving data directly from the accounting system.

Ultimately, compliance, efficiency, and control could be best enhanced through automation of federal draws through the State's centralized accounting system. Some states have moved to an automated process for drawing federal funds. This could be accomplished by programming the RIFANS accounting system to accumulate expenditure transactions meeting certain criteria on a daily basis and use that data to initiate an automatic draw of federal funds through the federal government's automated funds management systems.

Questioned Costs: None

RECOMMENDATIONS

2009-33a Continue to implement a centralized monitoring process to ensure compliance with cash management requirements for federal programs.

2009-33b Ensure that the newly-developed standard RIFANS report is utilized by all departments drawing cash for federal programs.

2009-33c 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 closely match funding techniques to current practices. Consider automating the process.

2009-33d Investigate automating all draws of federal funds through and interface between the RIFANS accounting system and federal government's automated funds management systems.

CMIA Annual Report – Interest Calculation

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 CMIA Annual Report.

The Treasury/State Agreement stipulates that no interest liability will be incurred (interest-neutral) for transfers of funds made in accordance with the agreed upon procedures specified in the agreement. All but one of the funding techniques included in the Treasury/State agreement were interest-neutral. In calculating the fiscal 2009 interest liability, compliance with the funding techniques was not considered. If programs were primarily using ACH or EFT transactions to disburse program expenditures, the Controller considered that funds could generally have been drawn more frequently and therefore, it was unlikely that an interest liability would be incurred. Actual compliance with Treasury/State agreement was not considered. As shown in the preceding table, the State only followed 10 out of 27 component techniques for the 12 fiscal 2009 major programs included in the Treasury/State agreement. No interest liability was calculated except for programs designated to follow a technique not considered interest-neutral.

CMIA regulations also require an interest liability to be paid on all refund transactions in excess of $50,000. As reported in the prior year, this component of the interest liability calculation was not performed for fiscal years 2006, 2007 and 2008. A refund liability was calculated in the 2009 CMIA Annual Report for fiscal 2009 and the previously unreported fiscal 2008 refund liability. The process for calculating the interest liability on refunds could be improved by seeking input from program personnel within the departments to ensure all refund transactions potentially subject to the interest calculation are appropriately included or excluded. We noted instances where interest was calculated on transactions that were not valid refund transactions and other instances where the interest liability was understated because the actual number of days the refund was outstanding was misstated.

<u>Questioned Costs</u>: None

<u>RECOMMENDATIONS</u>

2009-33e Consider actual compliance with the funding techniques specified in the Treasury/State agreement when calculating the interest liability included in the CMIA Annual Report.

2009-33f Calculate refund liabilities in accordance with the terms outlined in the Treasury-State Agreement. Seek input from departmental program personnel to ensure all refund transactions potentially subject to the interest calculation are appropriately included or excluded. Submit a corrected CMIA Annual Report as necessary.

Finding 2009-34

VARIOUS PROGRAMS – refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

<u>MANAGEMENT OF EQUIPMENT ACQUIRED WITH FEDERAL FUNDS</u>

As described in Finding 2009-10 (Section II – Financial Statement Findings), accounting and physical control over the State's capital assets can be improved. These control deficiencies also impacted the State's controls over compliance for management of equipment acquired with federal funds.

Finding 2009-35

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) – CFDA 10.551
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
SOCIAL SERVICES BLOCK GRANT – CFDA 93.667
CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

INRHODES SYSTEM SECURITY– MONITORING OF SYSTEM ACCESS

The INRHODES computer system is used to administer multiple federally financed benefit programs. The INRHODES system also interfaces with other systems that are integral to the administration of those programs (e.g., MMIS for Medicaid claims processing and E-Funds systems for delivery of electronic benefit payments). Controls over access to the INRHODES system data is provided by a combination of physical, system, and application specific logical access controls.

Logical access controls are the layer of security controls that have been designed to prevent unauthorized individuals from gaining access to the application data. The process of assigning access rights to a specific individual is normally based upon two generally accepted standards of practice – segregation of duties and least privilege. The concept behind least privilege is that staff is granted access to only those resources at or below a specific level of "need to know" sensitivity. Segregation of duties is a critical element of any given security policy. In its proper design, it segregates critical systems, application and operational IT components into separate and distinct job functions that prevent any single individual from doing harm to the application, whether by an accidental or intentional act. Within the INRHODES system, access controls are integral to overall program controls and are essential to prevent opportunities for fraud.

DHS has assigned users predefined user roles, in accordance with their specific position classification / job function. These user roles have been created in an effort to match the appropriate level of system access to his/her specific job function in accordance with the least privilege theory detailed above.

The INRHODES system records all individual user's activity into a security/audit file (log files). These types of log files are commonly referred to as the system's "audit trail". System security specialists can use these log files to identify possible security violations, review individual accountability concerns, reconstruct specific system events, and conduct other types of analysis. Realizing the importance of the creation and security over good audit files, DoIT has included within its published policy manual *#10-07 IT Security Handbook – Technical Controls* – an entire section offering guidance on application audit trail requirements.

As has been noted in prior audits, DHS's systems security administrator does not receive scheduled security reports that allow for the monitoring and tracking of system activities performed by INRHODES users. DHS should ensure that appropriate monitoring reports are developed and provided to the department's appointed system security administrator. DHS should also develop policies and procedures relating to the review of these reports by the systems security administrator and appropriate protocol for following up on issues identified by the department's monitoring.

Questioned Costs: None

RECOMMENDATIONS

2009-35a Finalize, document and implement standard monitoring and tracking security reports that will supply the DHS systems security administrator with required details pertaining to the activities of all INRHODES users.

2009-35b Develop policies and procedures detailing appropriate investigation of issues identified by the department's monitoring procedures.

Finding 2009-36

CHILD NUTRITION CLUSTER:
School Breakfast Program – CFDA 10.553
National School Lunch Program – CFDA 10.555
Special Milk Program for Children – CFDA 10.556
Summer Food Service Program for Children – CFDA 10.559
Administered by: Rhode Island Department of Education (RIDE)

SUBRECIPIENT MONITORING

Federal regulations require School Food Authorities (SFAs) to select and verify a sample of their approved free and reduced price applications each year (CFR 245.6a). The Rhode Island Department of Education (RIDE) is responsible for ensuring that these verifications are completed in accordance with the conditions outlined in the regulations by December 15th of each year (7 CFR 210 18h). RIDE is also required to submit the results of the verification activities to the federal government (FNS-742 report).

RIDE did not have appropriate controls in place during fiscal 2009 to ensure that the SFAs were completing the verification process by the required date (December 15, 2008). We reviewed the related FNS-742 report and found that it did not contain any information for 24 of the 56 SFAs. Of the 32 SFAs that did submit information on their verification activities, only 11 provided complete and accurate data.

Questioned Costs: None

RECOMMENDATIONS

2009-36a Ensure the SFAs are sampling and verifying the minimum number of free and reduced price applications. Enhance monitoring procedures to ensure SFA compliance with the eligibility sampling and verification process.

2009-36b Verify the completeness and accuracy of the FNS-472 report prior to submission to the USDA.

Finding 2009-37

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: Central Falls School District

VERIFICATION OF FREE AND REDUCED PRICE APPLICATIONS

By November 15th of each school year, the School District must verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced price meals. The school district must follow-up on children whose eligibility status has changed as a result of the verification process and put then in the correct category.

The School district did not perform the verification of applications by November 15th. The School District was unaware that this was required. A Coordinated Review Effort (CRE) was conducted at the School District in May 2009. Subsequent to the CRE the school district performed on a sample basis a verification of applications on file. The number of applications selected for verification, however, was insufficient. Twenty-four applications were selected for verification, but federal regulations require a sample of 3% of the total applications on file, up to 3,000. The School District should have selected 52 applications for verification. The School District verified 19 out of the 24 applicants selected and the required changes to the children's eligibility status was made based on the response received, with the exception of one child whose status should have been changed from free to reduced price. Non-responders to the request of verification of eligibility for the remaining 5 applications selected by the School District were not removed from the free and reduced price list in conformance with the federal requirements. Although the School District started operating its food service program as Provision 2, the base year, which is the first year, requires that the School District must identify the meals served by category of paid, free or reduced price. The School District is therefore still required to determine eligibility and perform verification of its base year.

Questioned Costs: None

RECOMMENDATION

2009-37 We recommend that the School District ensure that all personnel responsible for the food service program are aware of the federal compliance requirements.

Finding 2009-38

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC) – CFDA 10.557
Administered by: Rhode Island Department of Health

ALLOWABLE COSTS/COST PRINCIPLES

The WIC program was charged for certain fringe benefit costs that are not allowable under the guidelines established by OMB Circular A-87. This Circular stipulates that the cost of fringe benefits associated with employees out on authorized absences from the job, such as military leave, are an allowable cost of federal programs as long as they are provided under established written leave policies. State policy stipulates that it will cover an employee's health insurance costs during the first two years he/she is out on military leave. We found, however, that the WIC program was charged $15,379 during fiscal 2009 for the health insurance costs of one employee who had been out on military leave for more than two years.

Questioned Costs: $15,379

RECOMMENDATION

2009-38 Reimburse the federal government for the unallowable costs charged to the WIC program.

Finding 2009-39

UNEMPLOYMENT INSURANCE PROGRAM – CFDA 17.225
Administered by: Department of Labor and Training (DLT)

FEDERAL REPORTING

ETA-563

The Trade Adjustment Assistance (TAA) Program provides training and benefits to dislocated workers adversely affected by foreign trade. Training grants are reported under CFDA number 17.245 and benefits are included with other unemployment insurance benefits. Benefit payments (TAA) are payable after regular UI payments have been exhausted are reported separately on the ETA-563 report. Alternative trade adjustment assistance (ATAA) is available in lieu of TAA to eligible workers who are 50 years of age and older and elect to receive it.

The ETA-563 report provides detail over benefit expenditures by type, such as Basic TRA, Additional TAA, and Remedial TAA. A separate report is filed for TAA and ATAA benefits. An internally produced report provides the detail used to create the separate reports, but all expenditures are paid from one RIFANS account. The ETA-563 report for ATAA for June 30, 2009 overstated the amount of benefits paid by $4,803. The error went undetected because there was no supervisory review of the report before it was submitted and no reconciliation was performed between the ETA-563 (submitted) reports, the ETA-251 reports and the State's accounting system - RIFANS.

Questioned Costs: None

RECOMMENDATION

2009-39a Review reports prior to submission to ensure data is consistent with supporting information systems. Perform a reconciliation between the reports and RIFANS.

ETA-227

The ETA-227 report is a quarterly report that details the activity in the area of benefit overpayment determination and collection activity. Overpayment activity is recorded within the benefit payment system and each quarter, reports are produced by the system to support the ETA-227 report.

DLT personnel use reports from the benefit system to record activity in the state's accounting system as well as prepare the ETA-227 report. The accounting system entries and the federal reports are prepared by staff within different offices of the department and no comparison is done between the accounting data and the reports.

We found that while the federal reports did agree to supporting documentation, there were errors in the postings to RIFANS. These errors might have been detected if the RIFANS data were compared to the reports. Ultimately, federal reports should be consistent with, and supported by, the information recorded in the State's accounting system

Questioned Costs: None

RECOMMENDATION

2009-39b Perform a reconciliation between the ETA 227 reports and RIFANS.

Finding 2009-40

UNEMPLOYMENT INSURANCE PROGRAM – CFDA 17.225
Administered by: Department of Labor and Training (DLT)

REAL PROPERTY MANAGEMENT

Whenever property purchased with federal funds is sold, the portion of the purchase price that consisted of federal funds must be returned to the awarding agency. In November 1991, the State purchased property in Warren, RI for use as a local office. A portion of the purchase was paid with Unemployment Insurance program funds. This building was sold in July 2008, but the funds were not returned to the Department of Labor until December 2009.

Questioned Costs: None

RECOMMENDATION

2009-40 Return funds to the federal Department of Labor in a timely manner upon the sale of property purchased with federal funds.

Finding 2009-41

WIA CLUSTER
WIA Adult Program – CFDA 17.258
WIA Youth Activities – CFDA 17.259
WIA Dislocated Workers – CFDA 17.260
Administered by: Department of Labor and Training (DLT)

FINANCIAL REPORTING

Controls over federal financial reporting for the WIA Cluster can be improved by better aligning the accounting system used to prepare the reports with specific grant authorizations for each year.

Federal financial reports for the WIA Cluster are based on financial information from DLT's cost allocation system, known as FARS. The FARS system establishes a ledger for each funding source. Expenditures are disbursed through the State's RIFANS accounting system and then recorded to the appropriate FARS ledger. Due to the complex administration of the WIA Cluster, there were 45 accounts and 19 fund ledgers in use in fiscal 2009. Ledgers are established for each grant year, but do not contain all the activity of the particular grant award. The amount of expenditures reported by grant award is derived by totaling all active ledgers and applying expenditures to the oldest grants first until each is fully expended. When ledgers are closed, the total expenditures recorded may not match with the amount authorized.

DLT is attempting to establish new fund ledger balances in amounts that correspond to funding authorizations.

Questioned Costs: None

RECOMMENDATION

2009- 41 Establish authorized balances within FARS ledgers consistent with grant award documentation.

Finding 2009-42

WIA CLUSTER
WIA Adult Program – CFDA 17.258
WIA Dislocated Workers – CFDA 17.260
Administered by: Department of Labor and Training (DLT)

ELIGIBILITY

Individuals receiving services under the Adult and Dislocated Worker programs within the WIA Cluster must meet various eligibility requirements. Eligibility is determined by case-workers at netWorkRI offices throughout the state utilizing various questionnaires and forms to obtain eligibility information. Some of the key eligibility determinants are that the client be "unlikely to return to a previous industry or occupation", the selective service status in the case of male applicants, and receipt of completion of "intensive" services prior to enrollment in training for adult and dislocated workers.

We found that documentation of client eligibility could be improved. In 12 out of the 22 case files examined, we noted deficiencies. These deficiencies consisted primarily of missing or improperly prepared checklists, inadequate or missing proof of core and intensive services provided and instances of inconsistent data. Missing or erroneous documentation could impact the client's eligibility for program services.

In prior years, the department used a form called the "WIA Services Data Sheet". We found this form helpful in determining whether core and/or intensive services had been provided in accordance with regulations. While this form is now used inconsistently, we believe its use could improve controls over the documentation of eligibility determinations for WIA Cluster program services.

Questioned Costs: None

RECOMMENDATION

2009- 42 Provide additional training to staff regarding eligibility documentation requirements. Reintroduce the "WIA Services Data Form" or other instrument to summarize the delivery of core and intensive services.

Finding 2009-43

HIGHWAY PLANNING AND CONSTRUCTION – CFDA 20.205
Administered by: Rhode Island Department of Transportation (RIDOT)

DAVIS-BACON ACT REQUIREMENTS

RIDOT can enhance its compliance with Davis-Bacon Act requirements by improving its documentation of required compliance checks and ensuring that contractors and subcontractors submit weekly-certified payrolls.

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 submitting copies of payrolls and signed statements of compliance.

RIDOT has established various internal controls to monitor contractor compliance with Davis-Bacon requirements. These monitoring procedures, as documented in the Department's *"Procedures for Uniform Record Keeping"* (PURK) manual require each project's resident engineer to ensure that a labor compliance check is performed at least twice per year. 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 21 active construction contracts 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 been performed at the stated interval. Our audit disclosed the following:

- 3 (14%) of the 21 projects tested had at least one labor compliance checklist missing, and

- 3 (7%) of 41 checklists were missing.

Control procedures should be enhanced to ensure labor compliance monitoring is performed at required intervals and documentation of the monitoring procedures is retained within project files.

Federal regulations require verification that the contractors and subcontractors submit weekly certified payrolls. As part of our review of contractor payroll supporting documentation, we noted RIDOT did not have 8 contractors or sub contractors certified payrolls on file and 57 payrolls on file were not certified by the contractor or sub contractor. RIDOT should strengthen controls to ensure contractor submission of certified payroll documentation is timely and complete.

Questioned Costs: None

RECOMMENDATION

2009-43 Strengthen oversight of the labor compliance monitoring procedures to ensure contractor compliance with Davis Bacon Act requirements. Enforce completion of labor compliance checklists and receipt of certified payrolls.

Finding 2009-44

HIGHWAY PLANNING AND CONSTRUCTION – CFDA 20.205
Administered by: Rhode Island Department of Transportation (RIDOT)

SPECIAL TESTS AND PROVISIONS - MATERIALS TESTING

RIDOT should strengthen internal procedures to ensure that all required materials testing is performed and documented in accordance with federal regulations and its departmental policy manual. Federal regulations (23 CFR 637.205) require that state transportation departments must have a sampling and testing program for construction projects to ensure that materials and workmanship generally conform to approved plans and specifications. RIDOT's policies, procedures and employee responsibilities relating to materials sampling and testing are outlined in its *Procedures for Uniform Recordkeeping* (PURK) manual.

RIDOT utilizes the Federal Highway Administration's (FHWA) approved *Master Schedule for Sampling, Testing and Certification of Materials* to develop a materials test book for each construction project. Materials test books are unique to each project based on the construction materials to be used, the types of tests required for each item and the minimum number of tests to be conducted.

We selected a sample of 46 items from 21 fiscal 2009 projects, to determine whether RIDOT completed the required materials testing as specified in each project's materials test book. We noted exceptions for 6 (29%) of the 21 projects as follows:

- Contractors are required to provide a Certificate of Compliance to ensure that all materials used on a project meet standard specifications. Items requiring these certificates are detailed in the materials test book. RIDOT's PURK manual requires the resident engineer to obtain the appropriate Certificates of Compliance in duplicate from the contractor. One copy should be retained in the field records and one copy should be submitted immediately to the RIDOT's

Materials Section. RIDOT could not provide 3 contractor Certificates of Compliance. Two Certificates of Compliance were subsequently obtained by RIDOT's Construction Office.

- Documentation of 3 test results for various types of required tests were not on file at either the project field office or RIDOT's materials laboratory.

RIDOT should improve its quality assurance program with respect to materials testing consistent with federal regulations and guidelines and the specific recommendations made by the FHWA. FHWA reviewed RIDOT's materials handling policies and procedures and issued a report which cited the department for noncompliance with those procedures and applicable federal requirements related to materials testing. Additionally, FHWA has disallowed approximately $3.7 million of project costs ($2.9 million federal share) for failure to comply with materials testing provisions during state fiscal year 2009.

Questioned Costs: $25,391

RECOMMENDATIONS

2009-44a Improve the RIDOT quality assurance program for materials testing consistent with federal regulations and guidelines and the specific recommendations made by the Federal Highway Administration.

2009-44b Ensure all required certificates of compliance have been received and recorded in the materials test book prior to contractor payment for the materials.

2009-44c Improve documentation for tests completed to comply with the FHWA approved *Master Schedule for Sampling, Testing and Certification of Materials.*

2009-44d Require all test results be documented in the materials test book prior to vendor payment of the related materials.

2009-44e Require staff to report any errors in the materials test book to the appropriate RIDOT personnel for correction.

Finding 2009-45

HIGHWAY PLANNING AND CONSTRUCTION – CFDA 20.205
Administered by: Rhode Island Department of Transportation (RIDOT)

SUBRECIPIENT MONITORING

The Rhode Island Department of Transportation (RIDOT) did not have adequate policies or procedures in place during the fiscal year to monitor its subrecipients. In fiscal 2009, RIDOT passed-through approximately $57.5 million of Highway Planning and Construction funds to subrecipients (mostly local municipalities – $5.1 million and the Rhode Island Airport Corporation - $52.4 million).

Subrecipients are required to submit a Single Audit Report to RIDOT if they meet certain criteria outlined in OMB Circular A-133 regarding total expenditures of federal awards. Federal regulations require the pass-through entity (RIDOT) to issue management decisions on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action. Timely review of subrecipient audit reports and appropriate follow-up is an important component of overall subrecipient monitoring designed to ensure compliance with federal requirements by subrecipients. RIDOT has not obtained or reviewed the Single Audit Reports of subrecipients required to have audits performed.

RIDOT is required to provide the subrecipient with federal award information (e.g., CFDA title and number, award name, name of federal agency) and applicable compliance requirements. RIDOT does not include the CFDA title and number, federal agency or applicable compliance requirements in its subrecipient agreements as required.

RIDOT is also required to monitor the subrecipient's use of federal awards through reporting, site visits, regular contact or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws and regulations. RIDOT asserted that it performed site visits, reviewed contractor and sub-contractor billings and communicated regularly with its subrecipients; however, we found that these monitoring activities were not well documented.

Questioned Costs: None

RECOMMENDATIONS

2009-45a Establish written policies and procedures for subrecipient monitoring and establish a schedule of projects for review and document the monitoring performed.

2009-45b Identify all federal awards passed-through to subrecipients by project.

2009-45c Ensure subrecipients have had required single audits performed and review the audit reports on a timely basis including issuing management decisions within required timeframes.

2009-45d Provide required information to subrecipients in contracts such as CFDA number and title, federal agency and applicable compliance requirements including identification of ARRA funding.

2009-45e Evaluate the impact of subrecipient activities on RIDOT's ability to comply with applicable federal regulations.

2009-45f Communicate, to first-tier subrecipients, that they must maintain current registrations in the Central Contractor Registration, including obtaining a Dun and Bradstreet Data Universal Numbering System (DUNS) number, in accordance with Section 1512(h), ARRA, and 2 CFR 176.50(c).

Finding 2009-46

HIGHWAY PLANNING AND CONSTRUCTION – CFDA 20.205
Administered by: Rhode Island Department of Transportation (RIDOT)

ACCOUNTABILITY FOR ARRA FUNDING

The Rhode Island Department of Transportation (RIDOT) can improve controls to ensure that its expenditure of American Recovery and Reinvestment Act (ARRA) funding is accurately reported by the State. ARRA funded expenditures for the Highway Planning and Construction Program for Fiscal 2009 were $5.4 million.

RIDOT uses its FMS system to track ARRA funding at project level detail. However, the State's Schedule of Expenditures of Federal Awards (SEFA) and other official representations of ARRA expenditures are derived from the State's accounting system (RIFANS) which lacks project-level specificity. Timing and other differences exist between the two systems. A reconciliation is performed between the two systems; however, ARRA expenditures reported by the two systems are not specifically reconciled. Reconciliation controls should be improved to ensure that ARRA funded expenditure amounts reported in RIFANS are consistent with project level detail expenditures reported in RIDOT's FMS.

Questioned Costs: None

RECOMMENDATION

2009-46 Reconcile ARRA expenditures reported by the RIDOT FMS and the State's accounting system to ensure consistent and reliable reporting of Highway Planning and Construction funding provided by ARRA.

Finding 2009-47

HIGHWAY PLANNING AND CONSTRUCTION – CFDA 20.205
Administered by: Rhode Island Department of Transportation (RIDOT)

CASH MANAGEMENT

The Rhode Island Department of Transportation (RIDOT), with the concurrence of the Federal Highway Administration, drew $6 million in November 2008 to fund (along with $1.5 million of state funds) an indemnity reserve account required for an intermodal transportation project. The indemnity reserve, which was required by AMTRAK, was satisfied by placing $7.5 million in a restricted account within the Rhode Island Public Rail Corporation (a component unit of the State). The funds were not disbursed for indemnity claims or for Highway Planning and Construction project costs and were subsequently returned in September 2009 when a letter of credit was obtained to satisfy the indemnity reserve requirement.

We view the draw of Highway Planning and Construction federal funds for this purpose to be noncompliant with cash management requirements since the funds were held in an interest bearing account for a substantial period prior to disbursement for actual Highway Planning and Construction program costs. The estimated interest liability on this transaction for fiscal 2009 is $22,200.

Questioned Costs: None

RECOMMENDATION

2009-47 Include the interest liability related to the draw of $6 million of federal funds used to fund an indemnity reserve on the State's Annual CMIA Report.

Finding 2009-48

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: Department of Elementary and Secondary Education

SUBRECIPIENT CASH MANAGEMENT

OMB Circular A-102 "The Common Rule" requires that agencies "minimize the time elapsed between the transfer of funds from the pass-through entity and their disbursement."

RIDE routinely makes advance payments to school districts at the end of the fiscal year to cover anticipated payables and to reflect subrecipient payments in the appropriate state fiscal year. After each school district completes their fiscal closing, districts will either request additional funds or return any over-payments of advances based on their final school year grant expenditures. Usually, overpayments and subsequent returns are minimal; however, at the close of fiscal 2009, one community obtained large advances, which were mostly refunded in October 2009. For example, one district received an advance of $389,681 in Improving Teacher Quality State Grants funds on July 13, 2009. The district refunded $552,704 of program funds on October 14, 2009. This resulted in the community having excess federal funds on hand which is prohibited by federal cash management requirements.

RIDE has reasonable procedures in place during the fiscal year to prevent excessive cash balances by subgrantees; however, estimates at the close of the fiscal year used to process payments to subrecipients should be refined to ensure subrecipient cash balances are limited to their immediate needs.

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

2009- 48 Restrict or eliminate advance payments to districts at the end of the fiscal year. Refine estimates used to make estimated payments to subrecipients to ensure balances are limited to their immediate cash needs.

Finding 2009-49

TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES – CFDA 84.010
STATE FISCAL STABILIZATION FUND CLUSTER
State Fiscal Stabilization Fund – Education State Grants – CFDA 84.394
Administered by: Central Falls School District

PERSONNEL ACTIVITY REPORTS

Attachment B of OMB Circular A-87 "*Cost Principles for State, Local, and Indian Tribal Governments"* states that wages, salaries and fringe benefits charged to federal awards are allowable only to the extent that they are determined and documented as provided in Section 8(h). Specifically, where employees 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 of the certification. These certifications must be prepared semi-annually and signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must reflect after-the-fact distribution of the actual activity of the employee and must account for the total activity for which the employee was compensated. Personnel activity reports must be prepared at least monthly and must coincide with one or more pay periods. Finally, the personnel activity report must be signed by the employee. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for the charges to federal awards.

The School District does not have a system in place for employees' salaries and benefits charged to federal awards that requires periodic certifications for employees that work solely on a single federal award or cost objective, or a system that requires personnel activity reports or equivalent documentation for those employees who work on multiple activities or cost objectives.

Questioned Costs: $2,840,862

RECOMMENDATION

2009-49 We recommend that the School District implement policies and procedures that require that all employees charged to federal awards who work on a single cost objective complete semi-annual certifications. We also recommend that the School District require employees charged to federal awards who work on multiple cost objectives complete personnel activity reports as required by OMB Circular A-87.

Finding 2009-50

TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES – CFDA 84.010
Administered by: Central Falls School District

SUPPORTING DOCUMENTATION FOR EXPENDITURES

An entity is responsible for maintaining effective internal controls over compliance with requirements of laws, regulations, contracts and grants applicable to federal award programs.

The School District has internal control policies and procedures to ensure compliance with the types of activities allowed/unallowed, allowable costs/cost principals and period of availability of federal funds requirements. The School District's internal control procedure to ensure compliance with these requirements is the approval of all grant expenditures by the Grant Coordinator.

We selected a sample of 40 expenditures charged to the Title I program and determined that 14 of the expenditures had no documentation to support that the expenditures had been approved by the Title I Grant Coordinator. The School District's internal controls over compliance of the requirements of activities allowed/unallowed, allowable costs/cost principals and period of availability of federal funds are not operating effectively.

Questioned Costs: None

RECOMMENDATION

2009-50 We recommend that the School District adhere to its established policies and procedures to ensure compliance with requirements of federal award programs.

Finding 2009-51

TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES – CFDA 84.010
Administered by: Central Falls School District

ACTIVITIES ALLOWED/UNALLOWED

An entity is responsible for maintaining effective internal controls over compliance with requirements of activities allowed/unallowed, which are funded under federal award programs.

The School District's federal awards are authorized and approved by the Rhode Island Department of Elementary and Secondary Education. The federal grant award includes a budget that outlines the expenditures or activities that are allowed under the federal grant.

We determined, based on the test of Title I expenditures, that the School District charged to the Title 1 grants, costs incurred for conferences attended by the Technology Director and the District Attendance Office. The conferences were not budgeted as an allowable activity for the Title I grant. The Grant Coordinator had not approved these expenditures. Total expenditures charged to Title I were $2,162.

The School District also charged to the Title I grant the cost incurred for a Literacy Intervention Consultant. The Grant Coordinator approved the total Literacy Intervention Consultant contract of $40,000 to be charged to professional services. The consultant was paid from September 2008 through March 2009 as a vendor for a total of $33,250 and starting in April 2009 the consultant was paid through the payroll system as a School District employee for a total of $8,405. The School District charged costs for the Literacy Intervention Consultant to the Title I grant as follows: Salaries - $14,405 and Professional Development and Training - $27,250, $6,000 in consulting fees was incorrectly recorded to salaries. The consultant continued to provide the same services provided under the professional service contract for the period April 2009 through June 2009. The reason the consultant was changed and being paid as an employee is unclear. The services provided by the Literacy Intervention Consultant included some time for Professional Development and Training. The original entry to record the consulting fees of $27,250 was to Professional Services and then reclassified to Professional Development and Training.

The School District did not adhere to its established policy and procedure, which requires that the federal grant expenditures be charged to the accounts approved by the Grant Coordinator. It appears the expenditures were recorded to the Salary and Professional Development and Training accounts based on the budget availability and not based on the services provided.

<u>Questioned Costs</u>: $2,162

<u>RECOMMENDATION</u>

2009-51 We recommend that the School District charge expenditures to federal grants based on the expenditure accounts approved by the Grant Coordinator which are based on the allowable activities approved in grant award budgets.

Finding 2009-52

REHABILITATION SERVICES – VOCATIONAL REHABILITATION GRANTS TO STATES – CFDA 84.126
Administered by: Department of Human Services, Office of Rehabilitation Services (ORS)

<u>SUSPENSION AND DEBARMENT</u>

Guidance for states for suspension and debarment is included in the Code of Federal Regulations 2 CFR 180. "Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other specified criteria. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

When a non-Federal entity enters into a covered transaction 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 Office of Rehabilitation Services (ORS) operates under "delegated authority" from the State's Division of Purchases. ORS utilizes various client service providers and contractors for the operation of the Vocational Rehabilitation (VR) and Services for the Blind and Visually Impaired programs. ORS is not obtaining the required suspension and debarment certifications nor reviewing the EPLS website for its providers supplying goods and services under the limited delegated contracting authority for the VR program.

During fiscal 2009, 50 vendors were paid more than $25,000 from Vocational Rehabilitation Grants to States funding. We found that none of vendor names appeared on the EPLS.

ORS personnel should enhance their internal procurement procedures to include required certifications regarding suspension and debarment from vendors, or alternatively periodically checking the Excluded Parties List System (EPLS) for notice of suspension or disbarment.

Questioned Costs: None

RECOMMENDATION

2009-52 Ensure that no vendors paid with Vocational Rehabilitation Grants to States funding are suspended or debarred parties by obtaining certifications or documenting review of the EPLS website.

Finding 2009-53

STUDENT FINANCIAL ASSISTANCE CLUSTER:
Academic Competitiveness Grants – CFDA 84.375
Administered by: University of Rhode Island

SUPPORTING DOCUMENTATION FOR ELIGIBILITY

In order for a student to qualify for an Academic Competiveness Grant (ACG) the student is required to have successfully completed a rigorous secondary school program. The University was unable to provide us with documentation evidencing that three of the forty students tested, aggregating $3,900 of ACG funds, had completed a program.

According to 34 CFR Part 691.15, an institution must document a student's completion of a rigorous secondary school program of study using either documentation provided directly to the institution by the cognizant authority or documentation from the cognizant authority provided by the student. An example of a document that can satisfy the requirement is a high school transcript.

The cause of this condition has been attributed to the University's policy of maintaining high school transcripts for only the student's freshman year. The three students for which the required documentation was unavailable were all sophomores.

Questioned Costs: $3,900

RECOMMENDATION

2009-53 We recommend that management of the University implement policies and procedures to ensure that the proper documentation is maintained to support the Academic Competiveness Grant.

Finding 2009-54

IMMUNIZATION GRANTS – CFDA 93.268
Administered by: Rhode Island Department of Health (DOH)

ALLOWABLE COSTS/COST PRINCPLES

DOH did not allocate payroll costs to the Immunization Grants program in accordance with federal regulations. As a result, we cannot determine if the federal government was charged for the appropriate amount of such costs (the related expenditures charged to the federal government in fiscal 2009 totaled $822,274).

Nearly all DOH employees assigned to the federal Immunization Grants program also worked on other state and federal programs. The state payroll system was programmed to allocate some of the payroll costs to the Immunization Grants based on an estimate of the amount of time each employee was expected to work on this activity. This is an allowable practice if the estimated charges are periodically compared to actual costs and the appropriate adjustments are entered into the accounting system.

More specifically, federal regulations (OMB Circular A-87) require that in situations where employees work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation. These reports must reflect an after-the-fact distribution of the actual activity, be prepared at least monthly, and be signed by the employee. The regulations allow for estimated allocations, but these estimates must be compared to actual costs at least quarterly, and adjustments must be made if differences are more than ten percent. Otherwise, the adjustment may be recorded annually.

We found that DOH did in fact prepare appropriate personnel activity reports delineating an after-the fact recording of actual time spent on various activities. DOH did not, however, use these reports to make the required adjustments to payroll charges.

The State should implement the Human Resource module within the RIFANS accounting system to automate and standardize time reporting within State agencies. This would greatly facilitate documentation of payroll charges to federal programs and the allocation of such costs to multiple activities and programs.

Questioned Costs: Undetermined

RECOMMENDATION

2009-54 Perform quarterly comparisons between estimated payroll allocations and actual time and effort reports and prepare the required adjustments.

Finding 2009-55

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
SOCAL SERVICES BLOCK GRANT – CFDA 93.667
CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

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

Federal regulation (45 CFR section 95.621) mandates that States are responsible for the security of all ADP operational systems involved in the administration of U.S. Department of Health and Human Services (DHHS) programs. State agencies are required to determine and implement appropriate ADP security requirements based on recognized industry standards governing security of federal ADP systems and information processing. Such requirements include the establishment of a security plan that addresses the following areas of ADP security:

- physical security of ADP resources;
- equipment security to protect equipment from theft and unauthorized use;
- software and data security;
- telecommunications security;
- personnel security;
- contingency plans to meet critical processing needs in the event of short or long-term interruption of service;
- emergency preparedness; and,
- designation of an agency ADP Security Manager.

45 CFR section 95.621 also requires State agencies to review the ADP system security of installations involved in the administration of DHHS programs on a biennial basis. At a minimum, these reviews shall include an evaluation of physical and data security operating procedures and personnel practices to ensure that they comply with the ADP security plan established by the agency. State agencies must also establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost-effective safeguards are incorporated into new and existing systems. Such risk analysis procedures should be performed whenever significant system changes occur.

DHS utilizes two primary systems, INRHODES and the Medicaid Management Information System (MMIS), to administer DHHS federal programs. Benefits processed through these two systems during fiscal year 2009 totaled over $2 billion. These systems are interrelated --Medicaid eligibility is determined within INRHODES and then transmitted to the MMIS where Medicaid claims are paid. In addition to its eligibility determination functions, INRHODES also determines benefit amounts for federal programs such as TANF and Food Stamps.

During fiscal year 2009, DHS did not comply with the biennial ADP Risk Analysis and System Security review requirements for the MMIS and INRHODES.

We noted some deficiencies in internal control relating to IT security over the MMIS. We also determined that internal control deficiencies found during our fiscal 2008 audit had not been fully addressed. We have communicated the specific deficiencies that we believe collectively represent moderate risks to the overall IT security of the MMIS confidentially to DHS as permitted by General Law section 22-13-10. These deficiencies continue to support DHS's need for more resources relating to IT security and governance over all information system resources administered by the department.

DHS can best comply with the above federal requirements by implementing a comprehensive system security review process to assess and manage the risks of both systems as well as other ADP issues impacting the administration of HHS programs. DHS should coordinate its efforts with the State's Division of Information Technology (DoIT), the division responsible for the coordinated security of all mission critical systems of the State. DoIT has promulgated information system security policies and procedures that reflect accepted industry standards and additionally could provide experienced information systems security staff to be part of the periodic ADP risk analysis team. By coordinating its efforts with DoIT, DHS could better ensure that the MMIS and INRHODES systems meet the federally mandated ADP risk analysis requirements as well as the system security policies promulgated by the State.

Questioned Costs: None

RECOMMENDATIONS

2009-55a Develop an enterprise-wide 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.

2009-55b Implement procedures and dedicate information systems security resources to ensure that ADP risk assessments are conducted at required intervals and when significant system changes occur in accordance with federal regulation 45 CFR 95.621.

2009-55c Coordinate information system security activities for the MMIS and INRHODES systems with the State's Division of Information Technology to ensure compliance with the State's mandated information systems security policies and procedures.

Finding 2009-56

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558
CHILD CARE 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)

ELIGIBILITY - CASE FILE DOCUMENTATION

The Department provides cash assistance and other services to eligible families in an approved employment plan of the State's Rhode Island Works Program (RI Works), formally known as the

Family Independence Program (FIP). It also provides services to children of low-income families whose gross income is within established eligibility limits. The RI Works Office accepts applications and approves payments for RI Works cash assistance and childcare services. Families apply for RI Works cash assistance using the DHS Application for Assistance and the Statement of Need forms. Families seeking eligibility for the Child Care Assistance Program (CCAP) must submit a signed RI Works request for services or CCAP application form. All RI Works and child care service applications are required to be submitted 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, as well as, other program specific eligibility factors such as the amount of resources, age of children, etc. as applicable.

We tested the case files of 50 families receiving RI Works cash assistance and/or childcare services to determine whether the proper eligibility determinations were made, and whether payments were calculated in accordance with program requirements, and included required documentation and verifications. We noted the following issues concerning the eligibility determination process:

- Eight instances where the required hard copy documentation (e.g., application, income documentation, physician's verification, etc.) could not be located.
- Two instances where a case file containing all hard copy documentation relating to the period tested could not be located (e.g., application, income and resource documentation, referral forms etc.).
- Three instances where the earned income amounts (wages) utilized in the eligibility calculation varied from the hard-copy income documentation in the case file.
- One instance where application questions concerning certain federal prohibitions were not answered by the applicant.
- Two instances where there was no electronic information or hard copy documentation indicating employment or that a timely referral for a work activity was made and/or attendance confirmed and followed up on by a case worker when applicable.

Supervisors perform routine case reviews on a sample basis to ensure that workers are determining eligibility appropriately. However, we found that child care cases are not specifically included in this case sample review process. DHS informed us that other compensating case review procedures are periodically performed for child care cases.

Controls should be further strengthened to ensure that workers comply with established procedures thereby assuring the accuracy of eligibility determinations and calculations of benefits or provider payments. Further, the Department should expand its pilot project where certain documentation provided by the applicant is scanned and stored electronically within the INRHODES system to eliminate paper records and facilitate retrieval of critical eligibility documentation.

<u>Questioned Costs</u>: Unknown

RECOMMENDATIONS

2009-56a Strengthen controls to ensure adherence to procedures requiring agency personnel obtain and properly utilize required documentation to update electronic case file records prior to determining eligibility and payment amounts, as well as, determining and enforcing compliance with work participation requirements.

2009-56b Include childcare cases in the sample case review process.

2009-56c Expand the pilot project where certain applicant eligibility documentation is scanned and stored within the INRHODES system to eliminate paper records and facilitate retrieval of critical eligibility documentation.

In addition, we found that the Department inappropriately charged and reported on the ACF-696 Child Care and Development Fund Financial Report (OMB No. 0970-0163) ineligible child care costs totaling $51,875 for FFY 2008 payments relating to children age thirteen and above. Federal regulation 45 CFR Section 98.20(a) specifies that in order to be eligible for child care services a child shall be under thirteen years of age (or up to age nineteen, if incapable of self care or under court supervision) DHS should develop control procedures to ensure that these ineligible costs are not charged to the program in the future.

Questioned Costs: $51,875

RECOMMENDATIONS

2009-56d Develop control procedures to prevent ineligible child care costs from being charged to the program.

2009-56e Adjust the federal report accordingly for the amount inappropriately claimed.

Finding 2009-57

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 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 information resulting from the IEVS data matches is posted in the case record. Our testing involved randomly selecting 40 TANF cases from state fiscal year 2009 in which 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 2009. We compared this file to another file containing all TANF benefit payments made during state fiscal years 2008 and 2009. The comparison was done to identify which data matches involved cases that received TANF benefit payments during the quarter to which the discrepancy applied and we randomly selected 40 of these cases for testing.

We identified the following exceptions during our testing:

- Eighteen (18) cases with discrepancies resulting from data matches were not investigated or resolved. Based on our evaluation of electronic case file data, these discrepancies may impact eligibility or the household's benefits.

- Eight (8) cases where discrepancies were "cleared" by the caseworker by electronically entering an action code (e.g., no discrepancy exists); however, no documentation or comments in the electronic case file were present supporting the propriety of this determination. Based on our evaluation, these discrepancies may impact the household's eligibility or benefit level. Since these data matches were "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.

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).

<u>Questioned Costs</u>: None

<u>RECOMMENDATIONS</u>

2009-57a Further 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.

2009-57b Maintain documentation supporting the resolution of data match discrepancies and initiate modifications when discrepancies impact eligibility and/or amount of benefits.

Finding 2009-58

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558
Administered by: Department of Human Services (DHS)

SPECIAL REPORTING AND TANF FINANCIAL REPORT

The Department's internal control procedures require further strengthening to ensure the reliability of data reported on the ACF-204 (*Annual Report including the Annual Report on State Maintenance-of-Effort (MOE) Programs – OMB No. 0970-0248*). This annual report is submitted to the Administration for Children and Families, U.S. Department of Health and Human Services and contains information on the TANF program and the State Maintenance of Effort program(s). The same expenditure information is also reported on the ACF-196, TANF Financial Report.

Data needed to prepare these reports is accumulated from a variety of sources including other departments and agencies of state government. In general, DHS needs to further improve its documentation of such data and ensure that relevant source documentation is consistently retained or referenced to support amounts claimed. Further, documentation to support both the ACF-196 and ACF-204 reports, particularly in the case of MOE claimed expenditures, should reference qualifying regulations or other federal guidance for such expenditures.

Specific variances noted during our review of these reports for FFY 2008 are summarized below:

- The amount reported for the State Funded Head Start Program for Low Income Children was $2.2 million. The state accounting system only reflected expenditures totaling $1,320,000 - a difference of $880,000.

- Expenditures totaling $2,627,170 were reported for several TANF contracts, such as the Department of Education Project Opportunity Program and the Department of Labor and Training Rapid Job Entry Program. The state accounting system and cost allocation system for FFY 2008 totaled $2,743,860 resulting in a potential under-claim of $116,690.

- Child Support Pass-through was reported at $994,996 and the state accounting system indicated expenditures of only $928,098 - a difference of $66,898.

- DHS reported $5,010,255 in State Supplemental Payments for SSI (Supplemental Security Income) Families for FFY2008. DHS used estimates for three of the months included in the amount they reported as they could not locate the hard copy reports and did not extract the data which was recorded in the INRHODES system. Actual expenditures were subsequently obtained from INRHODES for the months estimated. The actual amount paid per INRHODES for FFY2008 was $5,016,232, yielding a difference of $5,977 which was under-reported on the ACF 196 and the ACF 204 reports.

- We noted differences in the reported number of families served for various programs included in the ACF-204 report when compared to supporting documentation. The differences resulted from computational errors or inaccurate information. For example:

  - The average monthly families served for Program Administration on the ACF-204 was 3,706 which was overstated by 2,690 families.

  - The average monthly number of families served was overstated by 1,081 on the ACF-204 report for the State Funded Medical Program for Legal Non-Citizen Children and Pregnant Women Eligible for Medical Assistance Due to PRWORA Restrictions (MA Undocumented).

  - The average monthly number of families served was reported at 541on the ACF-204 for the Child Care Assistance Program. The average number of families served per the Child care batch reports for the same period totaled 1,016, resulting in an under-statement of 475 for the average monthly number of families served.

  - DHS claimed 298 average monthly families served for the Housing Assistance for Low Income Families program but was unable to provide adequate supporting documentation for the amount reported.

Control procedures over the preparation and review of the ACF-196 and ACF-204 reports should be further enhanced to ensure that all necessary information is included in the report and the information is accurate and is supported by appropriate data and calculations. A standardized documentation format should be implemented to ensure the completeness and reliability of data obtained from other departments.

Questioned Costs: None

RECOMMENDATIONS

2009-58a Continue to enhance control procedures over the preparation of the ACF-196 and ACF-204 reports to ensure that all necessary information is included in the report and the information is accurate and supported by appropriate data and calculations.

2009-58b Correct the federal fiscal year 2008 ACF-204 and ACF-196 reports and resubmit them to the federal government.

Finding 2009-59

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558
Administered by: Department of Human Services (DHS)

REPORTING – ACF-196, TANF FINANCIAL REPORT

We found that expenditures identified on the ACF-196 TANF financial report are not consistently supported by the State's accounting records. For example, for the period October 1, 2008 to June 2009 expenditures recorded in the state accounting system were approximately $10.8 million more than reported on the TANF ACF-196 Financial Reports for the same period. This appears primarily due to a timing difference as approximately $8.1 million of the variance reversed in the succeeding quarter.

Questioned Costs: None

RECOMMENDATION

2009-59a Reconcile and document timing differences which result in variances between the reported total expenditures on the quarterly ACF-196 TANF Financial Report and amounts reflected in the state accounting system.

In addition, we noted variances between amounts reported on the FFY 2008 ACF-196 report for contract costs and amounts recorded in the state accounting system and the department's cost allocation system as follows:

- The federal portion of the contract charges reported on the ACF 196 were $169,196 more than identified in the state accounting system and cost allocation system for FFY 2008.
- The state maintenance of effort (MOE) portion of contract costs reported on the ACF-196 were $116,690 less than recorded in the state accounting system and cost allocation system for FFY 2008.

The department was unable to identify the nature of the contract variances noted above.

Questioned Costs: Unknown

RECOMMENDATION

2009-59b Adjust the ACF-196 TANF Financial Reports to charge the proper amounts for contract costs.

Finding 2009-60

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558
Administered by: Department of Human Services (DHS)

LEVEL OF EFFORT - MAINTENANCE OF EFFORT

The Department of Human Services (DHS) should strengthen controls to ensure that all TANF Maintenance of Effort (MOE) costs claimed on the ACF-196 and ACF-204 are properly documented to demonstrate compliance with applicable federal regulations. On the FFY 2008 ACF196 (*TANF Financial Report*) and ACF 204 (*Annual Report including the Annual Report on State Maintenance-of-Effort (MOE) Programs – OMB No. 0970-0248),* DHS claimed approximately $4.1 million in MOE costs for Housing Assistance for Low Income Families. Although an allowable cost, the Department could not provide documentation supporting that these costs were properly accruable to FFY 2008 or that they were paid for TANF eligible families.

Questioned Costs: $4,100,000

RECOMMENDATION

2009-60 Strengthen controls to ensure amounts reported on the ACF-196 and ACF-204 are supported by proper documentation demonstrating compliance with applicable federal regulations.

Finding 2009-61

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Administered by: Department of Administration – Office of Energy Resources (OER)

CASH MANAGEMENT

Federal cash management regulations require the State to limit the amount of federal funds on hand prior to disbursement for program purposes. The Office of Energy Resources (OER) is required to draw cash for the Low Income Home Energy Assistance Program (LIHEAP) in accordance with the Treasury-State agreement. Payments to subrecipients, which totaled nearly $33 million in fiscal 2009, represent the majority of program expenditures. The draw technique established in the 2009 Treasury-State agreement for Grant Payments to Non Profits is Actual Clearance, ZBA – ACH with a clearance pattern of zero days. Under this technique, draws of federal funds should be timed to coincide with the clearance of the ACH payment from the State's bank account.

OER did not consistently follow the technique specified in the Treasury-State agreement in drawing federal funds for LIHEAP. Generally, federal funds were not drawn to coincide with the payments made to subrecipients. This resulted in numerous instances where federal cash balances were in excess of immediate program needs. For example, the following draws of federal funds resulted in excessive cash balances for extended periods:

- $1.6 million draw which was not fully expended for 36 days
- $1.8 million draw which was not fully expended for 17 days
- $4.0 million draw which was not fully expended for 71 days

OER should consistently follow the draw technique specified in the Treasury-State agreement in drawing funds for the program. Payments to subrecipients could be scheduled periodically and one draw could be performed for the actual payments made. This would be compliant with the Treasury-State agreement and would be considered interest neutral - no interest liability would be incurred to the federal government for excess federal cash on hand.

Questioned Costs: None

RECOMMENDATION

2009-61 Comply with the Treasury-State agreement in drawing federal funds for the LIHEAP program.

Finding 2009-62

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Administered by: Department of Administration – Office of Energy Resources (OER)

PERIOD OF AVAILABILITY

The period of availability for LIHEAP requires that at least 90 percent of the block grant funds be obligated in the fiscal year in which they are appropriated. Up to 10 percent of the funds payable may be held available (or "carried over") for obligation no later than the end of the following fiscal year. Funds not obligated by the end of the following fiscal year must be returned to Administration for Children and Families (ACF) – Department of Health and Human Services. There are no limits on the time period for expenditure of funds (42 USC 8626).

The OER's procedures to demonstrate compliance with period of availability requirements need to improve. Accounts have not been established within the State's accounting system to segregate expenditures and obligations by specific federal grant award. Additionally, subsidiary accounting records are not maintained to achieve this objective. We noted that during fiscal 2010, OER established new line items within the State's accounting system to identify specific federal grant awards.

To monitor compliance with period of availability requirements, the OER uses expenditure and obligation data arrayed by specific grant award; however, we found both sources of data to be unreliable. Total program expenditures are adequately reported in the State's accounting system; however, expenditures are not segregated by federal grant award. Instead, grant drawdowns applied to a specific grant award are used as the basis for actual expenditures. Program personnel contend that drawdowns are a good indicator of expenditures because the federal funds are drawn on a reimbursement basis.

Because these data sources are imprecise for the intended purpose, the OER can improve its overall control process to ensure compliance with both earmarking and period of availability requirements.

Questioned Costs: None

RECOMMENDATIONS

2009-62a Maintain documentation to support the calculation of funds expended and obligated by grant award.

2009-62b Track expenditures by federal fiscal year grant award within the State accounting system.

Finding 2009-63

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Administered by: Department of Administration – Office of Energy Resources (OER)

EARMARKING

The LIHEAP block grants have several earmarking requirements which include:

- Not more than 10 percent of the LIHEAP funds payable to the State for a federal fiscal year may be used for planning and administrative costs, including both direct and indirect costs. This limitation applies, in the aggregate, to planning and administrative costs at both the State and subrecipient levels (42 USC 8624(b)(9)(A); 45 CFR section 96.88(a)).

- Not more than 15 percent of the greater of the funds allotted or the funds available to the grantee for a federal fiscal year may be used for low-cost residential weatherization or other energy-related home repairs. The Secretary may grant a waiver, and the grantee may then spend up to 25 percent for residential weatherization or energy-related home repairs (42 USC 8624(k)).

- Not more than five percent of the LIHEAP funds payable to the State may be used to provide services that encourage and enable households to reduce their home energy needs and thereby the need for energy assistance. Such services may include needs assessments, counseling, and assistance with energy vendors (42 USC 8624(b)(16)).

These earmarking requirements are based on total program expenditures including expenditures made by subrecipients for administration, energy need reduction services and weatherization. The OER identifies the specific purpose of funds allotted to subrecipients on purchase orders (e.g., administration, weatherization, etc.) Program management maintains off-line spreadsheets allocating payments to subrecipients into the appropriate category.

The OER does not perform any review or analysis to ensure compliance with the earmarking requirement during the federal fiscal year to assess the accuracy and allowability of transactions. The OER relies on the specific category identified when the award (purchase order) is made to the subrecipient. Control procedures should be enhanced to ensure compliance with overall earmarking requirements including amounts expended by subrecipients and the State.

Questioned Costs: None

RECOMMENDATION

2009-63 Improve procedures and documentation to ensure compliance with the LIHEAP earmarking requirements.

Finding 2009-64

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Administered by: Department of Administration – Office of Energy Resources (OER)

ADMINISTRATIVE COSTS – PAYROLL CHARGES

The majority of administrative functions relative to LIHEAP are performed by the OER; however, individuals within the State's Central Business Office also administer aspects of the program. We noted the following regarding administrative costs charged to the program:

- *Office of Energy Resources (OER):* Personnel costs charged to LIHEAP were based on estimated allocation percentages and were not supported by actual timesheets or other equivalent documentation. Personnel costs allocated to LIHEAP by OER staff totaled $437,060 and are questioned due to insufficient supporting documentation. In past fiscal years, LIHEAP staff had completed random time studies for three weeks during the year to serve as a basis for allocation of personnel costs to LIHEAP; however, this was not performed during fiscal 2009.

- *Central Business Office:* Personnel costs charged to the program were not supported by personnel activity reports (time sheets) or other equivalent documentation. These amounts, totaling $37,604 are questioned due to insufficient supporting documentation.

The OER should improve controls and recordkeeping to ensure that payroll allocations to LIHEAP are adequately supported and compliant with federal requirements.

Questioned Costs: $474,664

RECOMMENDATION

2009-64 Allocate employee salary and fringe benefit costs to LIHEAP based upon personnel activity reports or equivalent documentation.

Finding 2009-65

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Administered by: Department of Administration – Office of Energy Resources (OER)

REPORTING

Financial Status Report (SF-269A)

The State is required to prepare the Financial Status Report (SF-269A) for the LIHEAP block grant. We noted the following regarding the preparation of the SF-269A report:

- The OER reports funds not obligated on the SF-269A report for purposes of demonstrating compliance with the period of availability requirement. As discussed in Finding 2009-62, we could not verify the amounts reported as expended or obligated at September 30, 2008 for the FFY 2008 LIHEAP grant award due to insufficient supporting documentation.

- A Contingency grant for $1,919,992 was included by OER on the FFY 2008 LIHEAP SF-269A report within "Total Federal funds authorized for this funding period". The instructions to the FFY 2008 SF-269A report indicated that the Contingency grant issued on 9/16/08 should not be included on FFY 2008 LIHEAP SF-269A report and was not subject to the normal LIHEAP obligation/carryover limitations.

RECOMMENDATIONS

2009-65a Complete a revised final SF-269A financial report for Emergency Contingency funds in accordance with the requirements outlined in the LIHEAP Action Transmittal No. LIHEAP-AT-2009-1, dated 10/3/08.

2009-65b Complete a revised FFY 07 final SF-269A financial report for both "Regular" block grants and Emergency Contingency funds in accordance with the requirements outlined in the LIHEAP Action Transmittal No. LIHEAP-AT-2001-1, dated 10/18/00.

Carryover and Reallotment Report

Grantees must submit a report no later then August 1 indicating the amount expected to be carried forward for obligation in the following fiscal year and the planned use of those funds. Funds in excess of the maximum carryover limit are subject to reallotment to other LIHEAP grantees in the following fiscal year, and must also be reported (42 USC 8626).

Section 2607(b)(2)(B) of the LIHEAP statute requires that at least 90% of funds available must be obligated in the year in which they are appropriated. Not more than 10 percent of the amount payable for a fiscal year may be held for obligation in the succeeding fiscal year.

Since this report is due August 1, which is two months prior to the end of the grant period, estimates can be reported. Program personnel did maintain documentation supporting the amounts reported. However, the amounts reported on the amended Carryover and Reallotment report did not agree to the supporting documentation or the RIFANS accounting system.

Line 1 of the report should include "Regular" block grant, Contingency funds and oil overcharge funds, if applicable. The FFY 2008 report included the Contingency grant that was not subject to normal LIHEAP obligation/carryover rules on Line 1 causing an overstatement of that line item by $1,919,992.

Questioned Costs: None

RECOMMENDATIONS

2009-65c Ensure that the Carryover and Reallotment report is consistent with supporting documentation and the State's accounting system.

2009-65d Submit a revised Carryover and Reallotment Report for the 2008 grant awards as required.

Finding 2009-66

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Administered by: Department of Administration – Office of Energy Resources (OER)

SUBRECIPIENT MONITORING

During fiscal 2009, the Office of Energy Resources (OER) disbursed approximately $33 million of LIHEAP funds to subrecipients. The OER is required to monitor the subrecipient's use of federal awards through reporting, site visits, regular contact or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws and regulations.

The OER can improve its monitoring of LIHEAP subrecipient activity by performing regular site visits. The OER indicated that they did not perform subrecipient site visits during fiscal 2009 due to the retirement of key program staff and the delay in reassigning the monitoring responsibility. The OER asserted they did review subrecipient reports (Program Funds and Budgetary Reports) and communicated regularly with its subrecipients; however, we found that these monitoring activities were not well documented.

Questioned Costs: None

RECOMMENDATIONS

2009-66a Reestablish a regular schedule of site visits to LIHEAP subrecipients and document the monitoring procedures performed.

2009-66b Evaluate the impact of subrecipient activities on the OER's ability to comply with applicable federal regulations.

Finding 2009-67

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. The criteria include:

- whether the foster child was removed from his or her home by means of a judicial determination or pursuant to a voluntary placement agreement {42 USC 672 (f), 42 USC 672 (a), 45 CFR 1356.21, and 45 CFR 1356.22};

- whether the provider, either a foster family home or a child-care institution is fully licensed by the proper State Foster Care Licensing Authority {42 USC 671 (a)(10) and 672 (c)}; and

- whether the child meets the eligibility requirements of the former Aid to Families with Dependent Children (AFDC) program {42 USC 672 (a)}.

We selected a sample of twenty-eight maintenance payments and tested them for applicable eligibility requirements. The federal share of these costs totaled $7.1 million in fiscal year 2009, and the payments in our sample totaled $5,270.

We found that one of the twenty-eight payments in our sample was not eligible for federal funding. One family court record was unavailable for our review; therefore, compliance with judicial determination criteria was not supported. The federal share of these unallowable costs totaled $91.

Questioned Costs: $91

RECOMMENDATION

2009-67 Adjust federal reports to reimburse the federal government for the unallowable maintenance costs.

Finding 2009-68

FOSTER CARE – TITLE IV-E - CFDA 93.658
Administered by: Department of Children, Youth, and Families (DCYF)

ALLOWABLE COSTS/COST PRINCIPLES

The Department of Children Youth and Families claims Federal financial participation for administrative costs associated with various Federal programs in accordance with its approved cost allocation plan {45 CFR 95.507}.

The cost allocation plan is processed on a quarterly basis. The source data for these allocated costs is the State's accounting system. We reconciled the amounts included in the cost allocation plan to the source data for the fiscal year. We found that the department did not include $4.2 million in costs for the quarter ending December 31, 2008. While the specific costs identified would not have changed the amount of departmental administrative costs allocated to various programs including Foster Care, controls should be enhanced to ensure that all costs are included within the department's cost allocation system.

Questioned Costs: None

RECOMMENDATION

2009-68 Recalculate administrative costs allocated to the Foster Care Program using the cost allocation plan for the quarter ending December 31, 2008 to include the amounts omitted from the original calculation. Going forward, reconcile the amounts included in the cost allocation plan to the source data for each fiscal year.

Finding 2009-69

SOCIAL SERVICES BLOCK GRANT – CFDA 93.667
MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

CONTROLS OVER HOME AND COMMUNITY BASED SERVICES

Medicaid eligible individuals may receive necessary home-based medical and support services (home and community based waiver services outlined in the State's Global Consumer Choice Section 1115 Waiver) with the goal of minimizing more expensive care provided within skilled nursing facilities. The services include homemaker, nursing services, meal preparation, residential support, and respite care services. Fiscal 2009 expenditures for home and community based services totaled in excess of $300 million and were mostly provided to the aged and disabled.

We noted several instances where claims were submitted and paid for periods when the recipient was hospitalized and unavailable for home-based services. The MMIS lacks edits to detect these types of incompatible services from being paid (e.g., inpatient hospital and meal delivery). Home-based service claims cover a period of service (e.g., a month) rather than a specific date for each unit of service provided. In several instances, this lack of claim detail made it impossible to determine whether incompatible services were paid. Requiring specific service dates on claims would enhance control by allowing edits to identify incompatible services before payment. Additionally, MMIS controls do not exist to limit payment to a maximum number of units allowed nor was prior authorization of most services required or effectively utilized prior to payment.

Enhanced MMIS system edits should be programmed to identify incompatible services and limit payment to preauthorized services and service levels. Post processing identification of incompatible claiming could also be considered; however, such procedures will likely require extensive manual analysis and additional personnel.

Questioned Costs: None

RECOMMENDATION

2009-69 Strengthen system processing controls over home and community based medical and support services to enhance overall program integrity for this claim group.

Finding 2009-70

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Administered by: Department of Human Services (DHS)

CONTROLS OVER THE DETERMINATION OF SCHIP 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 eligible under the Medicaid program at the enhanced SCHIP federal financial participation rate. SCHIP expenditures for fiscal 2009 approximated $48 million (federal share - $32 million).

Eligibility for both the Medicaid and the SCHIP programs is determined through the Department's INRHODES computer system; however, specific SCHIP eligibility criteria have 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 (designed by the State's contracted fiscal agent) against the Medicaid Management Information System (MMIS), identify claims paid on behalf of individuals that also meet the eligibility criteria for SCHIP. These queries are designed to identify claims (both capitation and fee-for-service) for individuals that meet the specific age and income criteria deemed eligible for SCHIP and also to determine whether the Medicaid recipient has verified third party insurance coverage, a characteristic that would disqualify them from meeting SCHIP eligibility requirements. This process is normally done monthly to isolate individuals meeting the SCHIP eligibility criteria so that the related expenditures (both fee-for-service and capitation payments) can be shifted to SCHIP and the additional federal match can be claimed.

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. Accordingly, DHS's determination of SCHIP eligible claims through monthly queries of MMIS data is reasonable and cost-effective.

A quality control review process over SCHIP claiming is needed because the eligibility determination process is variable and entirely performed by consultants. Controls over this process, should be improved by subjecting SCHIP claiming results to an eligibility quality control process similar to the process in place over all Medicaid claims. Such a process should provide additional control over the determination of SCHIP eligibility 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.

Questioned Costs: None

RECOMMENDATION

2009-70 Subject the results of queries used to accumulate eligible SCHIP program costs to a quality control process to ensure that eligibility and allowable cost program criteria are met.

Finding 2009-71

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

FISCAL AGENT OVERSIGHT

DHS is highly dependent on the Medicaid Management Information System (MMIS) operated by its fiscal agent to process claims on behalf of eligible Medicaid beneficiaries and provide controls over disbursing state and federal funds and other aspects of Medicaid program administration. DHS has delegated many critical program operations to its fiscal agent such as billing for third party recoveries and drug rebates, administering provider enrollment and eligibility, and conducting surveillance and utilization reviews over paid claims activity. Oversight of these operations by DHS is essential to ensure that the fiscal agent complies with program regulations, and that related controls are in place and operating 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:

- *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. During fiscal 2009, the fiscal agent's control structure was not evaluated independently in the form of a "SAS 70" review or by utilization of other means by DHS. A Type II "SAS 70" review, which includes testing the operating effectiveness of the fiscal agent's documented controls over Medicaid claims processing should be performed annually as part of DHS's monitoring of fiscal agent activities.

- *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. While the fiscal agent does have documented control procedures relating to these activities, DHS does not have formalized policies requiring the evaluation of these controls as mandated risk assessment activities that would serve as an important part of DHS's overall controls over Medicaid activities performed by its fiscal agent.

The above issues in conjunction with control deficiencies noted in Finding 2009-55 relating to DHS's overall IT security over the MMIS and Finding 2009-81 relating to procedures over provider eligibility must be addressed to better safeguard Medicaid operations delegated to the State's fiscal agent. Performance of an annual Type II "SAS 70" examination of the fiscal agent's internal control would provide the State with additional assurance regarding the effectiveness of control procedures over Medicaid program expenditures which approximated $1.9 billion in fiscal 2009. Such assurance is particularly important considering that the operations of the State's fiscal agent are separate and distinct from any of the State's other centralized control processes.

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

2009-71a Obtain an annual Type II "SAS 70" examination performed by independent certified public accountants of the fiscal agent's internal control policies and procedures.

2009-71b Take a more active financial oversight role with respect to 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.

Finding 2009-72

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

FEDERAL REPORTING

Federal regulations require DHS to report expenditures for the Medical Assistance Program (Medicaid) on Form CMS-64. Expenditures for the State Children's Health Insurance Program (SCHIP) are also reported on Form CMS-64 for the basic children's population with all other eligible SCHIP populations reported on the CMS-21 report. While most of the information regarding claims paid is provided through the MMIS operated by the State's fiscal agent, the State's accounting system, RIFANS, is the official record for reported federal expenditures.

Quarterly Statements of Expenditures- Program Expenditures

Controls should be improved over the preparation of the quarterly reporting of Medicaid and SCHIP expenditures. We found that the process to accumulate information needed to prepare the CMS-64 report is complex and requires extensive manual effort. Although we were able to reconcile total program expenditures reported for both federal programs to RIFANS for fiscal 2009, RIFANS does not include the same level of Medicaid service detail that is available in the MMIS. This requires DHS financial management to conduct significant amounts of manual computation to derive the amounts required for the preparation of the CMS-64 and CMS-21 reports. The additional time and effort required in the current reporting process often delays the finalization of the CMS-64 report. This delay often results in estimated federal expenditures being reported on the federal cash transaction report, Form PMS-272, which is required to be filed within 45 days after the end of each quarter.

Although the reconciliation and reporting of Medicaid program expenditures has improved in recent years, the overall process could be streamlined by better aligning the account structure within the State's accounting system with the categories of expenditure data generated by the MMIS and required for preparation of the CMS-64. Better alignment of accounts and coding would facilitate preparation of the CMS-64 as well as the reconciliation of data reported by the fiscal agent which ultimately is recorded in the State's accounting system.

Quarterly Statements of Expenditures- Administrative Expenditures

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's 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. Based on interagency agreements between DHS and other State agencies, all Medicaid claiming initiated by other departments should be recorded in authorized accounts within the State accounting system demonstrating the appropriate State/Federal shares of the expenditures. Agency compliance with this mandated accounting would allow DHS to completely reconcile administrative expenditures reported in the State's accounting system with those reported on cost certifications filed by those agencies and ultimately on Form CMS-64.

During fiscal year 2009, Medicaid administrative expenditures reported on Form CMS-64 totaled $42,649,046 (federal share) while expenditures reported in the State accounting system totaled $44,012,047. Most of the difference was attributable to administrative expenditures for other State agencies which often are not claimed on federal reports in the same quarter that they are recorded in the State accounting system. Medicaid administrative expenditures as reported by the State's accounting system should be reconciled with amounts claimed on federal reports to explain reporting differences. While DHS reconciles reported program expenditures to amounts recorded in the State's accounting system, no reconciliation is performed for administrative expenditures.

Federal Cash Transaction Report

DHS is also required to complete Form PMS-272 Report for the Medical Assistance and SCHIP Programs. The main function of the PMS-272 is to detail both administrative and program grants authorized for the programs and actual expenditures reported on the related federal expenditure reports (Forms CMS-64 and CMS-21). For most quarters, DHS estimates federal expenditure amounts when Form CMS-64 is not completed in time to determine the actual amount of federal expenditures for the quarter. Our analysis of expenditure amounts reported on quarterly PMS-272 reports concluded that, for most quarters, the reported amounts varied significantly from those reported on federal expenditure reports. DHS should improve its federal reporting process to ensure that accurate Medicaid and SCHIP expenditure amounts are reported on the PMS-272 report.

Questioned Costs: None

RECOMMENDATIONS

2009-72a Align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS.

2009-72b Completely reconcile administrative expenditures reported on the CMS-64 with those reported in the State's accounting system.

2009-72c Report cumulative disbursements accurately on the PMS-272 based on actual expenditures in accordance with report guidelines.

2009-72d Improve tracking of Medicaid and SCHIP expenditures reported on the PMS-272 reports to better document the collective reporting of program and administrative expenditures by grant period.

2009-72e Improve controls over federal reporting by consistently reporting expenditure amounts that have been recorded in the State's accounting system.

Finding 2009-73

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

CONTROLS OVER MEDICAID EXPENDITURES ADMINISTERED BY OTHER STATE AGENCIES

DHS, as the single State Medicaid agency, maintains interagency agreements with other state agencies administering portions of the program. These departments include Mental Health, Retardation, and Hospitals (MHRH), Elderly Affairs (DEA), Health (DOH), and Children, Youth, and Families (DCYF). Medicaid administrative and benefit expenditures administered by other State agencies during fiscal year 2009 exceeded $540 million. These agreements were designed to provide control over Medicaid expenditures administered by other State agencies by outlining specific allowable Medicaid activities and defining the scope of their authority with respect to the Medicaid program. The interagency agreements specify items requiring preauthorization and approval, benefit and administrative claiming review processes, rate setting / cost assignment methodologies as well as other provisions.

We observed the following regarding Medicaid activities administered by other state agencies in fiscal 2009:

- Several agencies had not complied with the interagency agreement requirement to have benefit and claiming reviews conducted to assure DHS that agency Medicaid claims were allowable.

- As more fully described in Finding 2009-74, we noted weaknesses in control relating to the allowability of certain payments made by MHRH to providers of services to adults with developmental disabilities.

- As more fully described in Finding 2009-75, we noted several issues relating to the DCYF's claiming process and service documentation requirements for children in contracted residential placements. In addition, we noted that DCYF processed adjustments in the state accounting system for Medicaid reimbursements associated with Children's Emergency Services ($1 million), outreach and tracking services provided in conjunction with the department's Aftercare program ($3.5 million), and day treatment program services ($1 million).

- The Department of Elderly Affairs was reimbursed $1.4 million for specialized transportation services provided to the elderly and disabled by the Rhode Island Public Transit Authority. The Department of Elderly Affairs indicated that no review was conducted to ensure that the transportation services were provided to Medicaid eligible individuals. In addition, for one month Elderly Affairs claimed a higher match than the 50% federal match applied to other transportation invoices – the excess amount claimed to Medicaid was $37,413.

- As more fully described in Finding 2009-76, Costs Not Otherwise Matchable (CNOM) claiming conducted by other State agencies during fiscal 2009 were processed external to any of the eligibility and centralized claims processing controls of the MMIS and INRHODES systems and were not well controlled.

- A significant amount of MHRH and DCYF benefit claiming is based on the charging or allocating of per diem rates or monthly authorization amounts for expected services to be provided. Controls over Medicaid disbursements relating to MHRH and DCYF claiming would be enhanced by having service providers bill the MMIS for individual service units (on an encounter basis).

Controls over Medicaid expenditures administered by other departments could be significantly enhanced by processing these claims through the MMIS. While each department's Medicaid activities are unique, the weaknesses noted all relate to Medicaid claiming processes that were not designed to meet Medicaid program requirements. Each separate control process employed by these departments to isolate or process Medicaid claims adds to the complexity of the administration of the program and generally results in weakened controls over program expenditures. Efforts need to be accelerated to process virtually all Medicaid claims through the MMIS. This would assure uniform controls over program expenditures, prevent duplicate payments and better identify incompatible services and service periods.

Compliance with interagency agreement provisions also needs to be enhanced especially until more claims currently processed independent of the MMIS can be processed centrally through the MMIS. DHS should ensure that other State agencies contract for administrative and benefit claiming reviews that provide assurance that the agency has complied with both the interagency agreement and Medicaid program requirements. These reviews should be performed by DHS or DHS approved contractors with the necessary knowledge and experience with the Medical Assistance program

Questioned Costs: $37,413

RECOMMENDATIONS

2009-73a Ensure that other state agencies responsible for administering Medicaid services comply with the terms of the interagency agreements and provide DHS with all required mandates.

2009-73b Restructure the current reimbursement models for Medicaid eligible services authorized by MHRH and DCYF by specifically defining Medicaid eligible services and related reimbursement rates into individual units of service.

2009-73c Process all benefit claims for Medicaid eligible individuals through the MMIS to ensure proper controls over these Medicaid payments.

Finding 2009-74

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

CONTROLS OVER MEDICAID PAYMENTS TO PRIVATELY-OPERATED COMMUNITY PROVIDER AGENCIES - SERVICES AND SUPPORTS FOR ADULTS WITH DEVELOPMENTAL DISABILITIES

The Division of Developmental Disabilities within the Department of Mental Health, Retardation, and Hospitals (MHRH) administers a system of community-based services and supports for adults with developmental disabilities. The Division contracts with a variety of provider agencies for service delivery. Funding is mostly provided through the State's Medicaid program. Services can be broadly categorized into residential support services, day/employment services, and family support services (respite, homemaker, etc.). Total costs for community based services provided by provider agencies to developmentally disabled individuals approximated $200 million in fiscal 2009.

Pursuant to an interagency agreement, MHRH has authority for oversight of service providers to adults with developmental disabilities and establishment of appropriate reimbursement rates. MHRH is responsible for licensing these providers and for administering the provisions of the State's 1915(c) waiver (which during fiscal 2009 was incorporated into the State's Global Consumer Choice Section 1115 demonstration waiver) which details the scope of services to be provided to this segment of the Medicaid population. The 1915(c) waiver specifically provides for home and community based services designed to allow individuals with developmental disabilities to remain in the community rather than permanently residing at an intermediate care facility.

MHRH employs two different funding methods and payment systems to reimburse service providers to adults with developmental disabilities:

- Providers bill for services directly to the State's Medicaid Management Information System (MMIS) based on per diem rates or monthly reimbursement rates established on an individual provider basis by MHRH. Residential support, day program, and homemaker services are reimbursed each month based on provider specific rates that assume a certain level of required service for the client.

- Provider reimbursements are based on an individual's assessed level of supports and services. Providers are reimbursed for services required over the period of authorization (usually six months to a year). MHRH pays providers monthly through their departmental Waiver Payment System (WPS) which limits payment to service authorizations for the period billed. Once validated through the WPS, provider payments are disbursed through the MMIS.

Neither claim group is subjected to extensive claim edits within the MMIS and the claims transmitted from the WPS are paid based solely on the requested billing amount.

We evaluated the effectiveness of controls over claims processed/paid through the MMIS and WPS to ensure that providers were only reimbursed for allowable services defined; and that the individuals were in attendance on the service dates, a requirement clearly outlined in the State's 1915(c) waiver. We found the following:

- Service authorizations (dollar authorizations for specific services that cover several months to a year) allotted to providers lack unit specificity to determine if all authorized services were performed. A reimbursement structure that more precisely identifies the specific dates and units of service provided could allow all 1915(c) waiver services to bill directly through the MMIS and allow for more enhanced control edits to be applied to these claims.

- We noted multiple instances where providers were reimbursed through both payment processes for residential support services. The monthly reimbursement for residential support services in these instances often exceeded $30,000. To compare, the State reimburses most nursing providers approximately $5,000 to $6,000 per month for all-inclusive nursing facility care.

- We noted multiple instances where providers were reimbursed for dates of services when individuals were not present -- most examples represented cases where individuals were either in a hospital or rehabilitation center for a significant portion of the month and the provider billed for their entire monthly payment authorization for services without reduction for services not provided. (estimated federal questioned cost for 19 claims reviewed = $11,579)

- Direct reimbursements for fire code upgrades at privately-operated facilities totaling $588,428 (federal share) were made during fiscal 2009. Because these reimbursements were not identified as allowable services under the State's 1915(c) waiver, we believe that the State must obtain specific authorization from CMS to make these reimbursements allowable under Medicaid. MHRH also directly reimbursed providers for provider tax amounts calculated on the fire code reimbursements which does not appear to meet federal regulations or State general laws relating to the healthcare taxes on this provider group. (Federal questioned costs - $588,428)

- We also noted other instances where providers were reimbursed for the following services not considered to be allowable under the State's waiver:

    - Reimbursement for the purchase or lease of a vehicle to transport developmentally disabled individuals in addition to reimbursements for residential support and habilitation services. (Federal questioned costs = $10,718)
    - Reimbursements for the increased cost of employee health insurance coverage experienced by certain providers -- reimbursement to the provider of $1,154. (federal questioned costs = $737)
    - Reimbursements to several providers for costs associated with a provider restraints committee (comprised of psychiatric health professionals and client advocates) to evaluate the provider's use of physical and pharmaceutical restraints within their operations. Amount reimbursed was an annual charge of $1,000 per individual (federal questioned costs = $1,634).

- The State's 1915 (c) waiver specifically prohibits costs for room and board from being reimbursed through Medicaid. MHRH utilizes financial schedules provided by the providers to segregate room and board costs from other operation costs. These schedules are not audited and MHRH does not conduct any procedures to evaluate the accuracy of these provider filings. MHRH's financial oversight procedures do not provide adequate control over this aspect of waiver compliance.

Controls over payments to this provider group need to be significantly improved to ensure that Medicaid payments are made in compliance with the federal regulations mandated under the State's 1915(c) waiver. Controls could be enhanced by processing all claims through the MMIS and subjected to all of the claim edits and control features available in the system.

Questioned Costs: $613,096

RECOMMENDATIONS

2009-74a Implement system modifications to allow full adjudication of claims for services provided to adults with developmental disabilities through the MMIS.

2009-74b Consider authorizing waiver services for individuals based on smaller units of service (i.e., hourly or daily, instead of monthly) to allow for more precise claim editing to be performed in the MMIS.

Finding 2009-75

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

MEDICAID CLAIMS FOR CHILDREN IN FOSTER CARE

The Department of Children, Youth, and Families (DCYF) provides a wide array of services to children in its care. Since most children in the State's care are eligible for Medicaid, the costs of some of these services are reimbursed through Medicaid. Some children are placed in a residential facility (non-foster home) that is intended to provide comprehensive services which may include case management, treatment and assessment, room and board, and personal care. Examples of residential facilities include the following:

- foster care placements through private agencies,
- independent living placements,
- supervised apartments,
- high-end residential treatment placements,
- group home placements, and
- emergency shelter placements.

DCYF contracts with these providers either (1) by securing a set number of placements within an annual contract amount, or (2) on an as needed, purchased service basis. DCYF claims a portion of these placement costs as specialized rehabilitation services under the Medicaid program. During fiscal 2009, contracted residential placements of approximately $60 million were billed from DCYF's RICHIST system to the MMIS.

During fiscal 2009, DCYF began utilizing a time-study methodology to determine the percentage of contracted placement per diem rates that should be allocated for Medicaid activities. DCYF contracted with a consultant to perform a time study of the various provider agencies utilized by the department. The time study results were used to derive an average allocation percentage attributable to Medicaid activities for the various categories of contracted placements (i.e., high-end residential treatment placements, emergency shelters, group homes, etc.). The time-study methodology significantly improved the documentation of amounts reimbursed through the Medical Assistance program.

42 CFR section 483.45 requires specialized rehabilitation services such as mental health rehabilitation services to be performed by or under the supervision of a qualified medical professional. Section 483.45 also requires specialized rehabilitation services to be provided under the written order of a physician. DCYF's contracted placement agreements have requirements relating to treatment plans, clinical services, transportation to medical services, behavior management, etc. – all services that if provided by a licensed medical professional and adequately documented in accordance with Medicaid regulations would be allowable services.

We requested supporting documentation of treatment plans, assessment and diagnosis surveys, clinician licensure, and provider activity notes for a sample of contracted placements. Some providers did not provide all of the required documentation and there was an inconsistency in the documentation that was provided suggesting that further reinforcement of medical service and provider documentation requirements may be warranted.

DCYF's RICHIST computer system maintains a funding hierarchy to allocate payments for services to the appropriate funding sources based on the nature of the service provided and the child's eligibility characteristics. Many of the residential placement services highlighted above are reimbursed, in part, through Medicaid. Once RICHIST has determined that the service is to be reimbursed by Medicaid, the claim is "processed" through the Medicaid Management Information System (MMIS) operated by the State's fiscal agent. The MMIS subjects these claims to a limited edit and control process compared to most provider claims paid through the system. Controls over residential placement services are particularly deficient because approved provider rates for DCYF providers are not maintained within the MMIS. Further, controls within the MMIS to detect duplicate billings are ineffective since services could be billed under a comprehensive per diem rate and also on a fee-for-service basis.

Although DCYF's utilization of time study results has improved controls over the allocation of contracted placement costs to Medicaid, we believe that controls would be enhanced if contracted placement providers billed for Medicaid eligible services (on an encounter basis) directly to the MMIS. This would reduce the risk of duplicate payments being made to providers through separate systems and would ensure that providers are reimbursed consistently for similar services being provided. Processing these claims consistently with all other Medicaid fee-for-service claim activity would allow the State to incorporate the related provider licensure requirements with other provider eligibility control procedures conducted by the State's fiscal agent and reduce the need for DCYF to conduct separate licensure monitoring.

Controls over the claiming of DCYF contracted placements needs to be improved to ensure that only eligible claims are reimbursed through Medical Assistance. DHS, as the single State Medicaid Agency, in conjunction with DCYF should develop more formalized policies and procedures relating to provider eligibility and licensing, clinical documentation, allowable services, etc. In addition, DHS should adopt rate setting methodologies or procedural fee schedules that serve to standardize the reimbursement for similar services provided to children in the State's custody. The State should consider requiring providers to submit claims for Medicaid reimbursement directly to the MMIS. Submitting these claims directly to the MMIS as enrolled providers would greatly enhance the controls over medical services provided to children placed in the State's custody.

Questioned Costs: None

RECOMMENDATIONS

2009-75a Develop a plan that would facilitate the processing of Medicaid eligible services conducted within DCYF contracted placements through the MMIS.

2009-75b Develop allowable medical services with defined service units and appropriate reimbursement rates available for DCYF provider groups to bill directly to the MMIS.

2009-75c Enroll all clinicians employed by DCYF providers within the MMIS so that they can be subjected to provider eligibility monitoring procedures performed by the State's fiscal agent.

Finding 2009-76

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

COSTS NOT OTHERWISE MATCHABLE (CNOM) – MEDICAL ASSISTANCE

In January 2009, the Centers for Medicare & Medicaid Services (CMS) approved the State's request to operate its entire Medicaid program under a single Section 1115 Demonstration called the Global Consumer Choice Demonstration ("Global Waiver"). The approval authority for this demonstration exists within Section 1115(a) of the Social Security Act. Section 1115(2)(A) includes a provision for certain expenditures that would not otherwise be matchable under Section 1903 of the Social Security Act (the section of the act that authorizes Medical Assistance payments to States) to be claimable as program expenditures under Medicaid "to the extent and for the period prescribed by the Secretary". Commonly referred to as "CNOM" claiming, it is designed to allow States some added flexibility under Section 1115 demonstrations. The State, under this authorization, has identified various CNOM populations and services deemed to represent "at risk" segments of the State's population.

The State claimed $12.3 million (federal share - $6.4 million) in CNOM for services provided to certain identified at-risk populations during fiscal 2009. These included early intervention services to young children, individuals in need of medical and pharmacy services relating to mental illness, and children not in the custody of the State that receive services through the State's Department of Children, Youth and Families.

The State was unable to provide specific claims data to support all the fiscal 2009 CNOM expenditures. In some instances, CNOM's were based on departmental estimates and subsequent procedures to identify specific eligible claiming had not been completed at the time of our audit.

We reviewed the controls in place over certain CNOM claiming populations and noted the following deficiencies:

- Several CNOM claiming populations were not paid through the MMIS and thus were not subjected to the control edits inherent in that system. The payment of Medicaid benefit expenditures external to the MMIS exposes the State to the risk of paying duplicate claims for the same service performed.

- Certain CNOM populations relate to services provided to individuals that do not qualify for Medical Assistance yet still have defined eligibility criteria. The eligibility criteria (income, in most instances) for these individuals are not being processed through the State's INRHODES system, the State's eligibility determination system. The INRHODES system, through its income eligibility verification system (IEVS), is designed with various control interfaces to validate the representations made by the individuals that are ultimately claimed to Medicaid. Decentralizing the Medicaid eligibility determination process throughout the program weakens overall controls over eligibility that will require a more extensive monitoring and post audit process to ensure that CNOM eligibility requirements are met.

- Provider eligibility requirements must be met for Medicaid eligible services. The State utilizes centralized provider eligibility procedures employed by its fiscal agent to ensure that licensure and suspension and debarment requirements are met. Processing CNOM claims external to the MMIS circumvents the program's provider eligibility controls and creates a risk that claims could be reimbursed for services performed by ineligible providers or unlicensed clinicians.

DHS has been working with other departments to implement documentation standards and claiming review practices to ensure that CNOM expenditures meet all federal requirements. During fiscal 2009, standards and practices adopted by DHS were not in place and operating to ensure that CNOM claiming was adequately supported.

CNOM claiming should be subjected to the same claims processing and eligibility control processes (MMIS and INRHODES systems) in place over all Medicaid claims to ensure adequate control over these claim groups. DHS needs to complete all claiming reviews relating to fiscal 2009 CNOM expenditures and credit the federal government for amounts determined to be claimed in error. In the future, DHS should ensure that all CNOM claiming processes are fully operational prior to claiming these expenditure populations to the Medicaid program.

Questioned Costs: Unknown

RECOMMENDATIONS

2009-76a Subject all CNOM claiming to the claims processing and eligibility control processes (MMIS and INRHODES systems) in place over all Medicaid program expenditures.

2009-76b Ensure that adopted standards and practices, including claiming reviews, are completed for all CNOM expenditures claimed during fiscal 2009 and credit the federal government for any amounts claimed in error.

2009-76c Ensure that all future CNOM claiming processes are fully operational prior to claiming expenditure populations to the Medicaid program.

Finding 2009-77

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

MEDICAID SERVICES PROVIDED BY LOCAL EDUCATION AGENCIES

Certain school-based health services are reimbursable under the Medicaid program when provided by Local Education Agencies (LEAs) to Medicaid eligible students pursuant to an Individualized Education Plan (IEP). These services include speech therapy, physical therapy, occupational therapy, audiological services, counseling, and other medical services.

DHS has developed and communicated formal policies and procedures in the form of a special education services guidebook designed to improve overall LEA compliance with Medicaid regulations. The guidebook established the specific medical service and record keeping requirements for special education services provided by LEAs. In recent years, DHS has refined these policies and procedures to clarify certain compliance requirements outlined in the special education services guidebook. DHS also improved its monitoring of LEA compliance in recent years by conducting several claiming reviews at local education agencies across the State.

The focus of our audit work for fiscal 2009 was to evaluate LEA compliance to determine the effectiveness of the policies and monitoring procedures implemented by DHS. We tested 31 claims for special education services provided at one of the State's local education agencies that was reimbursed by the Medicaid program during fiscal 2009. We visited the LEA and evaluated each claim for compliance with policies mandated within DHS's special education guidebook. Our testing found 5 out of 31 claims (16%) with one or more missing compliance features. The federal share of questioned costs identified in our sample totaled $178 (5.4%) out of total federal claims of $3,292 included in our sample. When projected to the $855,588 (federal share) of claims paid for the LEA reviewed and the $18.7 million (federal share) for all services provided by LEA's to Medicaid eligible children statewide, estimates of likely questioned costs totaled $46,202 and $1,009,800, respectively. Most instances of non-compliance related to:

- services provided that were not documented in the student's IEP;
- inadequate provider licensing for services billed by the LEA.

Local education agencies are also reimbursed by Medicaid for certain administrative costs associated with school-based health services. Most LEAs utilize a third-party contractor to determine the amount of administrative reimbursement the agencies are due from the Medicaid program on a quarterly basis. The LEAs provide the third party contractor with employee time sheets, salary related data, and expenditure reports on a quarterly basis and additional budget and capital asset data on an annual basis. The contractor utilizes a random moment time study analysis to determine costs allocable to school-based health services that are ultimately reimbursable through Medicaid. The contractor reports the amounts to be reimbursed through Medicaid to DHS and the LEA each quarter. DHS reimburses LEAs for administrative costs as determined by the contractor and the contractor is paid a rate contingent on the amount reimbursed by Medicaid from the LEA. Although DHS has included policies outlining allowable administrative claiming in the special education services guidebook, no specific procedures were implemented during fiscal 2009 to ensure that administrative claiming determined by the LEA's contractor are accurate and in compliance with these policies. DHS has developed procedures to begin examining LEA administrative claiming that are expected to be implemented during fiscal 2010.

Although DHS has improved controls over LEA claiming, additional monitoring is required to evaluate compliance by LEAs and to ensure that only services meeting Medicaid regulations are being reimbursed. DHS should also reinforce IEP documentation requirements relating to Medicaid services to ensure that LEAs are updating IEPs each time a student's services require modification.

Questioned Costs: $178

RECOMMENDATIONS

2009-77a Expand post audit/monitoring procedures of special education claims to ensure compliance with DHS's "Medicaid Direct Services Guidebook for Local Education Agencies".

2009-77b Reinforce IEP documentation requirements relating to Medicaid services to ensure that LEAs are updating IEPs each time a student's services require modification.

2009-77c Implement review procedures for administrative claiming determinations being conducted by a third party contractor on behalf of local education agencies.

Finding 2009-78

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

DOCUMENTATION OF MEDICAID ELIGIBILITY DETERMINATIONS

Individuals or families applying for Medical Assistance benefits, in most cases, are required to complete the appropriate application form (DHS-1, DHS-2, or Marc-1 application forms). These application forms gather the necessary information (household demographic, citizenship, income, resources, etc.) to make an accurate determination of eligibility for the program. DHS eligibility technicians review the forms, including the supporting documentation, for completeness and enter the information into the State's INRHODES system. This information ultimately determines whether the applicant is eligible for Medicaid benefits.

We reviewed the case files (program application and supporting documentation) for a sample of 25 individuals. We evaluated the completeness and accuracy of the information obtained from these individuals at the time of their eligibility determination in effect for fiscal 2009. We assessed whether (1) the required program application had been completed, (2) documentation supporting the information included on the application had been obtained, and (3) the information reported in the INRHODES system matched the data provided by the applicant.

We noted the following documentation deficiencies:

Documentation deficiencies	Exceptions noted in sample of 25 cases reviewed
Location of eligibility file	3
Initial application or eligibility recertification	4
Documentation of household financial resources (bank accounts, vehicles, property, etc.)	4
Documentation of household employment (i.e., paystubs, W-2 forms, etc.)	4
Documentation of social security numbers for all household members	3
Documentation of citizenship	2
Documentation of applicant's immigration status, when applicable	2
Inconsistencies between the data reported in the case file and the INRHODES system	3
Documentation supporting applicant health insurance coverage	4
Documentation of pregnancy, when applicable	3
Documentation regarding the absent parent, when applicable	4

The Medical Assistance application forms require applicants to provide documentation of their reported citizenship, income, resources, living arrangements, and expenses. This application process and the program eligibility technicians that perform the initial intake processes for Medicaid represent a vital control over program eligibility. DHS should consider further training to reinforce the specific documentation that is required to be obtained in conjunction with the application and recertification processes. Also, DHS should consider developing a more systematic process for storing supporting documentation to allow for improved safeguarding and access to the data obtained.

Questioned Costs: None

RECOMMENDATION

2009-78 Improve controls over required eligibility documentation obtained during the Medical Assistance application process.

Finding 2009-79

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

MEDICAID ELIGIBILITY – QUESTIONED COSTS

DHS utilizes an integrated computer system (INRHODES) 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. During fiscal year 2009, DHS was able to remain reasonably current in resolving differences reported between the two systems each month. DHS, however, did not attempt to quantify questioned costs in cases where individuals remained eligible on the program when they no longer qualified for benefits. Based on the number of these cases identified by DHS (122 cases during fiscal 2009), claims paid on behalf of ineligible individuals, if quantified, would likely exceed $10,000.

DHS's monthly investigation of eligibility variances reported between the INRHODES and MMIS, should include determination of claims paid for ineligible individuals. Once identified, these amounts should be credited to the federal grantor.

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 eliminate these variances would require substantial and costly redesign of either or both systems. Because redesign of one or both systems is unlikely, DHS should consider whether additional personnel may be needed to resolve eligibility variances reported between the two systems on a more timely basis. Additionally, more advanced reporting capabilities may assist in identifying and resolving those variances deemed most critical to recipient eligibility. Finally, since variances often result from incorrect entry of recipient eligibility information into INRHODES, enhanced training for INRHODES eligibility technicians may reduce the number of variances reported each month.

Questioned Costs: Unknown

RECOMMENDATION

2009-79 Determine, on a timely basis, the amount of claims paid on behalf of ineligible individuals and reimburse the federal government for its share.

Finding 2009-80

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

MEDICAID ELIGIBILITY QUALITY CONTROL (MEQC) PROGRAM

42 CFR 431.800 establishes State plan requirements for a Medicaid eligibility quality control (MEQC) program that must be designed to reduce erroneous expenditures by monitoring eligibility determinations and claims processing operations. The regulations require that federal financial participation (FFP) be disallowed for erroneous Medicaid payments due to ineligibility and recipient liability errors as detected through the MEQC program. The agency must collect and verify all information necessary to determine the eligibility status of each individual included in the State's MEQC sample.

42 CFR 431.816 requires the Medicaid agency to complete eligibility case reviews and report the findings electronically through the system prescribed by CMS for 100 percent of all cases selected in the MEQC sample. Our inquiry of MEQC review activity for fiscal 2009 found that DHS was not able to comply with this 100% requirement due to a significant percentage of cases where Medicaid recipients were not cooperating with the MEQC unit's review. We noted that seventy-six (76) of the

four hundred sixty-eight (468) finalized positive cases included in the MEQC sample during fiscal 2009, or 16.2% of sampled cases could not be reviewed due to participants' refusal to provide the required information.

We questioned how the large number of non-cooperative cases impacted the statistical validity of the MEQC sample results communicated to CMS and whether exclusion of the non-cooperatives cases from the error rate calculation was consistent with federal requirements. DHS was unable to provide documentation to support that its handling and reporting of the non-cooperative cases selected for MEQC review was consistent with federal regulations and/or guidelines.

Both DHS's application for benefits and Code of Rules indicate that as a condition of eligibility, the Medical Assistance applicant/recipient must cooperate with State and Federal personnel conducting quality control reviews. Failure to cooperate may result in a denial of eligibility or case closure. In instances where recipients have not cooperated with MEQC reviews, DHS has continued Medicaid benefits. DHS has not explained the inconsistency between its stated policies regarding applicant/recipient cooperation and the actual non-cooperation of certain recipients evidenced during the MEQC sampling process.

Questioned Costs: None

RECOMMENDATIONS

2009-80a Re-evaluate MEQC policies and procedures to ensure compliance with federal regulations and/or guidelines for conducting MEQC reviews.

2009-80b Revisit the continuing eligibility of recipients who fail to cooperate during MEQC reviews.

Finding 2009-81

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

PROVIDER ELIGIBILITY

Federal regulations relating to provider eligibility require that all providers, as a condition of enrollment in the Medicaid Program, complete the various documentation which include certification regarding suspension and debarment and evidence of current professional licensure. DHS has delegated, to its fiscal agent, the responsibility for ensuring that the above mandatory documentation is maintained for each provider participating in the Medicaid Program, a key control over provider eligibility.

We noted the following documentation deficiencies in our sample of 111 provider files maintained by the State's fiscal agent:

- 39 provider files included in our sample contained one or more deficiencies.
- 26 instances where documentation of current provider licensure was not included in the file.

- 17 instances where Addendum I of the provider agreement (suspension and debarment certification) had not been obtained from the provider.

Follow-up on deficiencies relating to licensure documentation resulted in all Medicaid providers in our sample being properly licensed by the RI Department of Health (DOH); however, controls were not adequate to ensure compliance with provider licensing requirements. Controls over provider licensing should be improved by electronically matching DOH licensure information to MMIS provider data.

Other deficiencies noted relating to the documentation of provider enrollment including suspension and debarment certifications are indicative of inadequate controls to ensure that updated provider information is maintained. DHS needs to better monitor the fiscal agent's policies and procedures relating to provider eligibility and should require its fiscal agent to re-enroll all medical providers periodically to ensure that current and accurate information is maintained on file.

Provider Licensing – Privately-operated Agencies Providing Contracted Placements for Children Placed in the State's Custody and Adults with Developmental Disabilities

Privately-operated agencies providing contracted placements for children placed in the State's custody and for adults with developmental disabilities constitute two of the larger provider groups reimbursed through the Medicaid program. The Department of Health has licensing authority for most providers reimbursed through Medicaid; however, the Department of Mental Health, Retardation, and Hospitals (MHRH) is responsible for licensing providers of services to developmentally disabled adults and the Department of Children, Youth, and Families (DCYF) is responsible for licensing providers of children's behavioral health services which includes the contracted services provider group.

We reviewed each department's licensing procedures and requirements and documentation of provider licensure. While both departments require providers to meet Medicaid eligibility requirements, controls should be improved to effectively monitor compliance for these provider groups. Specifically, the departments do not require providers to identify the licensed professionals providing treatment to Medicaid eligible individuals. Further, documentation of current provider licensure by both departments was lacking in some instances.

We noted that several providers licensed by MHRH were operating under expired licenses. We were informed that several providers could not be currently relicensed due to outstanding issues of non-compliance with State fire code regulations. MHRH should be ensuring that all providers are in compliance with federal health and safety requirements as both a condition of licensing and for reimbursement for Medicaid services.

DHS, as the Single State Medicaid Agency, should ensure that licensing procedures conducted by other State agencies comply with federal requirements for provider eligibility within the Medical Assistance Program. DHS should also implement monitoring procedures to ensure that provider licensing by other State agencies is current.

Questioned Costs: None

RECOMMENDATIONS

2009-81a Improve fiscal agent oversight of provider enrollment and licensing to ensure that all providers enrolled in the Medical Assistance program are eligible to participate.

2009-81b Develop procedures to electronically match DOH licensure data with active Medicaid providers to periodically update licensure status.

2009-81c Provide specific guidance to other State agencies with responsibility for licensing provider groups to ensure the eligibility of all providers being reimbursed through the Medical Assistance Program.

2009-81d Consider centralizing all medical licensure responsibility within one department to ensure consistent application of Medicaid licensing requirements.

2009-81e Ensure that all providers meet federal health and safety requirements for providing services within the Medical Assistance program.

Finding 2009-82

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

FEDERAL MATCHING REQUIREMENTS - FISCAL AGENT CONTRACT

Section 433.15(b)(4) of Title 42 of the Code of Federal Regulations allows federal reimbursement of 75% of certain costs associated with the operation of mechanized claims processing and information retrieval systems. In conjunction with this federal requirement, DHS charges the majority of costs associated with its fiscal agent contract at the 75% FFP rate within the Medical Assistance program.

DHS's fiscal agent contract includes several support services where DHS has delegated certain program operations to its fiscal agent. Examples of these services include the verification of third party coverage, various prior authorization (PA) services, and hotline operations to arrange transportation for Medicaid eligible individuals. While most of these services do support aspects of the claims processing function, they do not specifically represent the costs associated with processing medical claims. One service included in the contract relates to clinical PA consultants which were originally DHS contract employees that were subsequently transferred to a staffing firm retained by the fiscal agent. These costs are now paid through the fiscal agent contract and claimed at the enhanced 75% rate.

Based on our review of DHS's current fiscal agent contract, we recommend that the services outlined in this contract be reviewed to ensure that they meet the requirement for enhanced federal participation in the Medical Assistance program. In conjunction with this review, DHS should obtain specific guidance from CMS regarding the allowability of services outlined in the contract for enhanced federal participation.

Questioned Costs: Not determinable/unknown

RECOMMENDATION

2009-82 Review fiscal agent contract services to ensure their allowability for reimbursement at federally enhanced rates. Obtain specific guidance from CMS outlining the allowability of enhanced federal participation for services performed by the fiscal agent.

Finding 2009-83

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.

RIte Share Program

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. For fiscal 2009, Rite Share expenditures approximated $44 million covering approximately 8,000 individuals under their respective employer health insurance coverage. Since the inception of the RIte Share program, DHS has accumulated a receivable balance totaling $1.1 million (federal Share - $578,490) relating to payments made to individuals whose employer health insurance coverage had terminated. As part of our review of these program overpayments, we found that DHS was not crediting the federal government for its share of these unallowable costs.

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 periodically confirms that individuals have remained employed and covered by the employer's health coverage. In most instances, because Medicaid pays individuals prospectively for employer coverage, individuals will usually receive one or two months of payments before DHS identifies terminated employment and/or health coverage. In addition to paying premiums to these individuals, DHS also retroactively dates their insurance coverage termination date in the MMIS to the date the individual terminated their employment. This results 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.

Although DHS has improved it's monitoring of the employment and sustained health insurance coverage requirements of the Rite Share program, program overpayments to individuals that terminated employment coverage should be credited back to the federal government in a timely manner.

Hospital Settlements

The RI General Laws require inpatient hospital providers to file cost settlement reports to DHS within one year from the end of the hospital's fiscal year. DHS uses these settlement reports to determine amounts owed to or due from participating hospitals. During fiscal 2009, most hospitals had submitted their cost reports for the fiscal years ended in 2007 and prior.

At June 30, 2009, DHS determined that three hospitals had been overpaid a total of $11,003,481 based on hospital settlement reports filed by these providers. DHS entered into payment agreements with these providers; however, payments were not consistently made in accordance with those agreements during fiscal 2009. Subsequent to June 30, 2009, DHS received an additional $1,517,100 for the amounts owed and credited the federal grantor for their share of those recoveries. In accordance with federal regulations, DHS should credit the federal grantor for the federal share ($5,986,855) on the remaining identified settlement balance of $9,486,381 within 60 days of identification of these program overpayments.

Questioned Costs: $6,565,345

RECOMMENDATION

2009-83 Reimburse the federal government for program overpayments within 60 days of discovery.

Finding 2009-84

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

CONTROLS OVER DISPROPORTIONATE SHARE PAYMENTS

Section 1923 of the Social Security Act requires that States make Medicaid disproportionate share hospital (DSH) payments to hospitals that serve a disproportionately large number of low-income patients. The Omnibus Budget Reconciliation Act of 1993 limits these payments to the annual costs incurred to provide services to Medicaid and uninsured patients less payments received for those patients. Each State is required to administer DSH payments in accordance with the requirements outlined in their CMS-approved Medicaid State plan.

During fiscal 2009, DHS made DSH payments totaling $107 million (federal share - $57 million) to hospitals meeting the specific requirements outlined in the Social Security Act (the “Act”). The majority of DSH payments made are determined based on the direct proportion of each qualifying hospital’s uncompensated care to the total uncompensated care costs for all qualifying hospitals. Each qualifying hospital is required to certify the amount of uncompensated care costs incurred by providing services to low-income patients. DHS does not currently have controls in place to ensure the accuracy of the uncompensated care data provided by the hospitals.

Beginning in fiscal 2009, section 1923 (j) (2) of the Act began requiring States to significantly improve their reporting and oversight over the determination of DSH payments by requiring the State to annually submit to the Secretary an independent certified audit that verifies the following:

a) The extent to which hospitals in the State have reduced their uncompensated care costs to reflect the total amount of claimed expenditures made under this section.

b) Payments under this section to hospitals that comply with the requirements of subsection (g) of section 1923 of the Act.

c) Only the uncompensated care costs of providing inpatient hospital and outpatient hospital services to individuals described in paragraph (1) (A) are included in the calculation of the hospital specific limits under the Act.

d) The State includes all payments under this title, including supplemental payments, in the calculation of such hospital-specific limits.

e) The State has separately documented and retained a record of all of its costs under this title, claimed expenditures under this title, uninsured costs in determining payment adjustments under this section, and any payments made on behalf of the uninsured from payment adjustments under this section.

Audits for Medicaid state plan years 2005 and 2006 must be submitted to CMS no later than December 31, 2010. DHS should implement procedures to improve the controls over Medicaid DSH payments and to ensure that newly implemented DSH audit requirements are met during fiscal 2010.

Questioned Costs: None

RECOMMENDATION

2009-84 Improve controls over Medicaid DSH payments by implementing the federal requirements of section 1923 (j)(2) of the Social Security Act.

Finding 2009-85

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

DRUG UTILIZATION REVIEW

The State, through the appointment of a Drug Utilization Review (DUR) Board, administers its drug utilization review procedures as required under Medicaid regulations. Section 42 CFR 456.711 requires States to provide for an ongoing educational outreach program as part of its DUR program. This program should educate providers on common drug therapy problems with the aim of improving prescribing and dispensing practices. DUR programs must include the following practices:

- Dissemination of information to physicians and pharmacists in the State concerning the duties and powers of the DUR Board and the basis for the standards required by Section 42 CFR 456.705(c) for use in assessing drug use.

- Written, oral, or electronic reminders containing patient-specific or drug-specific information and suggested changes in prescribing or dispensing practices. These reminders must be conveyed in a manner designed to ensure the privacy of patient-related information.

- Face-to-face discussions, with follow up discussions when necessary, between health care professionals expert in appropriate drug therapy and selected prescribers and pharmacists who have been targeted for educational intervention on optimal prescribing, dispensing, or pharmacy care practices.

- Intensified review or monitoring of selected prescribers or dispensers.

As part of the DUR program's retrospective review, once a potential drug therapy problem is identified and confirmed by a clinical pharmacist, a PharmRisk Alert letter is mailed to the provider. The letter describes the potential drug therapy problem and requires the provider to formally respond to the issue. The primary purpose of this communication is to change the provider's prescribing or dispensing practices or to obtain a reasonable justification for the practice in the specific instance being evaluated.

Our review of the State's DUR activity reports noted provider response rates ranging from a high of 33% to a low of 30% for respective quarters for the federal fiscal year ended September 30, 2008, the date of the most recent Annual DUR Report filed with CMS. Providers identified as exhibiting questionable pharmacy prescribing and dispensing patterns failed to respond to the majority of the PharmRisk inquiries made during fiscal 2009. Our inquiry of the high percentage of non-responding providers found that the State does not have any enforcement protocol in place to resolve instances when providers do not formally respond to the DUR Board's inquiries. At a minimum, procedures should be implemented to mandate follow-up for those instances defined as particularly high risk to individuals and where providers have repeatedly not responded to inquiries sent by the DUR Board.

DUR programs within State Medicaid operations are designed to safeguard the prescribing and dispensing practices of those providers that provide services to Medicaid recipients. The State needs to implement procedures to appropriately monitor and enforce the findings of its DUR Board in order to ensure compliance with federal regulations relating to utilization review procedures within the Medicaid program.

Questioned Costs: None

RECOMMENDATION

2009-85 Develop procedures to ensure timely monitoring and follow-up of high-risk issues identified by the State's DUR Board.

Finding 2009-86

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

MANAGED CARE CONTRACT SETTLEMENTS

Medicaid benefit expenditures exceeded $1.8 billion in fiscal 2009 of which approximately $500 million (27%) are expenditures for capitated managed care coverage. The State utilizes health maintenance organizations (HMOs) to provide health coverage for a monthly capitated amount. Capitation fee schedules are negotiated annually through a process that includes actuarial review and certification. Each HMO contract includes settlement provisions ("risk share") designed to limit the HMO's exposure to excessive gains or losses based on actual claims paid. These contracts also include "stop loss" provisions for separate reimbursement of certain medical services not included in the capitated rates.

Each HMO contract defines the dates of service included in the contract period and a defined settlement period (usually one year after the contract end date) to allow for submission of all provider claims prior to final settlement. Periodic "risk share" reports that detail capitation amounts received versus actual claims paid are required and, in some instances, periodic payments are made to prevent large liabilities or receivables from accumulating until the end of the settlement period. HMOs are also required to submit periodic "stop loss" reports so those settlements are made in a timely manner.

We noted the following deficiencies in DHS's oversight of HMO contract settlements during fiscal year 2009:

- Documentation of due diligence performed on "risk share" settlements paid during fiscal 2009 was not available; however DHS did provide recently formalized oversight and settlement procedures.

- Documentation of significant "stop loss" payments in some instances did not include sufficient detail regarding DHS's evaluation of the underlying claim data submitted by the HMOs.

- Although the State requires encounter data to be "reprocessed" through the MMIS to validate the HMO claim data, DHS indicated that problems prevented those results from being used to solely determine final settlements for HMO contract periods.

- DHS's processes to evaluate reported recoveries made by HMOs are inadequate to ensure that the State was fully credited for all amounts recovered.

- The State's largest HMO provider, which exclusively serves the State's Medicaid program, reported an accumulated operating reserve of approximately $28 million as of June 30, 2009. Such a reserve raises concerns regarding the State's oversight of these settlement procedures which are designed to ensure that such surpluses are not resulting from Medicaid reimbursements.

Due to the growing use of managed care contracts within the Medicaid program, DHS needs to increase its oversight and monitoring procedures to improve controls over managed care contract expenditures. DHS should consider implementing independent audit requirements into managed care agreements to validate the total cost of services provided to Medicaid eligible individuals, the amount of HMO recoveries that pertain to Medicaid claiming, and to evaluate the allowability of services reimbursed through managed care contracts.

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

2009-86 Enhance oversight and monitoring procedures over managed care contracts by implementing independent audit or other validation processes that would ensure the accuracy, allowability, and completeness of expenditure and recovery activities reported by contracted HMOs.

State of Rhode Island

Single Audit Report For the Fiscal Year Ended June 30, 2009

Corrective Action Plan

Office of the Auditor General

General Assembly

Finding 2009-1 *Corrective Action*

The Department of Administration agrees that there is a benefit to a comprehensive, integrated, accounting system for the State. The iSupplier module is scheduled to be implemented by the end of calendar year 2010. However, the implementation of the remaining modules is subject to budgetary constraints.

Anticipated Completion Date: N/A

Contact Person: John Landers, Chief Information Officer
Phone: 401.222.4444

Finding 2009-2 *Corrective Action*

2009-2a and b

Procedures will be developed to insure RIFANS assigned access privileges are appropriate and are reviewed on a scheduled basis.

Anticipated Completion Date: September 30, 2010

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2009-2c

Processes are now in place to ensure that agency hierarchies for general ledger transactions are documented and periodically updated.

Anticipated Completion Date: Completed

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2009-2d

Procedures are now in place to ensure that changes to agency hierarchies and workflows are approved for general ledger transactions prior to implementation and are documented.

Anticipated Completion Date: Completed

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2009-2e

The cost of implementing additional modules will be reviewed and considered. However, this is subject to budgetary constraints.

Anticipated Completion Date: December 31, 2010

Contact Person: Marc Leonetti, State Controller
Phone: 401.222.6731

2009-2f

We are determining if it is feasible to have the entire approval process for such transactions reside in Accounts and Control with systemic notification via Oracle workflow to Treasury once the transaction has been finally approved. If it is, this process modification will be implemented.

Anticipated Completion Date: September 30, 2010

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2009-2g

The transaction types will be reviewed by the Office of Accounts and Control in conjunction with the Treasury Department to ensure proper segregation of duties exist.

Anticipated Completion Date: September 30, 2010

Contact Person: Marc Leonetti, State Controller
Phone: 401.222.6731

Finding 2009-3 *Corrective Action*

2009-3a

The payroll system has been modified to require users to make an entry in the retirement plan code field.

Anticipated Completion Date: Completed February 2010

Contact Person: Louise M. Anderson, Associate Controller-Operations
Phone: 401.222.2704

2009-3b

The Office of Accounts and Control will review the retirement codes currently in use, determine how to improve the coding process and recode employees as appropriate.

Anticipated Completion Date: June 30, 2010

Contact Person: Louise M. Anderson, Associate Controller-Operations
Phone: 401.222.2704

2009-3c

The Office of Accounts and Control will review the retirement codes currently in use, determine how to improve the coding process and recode employees as appropriate.

Anticipated Completion Date: June 30, 2010

Contact Person: Louise M. Anderson, Associate Controller-Operations
Phone: 401.222.2704

2009-3d

A work group comprised of representatives from Accounts and Control, Personnel and Employee's Retirement will be formed to develop a process to document the exceptions.

Anticipated Completion Date: December 31, 2010

Contact Person: Marc Leonetti, State Controller
Phone: 401.222.6731

2009-3e

The employees affected have received official notification of the amounts due and the various payment options. Once action has been taken by the employee, the State will remit the employer share.

Anticipated Completion Date: June 30, 2010

Contact Person: Marc Leonetti, State Controller
Phone: 401.222.6731

2009-3f

A work group comprised of representatives from the Accounts and Control, Personnel and Employee's Retirement will be formed to review the employee membership process.

Anticipated Completion Date: December 31, 2010

Contact Person: Marc Leonetti, State Controller
Phone: 401.222.6731

Finding 2009-4 *Corrective Action*

2009-4a

The Department of Administration under the direction of the Chief Information Security Officer (CISO) will continue to work on the initial assessment of compliance with system security standards for the State's mission critical systems. This activity is resource dependent and funding dependent and thus has caused delays in implementing.

Anticipated Completion Date: N/A

Contact Person: Ernest Quaglieri, Chief Information Security Officer
Phone: 401.462.9292

2009-4b

The preparation of a corrective action plan is also resource dependent and funding dependent.

Anticipated Completion Date: N/A

Contact Person: Ernest Quaglieri, Chief Information Security Officer
Phone: 401.462.9292

2009-4c

Currently, all new projects come through the PRC, Project Review Committee. Any new project that gets approved must provide the Chief Information Security Officer (CISO) a written security plan for review and approval.

DOIT will provide new policy guidance on existing system changes through the PRC in order for existing system changes to adhere to the same security review as new systems. Note that even though DOIT can develop policy, enforcement and oversight of these policies are resource dependent.

Anticipated Completion Date: Completed March 2010

Contact Person: Ernest Quaglieri, Chief Information Security Officer
Phone: 401.462.9292

2009-4d

Currently, DOIT has one Chief Information Security Officer (CISO) and one FTE assisting the CISO. Given the current budget constraints, the ability to bring on additional security staff will be difficult. This is funding dependent. However, DOIT will request additional FTE's.

Anticipated Completion Date: N/A

Contact Person: Alan Dias, Assistant Director of IT
Phone: 401.222.6091

Finding 2009-5 *Corrective Action*

The balances of long-term accounts receivable will be recorded in the RIFANS accounting system. In addition, we will determine if it is feasible to record debt service on a more frequent basis during the fiscal year.

Anticipated Completion Date: November 30, 2010

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

Finding 2009-6 ***Corrective Action***

2009-6a

The Federal Grants Information Schedule (FGIS) process will be reviewed to determine if much of the information can be directly accessed from the Oracle general ledger module.

Anticipated Completion Date: September 30, 2010

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2009-6b

Procedures will be developed to ensure that variances identified on the FGIS are researched and resolved.

Anticipated Completion Date: June 30, 2010

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2009-6c

A process has been established to identify material prior year adjustments that are recorded in the Oracle general ledger module.

Anticipated Completion Date: Completed

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2009-6d

Accounts & Control will review current staffing responsibilities to determine if there are additional resources available for financial reporting aspects of federal programs.

Anticipated Completion Date: December 31, 2010

Contact Person: Marc Leonetti, State Controller
Phone: 401.222.6731

Finding 2009-7 ***Corrective Action***

2009-7a

As of 2/22/10, the Office of Accounts and Control had identified 78 Social Security Number discrepancies within the personnel and payroll systems. The Division of Personnel is currently working with agency offices to verify correct employee information and instruct employees to contact the Social Security Administration to make corrections.

Anticipated Completion Date: Completed

2009-7b

The Office of Accounts and Control will run the discrepancy reports in the fall and spring of each year and will work with the Personnel Department to correct all discrepancies.

Anticipated Completion Date: Completed

2009-7c

The Office of Accounts and Control will work with DOIT to generate a report showing any missing or incomplete data in previously identified critical fields. Upon completion, the Central Payroll Office will review and correct any missing data.

Anticipated Completion Date: June 30, 2010

Contact Person: Louise M. Anderson, Associate Controller-Operations
Phone: 401.222.2704

Finding 2009-8 *Corrective Action*

2009-8a

Reporting guidelines for component units when submitting audited financial statements to the Office of Accounts and Control have been further enhanced for FY 2010 to require that all inter entity balances and activity is confirmed. In addition, we will meet with component unit management in cases where specific reporting issues exist.

Anticipated Completion Date: July 31, 2010

2009-8b

Draft financial statements will be reviewed again this year to insure transactions are recorded appropriately and consistently.

Anticipated Completion Date: September 30, 2010

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

Finding 2009-9 *Corrective Action*

The Department of Administration has started the conversion of the subsidiary accounting systems. The two major systems are Payroll and HR. System changes have been made on the payroll system with HR currently undergoing system changes.

This project has been ongoing, since 2006, and is resource and project dependent. Other major changes to payroll in FY10 have impacted the completion date of this finding. This is a top priority for FY11.

Anticipated Completion Date: September 30, 2010

Contact Person: Alan Dias, Assistant Director of IT
Phone: 401.222.6091

Finding 2009-10 *Corrective Action*

2009-10a

An enhanced tracking system in this area is primarily related to the implementation of the Oracle Grants and Projects modules. The cost of an implementation will be reviewed. However, the module implementation is subject to budgetary constraints.

Anticipated Completion Date: June 30, 2013

Contact Person: Marc Leonetti, State Controller
Phone: 401.222.6731

2009-10b

RIDOT will improve controls over the recording of infrastructure assets in the State's financial statements. More specific details can be found in the corrective action for recommendations 2009-10f through 2009-10i.

Anticipated Completion Date: August 15, 2010

Contact Person: Robert Farley, Chief Financial Officer - RIDOT
Phone: 401.222.6590

2009-10c

For all assets purchased with Federal funds after 2007 the record for the asset in Oracle identifies the various funding sources, including any Federal accounts, and the respective amounts contributed.

Anticipated Completion Date: Completed

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2009-10d

Procedures will be developed and implemented to account for capital leases.

Anticipated Completion Date: October 31, 2010

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2009-10e

Procedures and a program were developed to perform physical inventories of fixed assets at all departments and agencies. This process started in FY2009 and will continue in future years.

Anticipated Completion Date: June 30, 2011

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2009-10f

RIDOT will evaluate its present method of tracking the status of infrastructure assets and develop a coordinated approach for notifying the Office of Accounts and Control whenever specific criteria is met, so that when infrastructure assets are substantially replaced or reconstructed, previously-capitalized costs are appropriately disposed.

Anticipated Completion Date: August 15, 2010

Contact Person: Robert Farley, Chief Financial Officer - RIDOT
401.222.6590

2009-10g

RIDOT will ensure that RIFANS and RIDOT FMS expenditure data for infrastructure capital outlays is reconciled.

Anticipated Completion Date: August 15, 2010

Contact Person: Robert Farley, Chief Financial Officer - RIDOT
Phone: 401.222.6590

2009-10h

RIDOT will improve its methodology for determining when infrastructure assets are placed in service. This will include tracking when portions of large, multi-phase projects are placed into service, as well as ensuring that all projects meet substantially complete criteria before they are moved out of construction in progress status.

Anticipated Completion Date: August 15, 2010

Contact Person: Robert Farley, Chief Financial Officer - RIDOT
Phone: 401.222.6590

2009-10i

RIDOT will accumulate and link actual design costs as part of total infrastructure capital outlay for larger projects. Additionally, where appropriate, RIDOT will use estimated design costs for smaller projects based upon a percentage of construction costs.

Anticipated Completion Date: August 15, 2010

Contact Person: Robert Farley, Chief Financial Officer - RIDOT
Phone: 401.222.6590

Finding 2009-11 *Corrective Action*

Division of Information Technology will assign a team to implement this capability using current available technology.

Anticipated Completion Date: June 30, 2010

Contact Person: Alan Dias, Assistant Director of IT
Phone: 401.222.6091

Finding 2009-12 *Corrective Action*

2009-12a

The current procedures and policies do need to be upgraded and improved upon. The original procedures and policies to be used with the version control and application tracking system, Clearcase/ClearQuest, were put into place in June 2006. Most of the staff that originally put these systems in place has left state service. DOIT acknowledges the procedures and policies in place need to be upgraded and improved to reflect best practices. However, these improvements are resource and funding dependent. Our goal in FY11 in regards to the version control will be to upgrade the environment to ensure ongoing support of the tools in place. If funding is available, we will pursue procedural improvements.

Anticipated Completion Date: June 30, 2011

2009-12b

The ClearCase software package was implemented in the summer of 2006 to address previous audit findings. DOIT acknowledges that improvements need to be made to the original software implementation to better improve the program change control originally put into place. The Clearcase programs are due for upgrades. Though we have maintenance and support, we will need outside resources to assist in this upgrade. We are funding dependent for the outside resources.

Anticipated Completion Date: June 30, 2011

Contact Person: Alan Dias, Assistant Director of IT
Phone: 401.222.6091

Finding 2009-13 *Corrective Action*

2009-13a

The Controller's Office will take the lead on strengthening controls over funds on deposit with fiscal agents.

Anticipated Completion Date: December 31, 2010

2009-13b

A work group will be formed to review the responsibilities related to investments held by fiscal agents as a result of the issuance of debt.

Anticipated Completion Date: December 31, 2010

Contact Person: Marc Leonetti, State Controller
Phone: 401.222.6731

Finding 2009-14 *Corrective Action*

2009-14a

A work group including staff from Accounts and Control and the Treasurer's Office will be established to review the processes for accumulating information for disclosure of deposit and investment risks.

Anticipated Completion Date: September 30, 2010

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2009-14b

The Office of the General Treasurer proposes the following enhancements to the deposit collateralization policy enacted in Fiscal Year 2009:

1. Treasury staff will ask that the State Investment Commission formally approve and adopt the attached Policy on Collateralization of Public Deposits.
2. Treasury staff will provide a copy of the adopted Policy to each financial institution holding State deposits.
3. The financial institutions will be required to acknowledge both receipt of, and compliance with, the State's Policy. A copy of this acknowledgement will be kept on file in the Office of the General Treasurer. Each institution shall be required to affirm receipt and compliance on an annual basis.
4. Treasury staff will monitor the collateral reports of the institutions as prescribed by the Policy to ensure compliance.
5. Any violations of the Policy will be submitted to the State Investment Commission for review and/or corrective action.

6. This policy will be reviewed and resubmitted to the State Investment Commission for consideration on an annual basis or as market conditions warrant.

Anticipated Completion Date: September 30, 2010

Contact Person: Mark Dingley, Chief of Staff and Legal Counsel
Office of the General Treasurer
Phone: 401.222.2397

Finding 2009-15 *Corrective Action*

Action Plan: The Division of Taxation, along with the assistance of Division of Information Technology, implement "Clear Case" system for control over the EFT receipts file. Any time the file is uploaded to the mainframe the Clear Case will back up or image of the file. The system maintains the version of the file that is loaded to the mainframe. Although this process may not be ideal, Clear Case is the only version control system owned by the state at this time.

Anticipated Completion Date: Completed

Contact Person: David Sullivan, Tax Administrator
Phone: 401.574.8922

Finding 2009-16 *Corrective Action*

Action Plan: The Division of Taxation has been designing a new online correction system. This system will include supervisor approvals based on established thresholds. In the interim, the Division of Taxation will require all ARCs over $10,000 be reviewed and approved by a supervisor.

Anticipated Completion Date: December 31, 2010

Contact Person: David Sullivan, Tax Administrator
Phone: 401.574.8922

Finding 2009-17 *Corrective Action*

Action Plan: The Division of Taxation will meet with Division of Accounts and Control to review revenue recognition controls and methodology for estimating tax refund payables. Taxation and Accounts and Controls will draft recommendations to improve the current process for the Auditor General's Review.

Anticipated Completion Date: June 30, 2010

Contact Persons: Luisa Finelli, Chief Revenue Agent
Phone: 401.574.8755
Kristin Ross, Senior Revenue Agent
Phone: 401.574.8688

Finding 2009-18 *Corrective Action*

Action Plan: The Division of Taxation will meet with Division of Accounts and Control to review revenue recognition controls relating the data warehouse. Taxation and Accounts and Controls will draft recommendations to improve the current process for the Auditor General's Review.

With regards to recommendation 2009-19b, earlier the Division of Taxation established a unique code on the mainframe tax system to identify all notices and assessments originating from the data warehouse.

With regards to recommendation 2009-19c, the Division of Taxation will work with Accounts and Control to establish unique methodology to calculate the allowance for uncollectible taxes from the data warehouse.

Anticipated Completion Date: December 31, 2010

Contact Person: David Sullivan, Tax Administrator
Phone: 401.574.8922

Finding 2009-19 *Corrective Action*

2009-19a

The Office of Accounts and Control is developing a new process that will eliminate the need to use the project code field in Oracle to map expenditures to bond issue proceeds.

Anticipated Completion Date: August 31, 2010

2009-19b

The Office of Accounts and Control has performed a review of existing processes in effect to account for bond proceeds and related expenditures on capital projects and is developing new processes based on the results of this review.

Anticipated Completion Date: August 31, 2010

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

Finding 2009-20 *Corrective Action*

Regarding short-term goals, RIDOT is meeting with representatives from Oracle in May 2010 to discuss available options. This discussion will include determining the cost and logistical challenges of implementing a unified chart of accounts so that the FMS and RIFANS account number strings mirror one another.

Regarding long-term goals, RIDOT will meet with the State Controller to assess the feasibility of using the FMS system data for financial statement purposes. This assessment will include an analysis of the efficiencies that can be achieved by using FMS as the stand-alone accounting system of record for financial reporting.

Anticipated Completion Date: September 30, 2010

Contact Person: Robert Farley, Chief Financial Officer
Phone: 401.222.6590

Finding 2009-21 *Corrective Action*

2009-21a

Financial Management will continue to strengthen the control procedures over financial reporting to ensure accurate identification of accounts payable and reservations of fund balance. In particular, procedures will be implemented to both ensure timely submission of the draft financials, as well as to minimize the need for numerous subsequent adjustments. Additionally, RIDOT will implement a process for recording likely settlements of claims.

Anticipated Completion Date: August 15, 2010

2009-21b

Financial Management will implement control procedures that analyze the changes in fund balance by funding source to ensure the results are consistent with the programs being administered through the IST Fund.

Anticipated Completion Date: August 15, 2010

2009-21c

Financial Management will implement control procedures that expand the reconciliation between the trustee and the State accounting system to encompass transactions at the account level to ensure financial statement activity is not materially misstated.

Anticipated Completion Date: August 15, 2010

2009-21d

Financial Management will implement control procedures that ensure funds on deposit with the fiscal agent are properly recorded in RIFANS and supported by the trustee statements.

Anticipated Completion Date: August 15, 2010

Contact Person: Robert Farley, Chief Financial Officer
Phone: 401.222.6590

Finding 2009-22 *Corrective Action*

No corrective action required.

Finding 2009-23 *Corrective Action*

The Rhode Island Lottery plans to seek reimbursement from Twin River for the amount of any loss. Corrective action is also planned by Twin River to improve controls over the administration of the bonus play program.

Contact Person: Gerald S. Aubin, Director
Phone: 401.463.6500

Finding 2009-24 *Corrective Action*

The Authority will fund the operating Reserve and Renewal and Replacement components provided there is sufficient cash flow.

Contact Person: James McCarvill, Executive Director
Rhode Island Convention Center Authority
Phone: 401.351.4295

Finding 2009-25 *Corrective Action*

With the introduction of E-ZPass, the customer service center became an added responsibility of the finance department and the finance assistant became the customer service center supervisor. In addition to hiring a number of temporary employees, the administrative staff, including the finance staff, was required to take on additional responsibilities to meet the volume of applications and processing necessary to get the program up and running. The result being that for a period of time, routine day-to-day tasks, such as collector audits were not being performed in a timely manner. A further complication was bugs in the software program that were only recently resolved by Caseta in spite of the continued requests to resolve this situation. The CFE and CSC supervisor were provided limited financial report training by Affiliated Computer Services (ACS) when E-ZPass was introduced and the CFO was not given access to the web-based report software, Actuate, until mid-February following a trip to Newark. The trip to Newark for training consisted of an explanation of reports, but no hands-on instruction of the software. Communication over the phone was very difficult because it was hard to understand the employees with English as a second language.

Although the finance office was performing its usual reconciliations with all other accounts and reviewing monthly financial information, it was difficult to reconcile the E-Z-Pass accounts as the reports provided by ACS didn't reconcile with bank statements, Caseta reports or the CFO's reports. A request for a meeting with ACS was made in mid-July and it wasn't until the week before the audit was scheduled that the ACS staff finally met with the CFO to clarify questions and information that she had sought answers to in the prior months. With limited time to properly prepare for the audit and no assistant, the closing process was difficult. With the implementation of electronic toll collection, the Authority's operation has changed based on these changes and the results of the audit and we are in the process of reorganizing the finance staff, including the CFO's position.

<u>Anticipated Completion Date</u>: June 30, 2010

Contact Person: Christine Callahan, CFO
Rhode Island Turnpike and Bridge Authority
Phone: 401.423.0800

Finding 2009-26 *Corrective Action*

It has not been the practice of the Authority in the past to capitalize either bridge inspections or studies as evidenced by the expense of the risk management study and the fiscal integrity study this fiscal year. It has been the past practice, however to include the design phase of a capital project in CIP. The design phase develops the specifications for the work before any major project is put out to bid. If for any reason a project were not to go forward the cost of design would be expensed. The degree of completion was not raised as an issue until last year's audit when the Mount Hope on-call expense and the Pell Bridge main cable inspection expense were capitalized by an auditor proposed adjustment which we accepted. The additional expenses incurred during this year were added to the capitalization schedule. The Pell Bridge on-call expense was not included in last year's adjustment despite the fact that two years of the three-year contract were completed.

<u>Anticipated Completion Date</u>: June 30, 2010

Contact Person: Christine Callahan, CFO
Rhode Island Turnpike and Bridge Authority
Phone: 401.423.0800

Finding 2009-27 *Corrective Action*

Now that a better understanding of ACS's reports has been achieved, appropriate reconciliations will be performed and reports devised. In addition, the CFO is working with ACS to gain access to a report at the end of each month that will allow for an accurate reconciliation between the ACS and Caseta data. The auditors agreed to accept New Hampshire's SAS 70 and it was forwarded to them as soon as it was received. In future years, it will be incumbent upon the Authority's Board to determine whether they will require their own SAS 70 or rely on someone else's. At the present time, the Authority's electronic toll collection equipment, hardware and software is protected by a backup generator and the transponders are kept in a secure location and accounted for by a daily inventory.

<u>Anticipated Completion Date</u>: June 30, 2010

Contact Person: Christine Callahan, CFO
Rhode Island Turnpike and Bridge Authority
Phone: 401.423.0800

Finding 2009-28 *Corrective Action*

Both of the items sited are unusual occurrences and it is unlikely they will need to be addressed in the future. With our reorganization, it is management's intention to provide valid accruals and reserves.

<u>Anticipated Completion Date</u>: June 30, 2010

Contact Person: Christine Callahan, CFO
Rhode Island Turnpike and Bridge Authority
Phone: 401.423.0800

Finding 2009-29 *Corrective Action*

During the fiscal year ended June 30, 2009, under a directive from the Rhode Island Department of Education, the District implemented a new financial management system to replace the antiquated system which did not meet the Districts financial needs. As a result of this, the District has been in a transitioning mode during most of the year maintaining two financial management systems. Once the system is fully functional and the accounting staff is well versed in the system's abilities the deficiencies noted as a result of the audit will be addressed and rectified.

Contact Person: Giovanna Venditti, Finance Director
Central Falls School District
Phone: 401.874.7530

Finding 2009-30 *Corrective Action*

During the fiscal year ended June 30, 2009, under a directive from the Rhode Island Department of Education, the District implemented a new financial management system to replace the antiquated system which did not meet the District's financial needs. As a result of this, the District has been in a transitioning mode during most of the year. The current system has various capital asset modules available which will be helpful to the District in achieving the recommendation. The District will attempt to make every effort to begin the process of implementing the policies and procedures to account for capital asset purchases and deletions throughout the year as recommended by the audit findings for the fiscal year ended June 30, 2009; but the primary goal of the District is to refine the financial management system. Once the system is fully functional and the accounting staff is well versed in the system's abilities the deficiencies noted as a result of the audit will be addressed and rectified.

Contact Person: Giovanna Venditti, Finance Director
Central Falls School District
Phone: 401.874.7530

Finding 2009-31 *Corrective Action*

See Corrective Action Plan for Finding 2009-71

Finding 2009-32 *Corrective Action*

See Corrective Action Plan for Finding 2009-55

Finding 2009-33 *Corrective Action*

2009-33a and b

A new cash basis report has been developed and rolled out to the agencies for use in determining appropriate drawdown amounts. This report is run and analyzed on a regular basis by the staff in Accounts and Control and agencies are contacted when the indicated cash balances are questionable.

Anticipated Completion Date: Completed

2009-33c

The Office of Accounts and Control has modified the agreement to match current draw practices and will continue to review the basis of agency requests for the drawdown of federal funds.

Anticipated Completion Date: Completed

2009-33d

The Office of Accounts and Control will investigate the feasibility of an automated process to draw federal funds.

Anticipated Completion Date: December 31, 2010

2009-33e and f

Compliance with funding techniques will be carefully monitored in an effort to ensure compliance with the CMIA agreement. The Office of Accounts and Control will calculate interest liabilities on a quarterly basis and will consult with agency personnel in the determination of the appropriateness of the items included and excluded for the interest calculation.

Anticipated Completion Date: June 30, 2010

Contact Person: Peter Hodosh, Assistant Director For Special Projects
Phone: 401.222.6404

Finding 2009-34 *Corrective Action*

See corrective action plan for Finding 2009-10

Finding 2009-35 *Corrective Action*

The Department did make changes to limit the assignment of the SSS role to only Hotline/FAMIS staff members. In addition we are currently in the process of insuring that only Hotline staff can change roles on the INRHODES system which we believe further tightens our INRHODES security system and policies.

In December 2009, the Department worked to create an audit trail of any INRHODES user who accessed SSA files. These "audit trail" records can be listed on the new batch report, however the recommendation to have regularly scheduled monitoring of these reports remains to be done. During 2010, this facet of audit recommendations will be given attention.

Anticipated Completion Date: December 31, 2010

Contact Person: Donalda Carlson, Associate Director
Phone: 401.462.6833

Finding 2009-36 ***Corrective Action***

2009-36a

The following procedures were instituted in May of 2009.

- Assigned additional personnel to SFA sampling and verification monitoring.
- Developed a process for early identification of non-compliant SFAs. This process will provide feedback to those SFAs to assure that they comply with eligibility sampling requirements, and that they meet the March 15th submission deadline.
- Implemented policies to withhold reimbursements to SFAs that do not submit timely information.
- Modified the reporting process so that prior to submission to USDA, one staff member will prepare the FNS-472 report and a second staff member will ensure the accuracy of the numbers.

2009-36b

The verification process for 2009-2010 was conducted based on the above described procedures. One hundred percent of SFAs responded and the FNS-472 was submitted by March 15th as required.

Contact Person: Becky Bessette, Administrator, Child Nutrition Programs
Phone: 401.222.4253
E-mail: Becky.Bessette@ride.ri.gov

Finding 2009-37 ***Corrective Action***

The District has elected Provision 2 effective with the current fiscal year ended June 30, 2009. As a result of electing Provision 2 district-wide, the District is not required to perform the verification of applications on an annual basis.

Contact Person: Mario Papitto, Coordinator of Grants
Phone: 401.727.7700 ext.123

Finding 2009-38 ***Corrective Action***

State policy stipulates that it will cover an employee's health insurance costs during the first two years that he/she is out on military leave. The WIC program was charged during fiscal year 2009 for health insurance costs for one employee who was out on military leave for more than two years.

As of September 2009, the employee no longer works for the State of Rhode Island. The Department of Health will reimburse the Federal Government for the unallowable costs charged to the WIC program.

Anticipated Completion Date: Reimbursement will be made by June 30, 2010.

Contact Person: Ann Barone
Phone: 401.222.4604

Finding 2009-39 *Corrective Action*

2009-39a

DLT concurs with the finding. ETA-563 reports now receive supervisory review prior to submission. DLT has since performed the reconciliation of the reports and RIFANS and also reconciles to the ETA-9130 financial report. This reconciliation is now performed on a quarterly basis.

2009-39b

DLT concurs with the finding and will commence the reconciliation between the 227 reports and RIFANS effective in FY2010.

Anticipated Completion Date: Completed

Contact Person: Denise Paquet, Administrator, Financial Management
Phone: 401.462.8178
Email: dpaquet@dlt.ri.gov

Finding 2009-40 *Corrective Action*

DLT concurs with the finding and will expedite the return of federal funds for all future sales of property purchased with federal funds.

Anticipated Completion Date: Completed

Contact Person: Diane Gagne, Assistant Director, Financial and Contract Management
Phone: 401.462.8147
Email: dgagne@dlt.ri.gov

Finding 2009-41 *Corrective Action*

DLT concurs with this finding and will establish authorized balances within FARS ledgers consistent with grant award documentation effective with P08 (7/1/2008 – 6/30/2011) ledgers.

Contact Person: Diane Gagne, Assistant Director, Financial and Contract Management
Phone: 401.462.8147
Email: dgagne@dlt.ri.gov

Finding 2009-42 *Corrective Action*

The State Workforce Investment Office in conjunction with RIDLT's Workforce Development Services Division provided experienced and new WIA staff with additional training in September and October 2009 due to the implementation of our new Geographic Solutions Virtual One-Stop case management system. In addition, a committee was convened in November 2009 and more than half of the forms currently utilized in the netWORKri one-stop career centers have been revised. We anticipate the formal issuance of a full package of forms, along with staff training, to be completed during September 2010.

Contact Person: Christine Grieco, Executive Director,
Workforce Partnership of Greater Rhode Island
Phone: 401.462.8735
Email: cgrieco@dlt.ri.gov

Finding 2009-43 *Corrective Action*

RIDOT will take steps to ensure contractor compliance with Davis Bacon Act requirements. Additionally, the Department will strictly enforce completion of checklists and certified payrolls. A memo regarding this issue was distributed to all resident engineers on July 3, 2009. It outlined a schedule for complying with this labor requirement and emphasized the steps that needed to be completed. The Department has also established an independent check of Davis Bacon compliance to be conducted by the Office of Construction Management.

<u>Anticipated Completion Date:</u> June 30, 2010

Contact Person: Frank Corrao, Construction Management
Phone: 401.222.2468

Finding 2009-44 *Corrective Action*

2009-44a

RIDOT continues to work on revisions to the Materials Sampling and Testing Manual with the FHWA. The Department has established an Office of Compliance and Review that monitors the testing consistency in the field and the processing of the paperwork to ensure the transfer of documents from the lab to the field offices.

The Department has employed a consultant to work on the issue of process improvement to ensure compliance with federal regulations/guidelines and the specific recommendations made by the Federal Highway Administration through participation in the Highways for Life program.

Lastly, RIDOT recently received notification from the Federal Highway Administration that its score on the annual quality assurance assessment improved from "opportunity" in FY 2008 to "intermediate" in FY 2009.

<u>Anticipated Completion Date:</u> June 30, 2010

2009-44b

An electronic module in the construction management program will be implemented by June 30, 2010 that will ensure all required certificates of compliance are received and recorded in the materials test book prior to contractor payment for the materials. Also, RIDOT is communicating to staff regarding the importance of materials testing (and other matters) through formal construction policy memos.

Anticipated Completion Date**:** June 30, 2010

2009-44c

The RIDOT Materials Section is working on establishing both a unique numeric identifier for each test in order to improve controls and a process whereby test results will be electronically transferred from the Materials section to the Construction section.

Anticipated Completion Date: June 30, 2010

2009-44d

An electronic module in the construction management program will be implemented by June 30, 2010 to ensure that, where appropriate, all test results are documented in the materials test book prior to contractor payment for the materials. Also, RIDOT is communicating to staff regarding the importance of materials testing (and other matters) through formal construction policy memos.

Anticipated Completion Date: June 30, 2010

2009-44e

RIDOT has established a procedure that requires both the resident engineer and the respective supervisor to verify in writing that the material test book is accurate.

Anticipated Completion Date: Completed.

Contact Person: Frank Corrao, Construction Management
Phone: 401.222.2468

Finding 2009-45 *Corrective Action*

2009-45a

In FY 2010, RIDOT's Office of Compliance and Review established written policies and procedures for subrecipient monitoring. In addition, a schedule of projects that will be reviewed has also been developed. Lastly, the Office of Compliance and Review maintains documentation of the monitoring reviews that are performed.

Anticipated Completion Date: Completed.

Contact Person: Richard Fondi
Phone: 401.222.6940

2009-45b

The RIDOT Office of Financial Management is developing a process for identifying all federal awards passed-through to subrecipients by project. Once this process is in place, a list identifying all federal awards passed-through to subrecipients by project will be generated annually and provided to the RIDOT Office of Compliance and Review.

Anticipated Completion Date: June 30, 2010

Contact Person: Robert Farley, Chief Financial Officer
Phone: 401.222.6590

2009-45c

RIDOT's Office of Compliance and Review will collect single audit reports from all subrecipients that are required to have them performed. In addition, an audit review checklist has been developed to document RIDOT's review of single audits, including issuing management decisions within required timeframes when applicable.

Anticipated Completion Date: June 30, 2010

Contact Person: Richard Fondi
Phone: 401.222.6940

2009-45d

RIDOT has crafted standard contract language that includes CFDA number and title, federal agency and applicable compliance requirements. In addition, RIDOT will sign contract amendments that include CFDA number and title, federal agency and applicable compliance requirements for all ARRA projects in which funding was provided to subrecipients.

Anticipated Completion Date: June 30, 2010

Contact Person: Richard Fondi
Phone: 401.222.6940

2009-45e

RIDOT assessed its capacity to evaluate the impact of subrecipient activities on the Department's ability to comply with applicable federal regulations and determined that more resources were needed. As a result, the Office of Compliance and Review hired a full-time employee in July 2009 to oversee LPA projects and ensure compliance.

Anticipated Completion Date: Completed.

Contact Person: Richard Fondi
Phone: 401.222.6940

2009-45f

The Department will communicate to all first-tier subrecipients that they must maintain current registrations in the Central Contractor Registration, including obtaining a Dun and Bradstreet Data Universal Numbering System (DUNS) number, in accordance with Section 1512(h), ARRA, and 2 CFR 176.50(c).

<u>Anticipated Completion Date:</u> June 30, 2010

Contact Person: Richard Fondi
Phone: 401.222.6940

Finding 2009-46 ***Corrective Action***

RIDOT concurs and reconciliations are now being performed. RIDOT has an ARRA funding reconciliation process in place whereby the RIDOT FMS system and the State accounting system (i.e., RIFANS) are reconciled on a monthly basis. All timing and any other differences are researched and identified.

<u>Anticipated Completion Date:</u> Completed.

Contact Person: Robert Farley, Chief Financial Officer
Phone: 401.222.6590

Finding 2009-47 ***Corrective Action***

RIDOT will review this issue with the State Controller and the Federal Highway Administration to determine whether the interest liability needs to be included on the State's Annual CMIA Report. If it is determined that the interest liability of $22,200 needs to be included, the Department will ensure that this is accomplished.

<u>Anticipated Completion Date:</u> August 15, 2010

Contact Person: Robert Farley, Chief Financial Officer
Phone: 401.222.6590

Finding 2009-48 ***Corrective Action***

The Department partially agrees with this finding. RIDE always seeks to improve our processes; however, we feel our current system meets the federal requirements for minimizing excess cash on hand while providing the most appropriate accounting treatment for LEA grant funds.

1. RIDE's system of advancing grant funds during the last month of the state's fiscal year was put into place through a collaborative effort among RIDE, the State Controller's Office and the Local Education Agencies. As noted in the finding, the system was developed in order to assure that the nearly $46,000,000 of LEA grant payments made during the state's June/July closeout period are recorded in the appropriate fiscal year. Prior to the implementation of this system, each year the state's auditors would require that the Controller's Office adjust millions of dollars of July and August LEA grant payments into

the previous fiscal year's accounting records. Using this system for the past five years, overpayments and subsequent returns have not been material. This system has worked well to remedy significant administrative and accounting issues.

2. The $389,681 repayment was due to a singular event, not a systemic one. The state's extremely short timelines for closing its books often means the LEAs must request their year end funds before their own books are closed. The $389,681 payment was caused by an incorrect reading of an account title. The LEA mistakenly requested Title II funds, when they actually needed Title I funds. When they closed their books, they uncovered their error. They notified RIDE and returned the funds. RIDE can provide documentation from the LEA confirming these events.

3. Though they requested it for the wrong program, the LEA had a legitimate need for the cash. The over request on Title II funds offset the under request of owed Title I funds. Thus, the LEA actually had a much smaller amount of excess federal cash on hand than is apparent. The repayment was to correct an accounting issue, not a cash issue.

Contact Person: Marliot Uzcategui, Director of Finance
Phone: 401.222.2648
E-mail: Marliot.Uzcategui@ride.ri.gov

Finding 2009-49 *Corrective Action*

The District's Coordinator of Grants is in receipt of OMB Circular No. A-87 and is addressing this issue.

The District's Business Manager and Coordinator of Grants will implement and monitor policies and procedures pursuant to OMB Circular A-87.

Anticipated Completion Date: Beginning July 1, 2010

Contact Person: Mario Papitto, Coordinator of Grants
Central Falls School District
Phone: 401.727.7700 ext. 123

Finding 2009-50 *Corrective Action*

To ensure consistent and continual compliance with requirements of federal award programs, the district will:

a) Re-issue to the finance and business office staff written copies of its policies and procedures regarding protocol for authorizing and processing grant expenditures under federal award programs.

b) Through its Business Manager and Grant Coordinator, schedule and conduct at least one meeting a year with the finance and business office staff to review policies and procedures in order to ensure clarity and understanding regarding protocol for processing grant expenditures and requests under federal award programs.

Anticipated Completion Date: Beginning July 1, 2010

Contact Person: Mario Papitto, Coordinator of Grants
Central Falls School District
Phone: 401.727.7700 ext. 123

Finding 2009-51 *Corrective Action*

Under the grant, the position of a Literacy Intervention Consultant was an approved Professional Service. In April, this position was changed from a vendor under Professional Service to a School District employee. Although the position of a Literacy Intervention Consultant was an approved item in the budget, the District will implement the following Corrective Action.

Similarly, the conferences attended by the Attendance Officer and Technology Director were a part of the Professional Development allowed under the grant, the actual names of the conferences were not highlighted in the budget. As such, the District will implement the following Corrective Action.

The School District, through its Business Manager and Grant Coordinator, will:

a) Review its policies and procedures regarding the protocol for authorizing and processing grant expenditures and activities with all finance and business office staff.

b) Seek amendments and other approvals from funding agencies prior to processing expenses not detailed in approved budget.

Anticipated Completion Date: Beginning July 1, 2010

Contact Person: Mario Papitto, Coordinator of Grants
Central Falls School District
Phone: 401.727.7700 ext. 123

Finding 2009-52 *Corrective Action*

The Office of Rehabilitation Services (ORS) will enhance the internal procurement procedures to verify that vendors that enter into covered transactions in the Vocational Rehabilitation Grants to States Program are not suspended or debarred from contracting with or receiving subawards.

ORS will collect a certification form from the vendor or alternatively periodically check the Excluded Parties List System (EPLS) website for notice of suspension or debarment. Each instance of checking of the EPLS website will be documented and kept on file.

Anticipated Completion Date: June 30, 2010

Contact Person: Ronald Racine, Deputy Administrator, Office of Rehabilitation Services
Phone: 401.727.7700 ext. 123

Finding 2009-53 *Corrective Action*

The University concurs with the recommendation. The University acknowledges that it could not provide proof of an ACG student recipient's completion of a rigorous secondary school program of study. However, it should be noted that all potential ACG recipients were initially reviewed for eligibility before awarding the grant for their freshman year. While the Admission office did not retain these high school transcripts, they have since changed their business process, beginning with the 2008-09 academic year, to scan in all high school transcripts and save them on the University computer system.

Anticipated Completion Date: Completed

Contact Person: Bonnie Saccucci, Senior Associate Director, Enrollment Services
Phone: 401.874.7530

Finding 2009-54 *Corrective Action*

The Immunization Program is comprised of the federal immunization grant, the restricted childhood and the restricted adult immunization accounts. The payroll costs for the immunization staff are justified under the Immunization Program.

For employees working on non-immunization programs, the Immunization Program will request and review after the fact distribution of activity reports and the relevant payroll allocation to compare actual costs and will process adjustments if differences are more than 10 percent.

Going forward, the Immunization Program will consider allocating staff that perform duties that are not related to the Immunization program to the restricted accounts to avoid inappropriate charges to the Federal immunization grant.

Anticipated Completion Date: June 30, 2010

Contact Person: Patricia Raymond
Phone: 401.222.5921

Finding 2009-55 *Corrective Action*

2009-55a

The Department conducts a comprehensive ADP risk analysis and system security review of its Medicaid Management Information System. The Department will coordinate with the Division of Information Technology to examine and seek resources to enhance the risk analysis and system security review of its InRhodes system.

2009-55b

Within the MMIS protocols have been developed regarding testing procedures for moving emergency code into production. Also, each Business Design Document has a formal security section that the system analysis must include as part of the design of any modifications to the system.

2009-55c

The Department continues to coordinate its system security activities with the Division of Information Technology (DoIT). Monthly IT status meetings are held with DoIT, Northrup

Grumman and DHS staff. Additionally, meetings are scheduled as needed with other security officers of each of the Executive Office of Health and Human Services as well as the Department of Corrections

Contact Person: Ralph Racca, Administrator
Phone: 401.462.1879

Finding 2009-56 ***Corrective Action***

2009- 56a, b, c

In FFY 2009 the Office of Child Care conducted a case review of 271 child care case records. We examined all eligibility elements and calculation of appropriate payments.

Through our own record review process missing documentation proved the major source of error. Part of the cause related to R.I. works/TANF eligibility and social workers held some of the documentation thus was not readily available in the Low Income CC workers' case record.

The solution offered to address this issue was to expand scanning of documentation beyond the low-income child care unit. Scanning was initiated with the child care program and as scanning has been spread to other DHS programs documentation is beginning to be centralized by head of household. Documentation is available on line and can be viewed and used by all workers who work with the case. Documentation on line will make the paper record secondary.

In addition the Department has a quality control unit that reviews DHS programs for payment accuracy. Child care will be added to the responsibilities of this unit as staff becomes available.

The Supervisor of the Low Income Child Care unit has an excellent system for regularly reviewing cases as follows: 100% of all seamless cases transferred from RI Works/TANF workers are reviewed; 30% of all new applications undergo supervisory review, 10% of all recertifications, and 100% of all fair hearing cases are reviewed. Approximately 15-20 additional cases are reviewed due to applicant/client phone calls and worker questions.

As noted by the Auditor, this system must be formalized in Policy. In addition maintenance standards for service records are being developed and included in policy. Workers will be trained on the new standards and supervisors will review records to assure that the standards are met.

2009-56d

The main guard against payment for ineligible children is to prevent the child from becoming eligible. Therefore, the first line of control is to assure that InRhodes does not approve children aged 13 years or over unless there are other eligibility factors that apply.

When a new child requests CCAP, the child must meet the age criteria. The child is denied if overage and not disabled. If the child is disabled, the child can remain on CCAP until 19.

These rules apply only to DHS children. There is no age cap for DCYF in InRhodes since these are pass through payments.

In addition the InRhodes system monthly auto-closes a child turning 13 the month following their 13th birthday, as long as the case has no STAT edits. Since some children cannot be auto closed because of these STAT edits, a monthly caseload report is run on the first available weekend of the month containing a list of all cases that have a child that is 13 on or after the 1st of the next month. A case will reappear on this report every month until the 13 year old is either closed or has approved eligibility as a disabled child.

<u>Anticipated Completion Date</u>: December 31, 2010

Contact Person: Gabriella Barros, Regional Manager
Phone 401.462.2847

Finding 2009-57 *Corrective Action*

All TANF cases within this sample were further investigated by the Department's IEVS Unit workers, and those with discrepancies were reviewed in detail in order to discern causes of the findings so that Administrators could provide in-service training/retraining over the next 3 months on IEVS/SWICA match requirements and protocols. However, in this second level review, 3 of the cases identified as discrepant within the audit sample had already been closed to R.I. Works/TANF cash assistance several months before the audit review. In all 3 cases, no SWICA matches were available in the system at time of closure and therefore the INRHODES system did not create a DAIL message to notify worker of the existence of a new SWICA panel because the case was no longer active to RI WORKS/TANF.

The Department's position is that TANF cases, which have already closed to cash assistance, should not be counted against the agency in the course of an audit. Reconsideration of these case findings will be sought. Additionally, the Department will seek technical guidance from ACF on the mandates regarding IEVS/SWICA for cases already closed to the TANF Program without the presence of a SWICA panel. If ACF confirms that closed cases still require IEVS/SWICA actions, the Department will seek systems changes to notify workers through their DAIL MESSAGING list. A reasonable question is how long is a State mandated to track SWICA matches when the TANF case related to the match is no longer in receipt of TANF cash assistance program.

The IEVS unit later reviewed 1 additional case with a finding. That case did have 2 Case-Log (CLOG) entries verifying efforts made by worker to confirm wage information in accord with IEVS requirements. These 2 entries led worker to appropriately clear the SWICA panel.

Other cases found with IEVS discrepancies are being given the highest priority and are currently being addressed with field workers. An IEVS field work team has been formed by the TANF Administrator to fully analyze all current program requirements as well as the level of knowledge workers have with these requirements. The assignment to this work team is to create site-based experts on IEVS/SWICA procedures and policy and substantially improve our timely response and accuracy when working these cases.

<u>Anticipated Completion Date</u>: December 31, 2010

Contact Person: Donalda Carlson, Associate Director
Phone: 401.462.6833

Finding 2009-58 *Corrective Action*

Two major corrective action steps will be implemented prior to end of FFY 2010. At the recommendation of the Auditors, Financial Management staff will work more closely with TANF Program Administrative staff to improve the consistency of program data and actual program expenditures. TANF Program Administrative staff who are responsible for developing programs and partnerships with other state agencies who have viable State dollars being expended on TANF eligible families will have enhanced procedures in place to acquire essential reports about services and expenditures which can be counted by DHS to meet TANF MOE levels. TANF administrative staff will also be provided access and training on the State RI FANS accounting system for the purpose of confirming the States MOE expenditures are in the system at the time the 204 Report is prepared and submitted.

With these enhanced control procedures in place, we are confident that the discrepancies will decrease substantially and consistency in the information reported by Program and Financial Management will result. Regarding the resubmission of the 2008 ACF-204 and ACF-196 reports, the Department commits to working both internally and with ACF to assure that all necessary reporting is submitted and accurate.

Anticipated Completion Date: December 31, 2010

Contact Person: Donalda Carlson, Associate Director
Phone: 401.462.6833

Finding 2009-59 *Corrective Action*

2009-59a

The Department will document the reconciliation of the ACF-196 report to the state accounting system in the next fiscal year.

2009-59b

We will review the contract variances and adjust the ACF-196 TANF financial reports as appropriate in the future.

Anticipated Completion Date: December 31, 2010

Contact person: Janice Cataldo, Interim Associate Director
Phone: 401.462.0547

Finding 2009-60 *Corrective Action*

This particular finding was brought to the attention of the Department very recently. The Department discussed this finding with Audit team in an effort to better understand the basis for the questioned costs and to assure auditors that the Housing Assistance for Low Income Families program funded by the State of Rhode Island did meet the definition of TANF MOE claimable activities. The original agreement between R.I. DHS and the R.I. Department of Administration, Office of Housing and Development spelled out the qualifying factors for TANF MOE claims for FFY 2008. However, the portion of dollars claimed were sub-contracted through R.I. Housing, a quasi-state agency working cooperatively with the R.I. DOA Office of Housing and Development. It was DHS's understanding through our signed agreement that specific dollars being claimed were used to pay for subsidies directly related to low-income families. The auditor could not confirm expenditures in FFY 2008 as having been made in during the correct fiscal period on behalf of subsidies for families because the R.I. Housing agency was not part of the State's R.I. FANS accounting system Also, questions were raised about the exact date a family moved into the subsidized dwelling and whether the service actually occurred within the federal fiscal year in review. The corrective action we will carry out is to set up a meeting within the next several weeks with DHS administrative staff, DOA Housing and Development staff, and R.I. Housing staff in order to acquire essential verifying service level data and expenditures which are currently held by R. I. Housing. Assuming such verification can be provided to back up the claim, the Department will submit such back up to the Auditor and hopefully questioned costs, at least in part, can be resolved.

For future years where MOE claims are made for this purpose with State Housing entities, the Department will attempt to enter into a 3-party agreement (R.I. DHS, R.I. Office of Housing and Community Development, and R.I. Housing agency) so that claims and service level data can be more directly verified.

<u>Anticipated Completion Date:</u> December 31, 2010

Contact person: Donalda Carlson, Associate Director
Phone: 401.462.6833

Finding 2009-61 *Corrective Action*

Accepted. The Office of Energy Resources will implement greater control procedures with the disbursement of funds to the subrecipients, and the timing of the draw downs to ensure compliance with the Treasury-State agreement.

Contact Person: Terri Brooks
Administrator, Financial Management
Phone: 401.574.9107

Finding 2009-62 *Corrective Action*

Accepted. The Central Business Office established the necessary process for tracking funds by grant award by creating separate line sequences within the RIFANS system effective July 1, 2009.

Contact Person: Bernard Lane, Jr.
Associate Director, Financial Management
Phone: 401.222.6603

Finding 2009-63 *Corrective Action*

Accepted. The Central Business Office will establish cost centers to comply with this finding by June 30, 2010.

Contact Person: Terri Brooks
Administrator, Financial Management
Phone: 401.574.9107

Finding 2009-64 *Corrective Action*

Accepted. The Chief Financial Officer will develop a written policy which will be implemented by the Office of Energy Resources which will require quarterly adjustments of expenditures and the quarterly adjustment of allocations. This will be implemented by the June 30, 2010.

Contact Person: Bernard Lane, Jr.
Associate Director, Financial Management
Phone: 401.222.6603

Finding 2009-65 *Corrective Action*

2009-65a

Accepted. Central Business Office will be revising the SF269A reports immediately and provide a copy to the Auditor General's Office.

Contact Person: Manuel DelSanto
Supervisor of Fiscal Services
Phone: 401.222.4210

2009-65b

Accepted. Central Business Office will be revising the SF269A reports immediately and provide a copy to the Auditor General's Office.

Contact Person: Manuel DelSanto
Supervisor of Fiscal Services
Phone: 401.222.4210

2009-65c

Accepted. The Central Business Office and the Office of Energy Resources will maintain supporting documentation as required by federal regulation.

Contact Person: Terri Brooks
Administrator, Financial Management
Phone: 401.574.9107

2009-65d

Accepted. Central Business Office will submit a revised Carryover and Reallotment Report for the 2008 grant award by June 30, 2010.

Contact Person: Manuel DelSanto
Supervisor of Fiscal Services
Phone: 401.222.4210

Finding 2009-66 ***Corrective Action***

Accepted. The Office of Energy Resources has funded sufficient resources in FY 2010 to schedule regular visits to ensure the subrecipients are monitored in a timely manner. In addition, they have requested assistance from the Bureau of Audits to document the monitoring procedures are being completed.

Contact Person: Terri Brooks
Administrator, Financial Management
Phone: 401.574.9107

Finding 2009-67 ***Corrective Action***

The Department will make the adjustment on the next federal report.

Contact Person: Brian Peterson
Associate Director/Chief Financial Officer, DCYF
Phone: 401.528.3630

Finding 2009-68 ***Corrective Action***

The fiscal information that was used was run after the end of the quarter, but before all adjustments were made by the controller. While this particular incident did not change the administrative claiming, that could have been the case if other expenses were omitted.

We have discussed this with the State Controller and to prevent this in the future, we will check to make sure all end-of-the-quarter adjustments are made prior the download of the expenditure data to be used in the cost allocation process.

Contact Person: Brian Peterson
Associate Director/Chief Financial Officer, DCYF
Phone: 401.528.3630

Finding 2009-69 ***Corrective Action***

The Department has implemented system modifications that ensure that the appropriate funding source is applied. Each waiver or Title XIX individual is assigned a unique program indicator that is stamped to the claim when a provider bills for homemaker services. This program indicator is subsequently mapped to the appropriate funding source.

Attempting to design an automated decrementing system is made complicated by the fact that home health/homemaker services fluctuate during any given month. DHS will reevaluate its processes work to implement further refinement.

Contact Person: Lawrence Ross, Assistant Director
Phone: 401.462.6025

Finding 2009-70 *Corrective Action*

The Department will work with the Medicaid Eligibility Quality Control (MEQC) unit to improve and implement any necessary changes related to the SCHIP claiming review process. Such a process should subject SCHIP claiming results to an eligibility quality process similar to the process currently in place over all Medicaid claims.

Contact Person: Elena Nicolella, Medicaid Director
Phone: 401.462.0854

Finding 2009-71 *Corrective Action*

2009-71a

The current contract with EDS requires a Type I SAS 70 be performed bi-annually, and the SAS 70 for FY2008 occurred in May 2008. The Department estimates that a Type II review would cost an additional $100,000, which is not available within its currently appropriated budget. However, EDS and the Department have agreed to secure proposals for a Type II review for 2010.

2009-71b

DHS has an audit trail process in place that monitors the billing and collection of rebates and third party recoveries. All checks are logged within EDS and forwarded to the financial department where a deposit ticket is prepared by the Financial Specialist and verified by a second person within the financial team. The funds are deposited to the State's General Fund. The deposit ticket and the back up documentation is forwarded to the Drug Rebate Specialist, the TPL Specialist, or the Provider Refund Specialist where the payment is posted to the MMIS. These specialists update the appropriate screens. Updates to these screens are system stamped with the date the screen was updated, the type of transaction, and the clerk ID# who made the change.

In addition to the posting to the MMIS the drug rebate specialist and the TPL specialist maintain MS Excel spreadsheets and/or MS Access database tools to log the payments. The Excel and Access data base tools are worksheets and changes to them are not tracked.

All payments are communicated to DHS via FACN with details of the individual check amounts and the total dollar amount of the deposit. Bank deposit tickets are attached to the FACN.

<u>Drug Rebate Procedures/Controls:</u> Drug rebate checks are received, logged, and deposited by the financial team. The drug rebate specialist receives the deposit slip, a copy of the check, and the back-up documentation from the manufacturer from the financial team. The drug rebate specialist communicates the deposit to the DHS via FACN with the original deposit slip attached. The FACN lists each individual check by payer (manufacturer) with the amount paid and the total deposit amount. The FACN also documents which calendar quarter the payment is allocated to.

Drug rebate payments are posted upon receipt against the original AR created in the MMIS. Payments are posted via the MMIS financial screens and they are also posted to the drug rebate access database. Posted information includes rate adjustments, disputed amounts, recoupments, and payments. Each posting to the MMIS AR is documented with the transaction type, the change date, and the clerk ID as evidenced in the attached screen shots.

After each financial cycle and at each quarter close, a drug rebate status report is generated through the MS access database and forwarded to DHS. The status report documents by both SFY and by calendar year the total amount invoiced, the total amount received, disputed amounts, and outstanding amounts. These reports are reviewed by DHS.

<u>TPL Procedures / Controls</u>: Facsimile claims for third party liability (TPL) are generated by MMIS as part of TPL Benefit Recovery functionality. The generation of the facsimile causes an account receivable account to be created.

When a TPL payment is received the TPL specialist identifies the accounts receivable number by utilizing the TPAS (account summary) screen. The payment is posted in the TPRC (A/R reconciliation) screen. If the payment is paid is full the posting will fully satisfy the A/R. If the payment is a partial payment is received, the TPWO screen is utilized to post write offs due to denials or partial payments. If a change is made in the TPRC or TPWO screen prior to the financial, a toll specialist would delete an entry and the cancelled entry would display in the TPAR (a/r history) screen. Once a financial is complete, no changes can be made in those screens. The TPRC and TPWO display change date and clerk number.

A FACN is forwarded to DHS containing the check number, dollar amount, recipient information and any attached Explanation of Benefits from insurers.

<u>Provider Refunds Procedures/Controls:</u> Refunds received from providers are received, logged, detailed for a deposit to the States General Fund and communicated to DHS via FACN. To record the payments within the MMIS, an A/R is established in the MMIS via FNF1 screen. The payment is then posted to the FNF2 screen. The transaction date / change date and the clerk ID# posting the payment is system stamped on the screen for audit purpose

Contact Person: Ralph Racca, Administrator
Phone 401.462.1879

Finding 2009-72 *Corrective Action*

2009-72a

While the current procedures and methodologies result in accurate Federal financial reporting, the department is continuing to work with its fiscal agent to refine the alignment of accounts and coding within the State accounting system to further improve the posting and reconciliation of MMIS reported data.

2009-72b

The department will reconcile administrative expenditures reported on the CMS-64 with amounts reflected in the State accounting system, and document any timing differences between the CMS-64 report and underlying accounting data.

2009-72c

The department's current procedures require that expenditure totals as reported on the PMS-272 report be supported by the Federal expenditure totals on federal financial reports. Since the due date for PMS reports sometimes precedes the preparation of the financial report, the use of estimates is occasionally necessary. The department will continue to increase efforts to report cumulative disbursements based on actual expenditures totals as reflected in the financial status report.

2009-72d

The department will implement procedures to improve tracking of Medicaid and SCHIP expenditures reported on the PMS-272 reports to better document the collective reporting of program and administrative expenditures by grant period.

2009-72e

The department will implement procedures to ensure that expenditure reported have previously been recorded in the State's accounting system.

Contact Persons: Lawrence Ross, Assistant Director
Phone: 401.462.6025
Janice Cataldo, Interim Associate Director
Phone: 401.462.0547

Finding 2009-73 *Corrective Action*

2009-73a

This finding emphasizes the need for the Department of Human Services (DHS) to increase oversight and monitoring of the terms of the ISAs. DHS Medicaid leadership staff have met with all EOHHS departments to discuss requirements of the Interagency Service Agreements, including compliance with Federal regulations, State Plan, and Cost Allocation Plans. Written guidelines for compliance have been distributed to all EOHHS departments to assist each department in preparing an inventory of current activities under the ISA. A review of these practices to ensure that all activities meet required mandates has been completed with MHRH and DOH and is underway with DCYF and DEA. ISAs have been revised to include CNOM and Global Waiver Assessment and Coordination processes.

2009-73b

The findings of the Auditor's Report emphasize the need for the Executive Office of Health and Human Services and the Department of Human Services to increase the oversight and monitoring of Medicaid claiming by other EOHHS agencies.

DHS has undertaken a review of all benefit claiming by each Department to determine whether all applicable requirements are being met and to identify any deficiencies. Upon completion of each review, DHS will issue a certification that all benefit claiming is in compliance with the ISA, federal regulations, State Plan, and Cost Allocation Plans.

A formal review of payment rates and rate methodologies for Medicaid-funded services has been implemented and will be incorporated into the State Plan or Global Waiver.

2009-73c

The EOHHS/DHS Medicaid leadership team is working with EOHHS departments to move Medicaid activities that are currently "offline" into the Medicaid Management Information System (MMIS). Effective 4/09, MHRH transferred the eligibility and payment system for the Community Medication Assistance Program (CMAP) to the MMIS. In addition, with the Global Waiver CNOMs, all new enhanced Medicaid eligible categories will be processed through the MMIS.

Contact Person: Lawrence Ross, Assistant Director
Phone: 401.462.6025

Finding 2009-74 *Corrective Action*

MHRH concurs that the multiple payment systems and rate structures that are currently in place are not efficient and do not provide adequate controls over the total DD program. The Division is currently in the process of hiring a consultant to assist with the Lead Agency Initiative which proposes to develop networks of providers, review the current rate structures, including a review of units of service and implement one rate structure for the DD Program. It is the intent of MHRH to complete this process by FY 2012. Concurrently, MHRH will work with DHS and HP to revise payments systems so that all claims are subjected to appropriate edits and adjudicated through the MMIS. However financial and system resources will need to be identified in order to insure that this project is given a priority in the HP/DHS queue of work.

Below are responses to other items noted in the finding:

- Due to the various payment systems, there are a few unique circumstances in which a handful of individuals would receive payments through both the Waiver Payment System (WPS) and per-diem systems. In these incidents the clients were authorized for services funded through per diem and an additional authorization was set up through the WPS. The WPS authorization approved significant additional staff and/or nursing supports due to violent episodes, elopement, ingestion to name a few. This is not how additional services should have been authorized, but in these few cases it was set up as explained above. The Division is in the process of correcting these authorizations. Note that while the authorizations were processed incorrectly, the questioned costs are appropriate to be charged to Medicaid.

- If a client enters a hospital from a Residential Facility, the provider is required to notify the Department and adjust the monthly bill accordingly when billing the WPS. There are edits in place when the file is sent to HP (EDS) so that if a client loses eligibility due to a hospitalization the claim will deny. The attendance data that is submitted to the Division is reviewed and absences are calculated. If we find an agency has overbilled the Division we notify the agency that a recoup needs to be processed. During this audit an instance was found in which the agency billed in error and a recoup was submitted and processed in April 2010.

- As a result of The Station fire, in which more than 100 people perished, the State implemented new fire codes and no longer grandfathers existing buildings. Maintaining the safety of the individuals we serve is required by the Home and Community Based Waiver. The most reasonable option to assure safety was to bring the homes up to code while the individuals continued to live in the home. The Department presented this 5 year plan to the Fire Board and the Board agreed to give variance to the homes in order to continue to have individuals live in the homes. The Department relied on DHS to determine the appropriateness of this option and DHS concurred that this was an appropriate expenditure under the safety assurances of the Home and Community Based Waiver.

- Transportation, employee health insurance and psychiatric services are all allowable costs under the Global Waiver. The segregation of these services in authorizations is a result of the multiple payment systems. They are all appropriate and allowable costs.

- The current process of review of financial schedules was developed by MHRH and the Bureau of Audits in 2003. MHRH will work with the consultant and provider agencies to develop a new process.

Contact Persons: Maureen Wu, Acting Chief Financial Officer
Phone: 401.462.3100
Ralph Racca, Administrator
Phone 401.462.1879

Finding 2009-75 *Corrective Action*

2009-75a

The Department will be issuing an RFP in Calendar Year 2010 for Phase II of the System of Care. It is anticipated that we will contract with two (2) to four (4) vendors to provide the majority of the services currently being provided through the hundreds of individual provider contracts. It will be a requirement of the System of Care Phase II contract award for the successful vendors to have the capacity and infrastructure to bill directly for Medicaid claims.

2009-75b

We are currently working with DHS and their vendor to establish methodologies for billing Medicaid for DCYF services. We are reviewing HIPAA compliant billable codes and will establish the rates, either through currently established rates, or through a rate setting process.

It is important to note, that we need to work closely with DHS and their vendor to ensure that DCYF services are billed properly through our claiming hierarchy—IVD, Personal Needs, SSA, VA, SSI, IV-E—prior to billing Title XIX or Emergency Assistance.

2009-75c

This will be a requirement of the System of Care – Phase II contracts.

<u>Anticipated Completion Date:</u> We will begin implementation of compliance measures in FY 2011 and anticipate full compliance by the end of Fiscal Year 2012.

Contact Persons: Brian Peterson, Chief Financial Officer
Phone: 401.528.3630
Lee Baker, Purchasing/Contracts Administrator
(401) 528-3627

Finding 2009-76 *Corrective Action*

2009-76a

Systems work has recently been completed by DHS' fiscal agent that will enable more CNOM program claims to be processed through MMIS. This will improve control over these expenditures.

2009-76b

All departments are required to conduct a self-audit of CNOM expenditures claimed, the results of which must be reviewed and approved by DHS. DHS has provided written audit guidelines and explained the standards and practices that need to be met. The federal government will be credited for any over-claimed amounts.

2009-76c

DHS will make every effort to have claiming processes fully operational for future CNOM initiatives.

Contact Person: Lawrence Ross, Assistant Director
Phone: 401.462.6025

Finding 2009-77 *Corrective Action*

2009-77a

The Department has instituted a number of controls to ensure the integrity of expenditures for services provided by the LEAs and with the Medicaid regulations. In addition to previous activities conducted to expand post audit/monitoring procedures of special education claims, DHS has conducted the following additional activities:

In SFY 2009, DHS conducted annual site visits. The LEAs that participated in the 2009 review process were Johnston, Coventry, Westerly, Lincoln, N. Smithfield, South Kingstown, East Bay Educational Collaborative, Northwest Special Education Region, Metropolitan Regional Career and Technical Center and the Beacon Charter School. As with previous rounds of on-site reviews, DHS uses the results of annual site visits to determine the need for further technical assistance, statewide education session and workgroup sessions. All LEAs that participate in the review process are notified of results in writing and are required to develop corrective action plans for any findings. All corrective action plans are followed up on by DHS staff to ensure that the finding has been resolved by the LEA. DHS will recoup funds if systematic non-compliance is identified.

In SFY 2010, DHS will continue its annual reviews, and revise its guidance and provide additional training as necessary based upon these reviews.

"Medicaid Direct Services Guidebook for Local Education Agencies" will be updated and distributed for an effective date of July 1, 2010.

2009-77b

DHS will add language in the updated "Medicaid Direct Services Guidebook for Local Education Agencies" to reinforce IEP documentation requirements related to Medicaid services. The guidebook will be updated and distributed for an effective date of July 1, 2010.

2009-77c

In July 2007, DHS developed a revised Medicaid School Based Claiming Guide. This guide was designed to increase the knowledge base of LEAs submitting claims for quarterly administrative claiming costs. In 2009, DHS developed an audit matrix as a tool for conducting administrative claiming reviews. In 2009, DHS staff also met with CompuClaim and UMASS (third party contractors) to review their procedures for administrative claiming.

In SFY 2010, DHS is conducting it's own administrative claims reviews for 11 LEAs and will include administrative claims reviews a part of it's annual site visit/direct service claim reviews. All LEAs that participate in the review process will be notified of results in writing and will be required to develop corrective action plans for any findings. All corrective action plans will be followed up on by DHS staff to ensure that any findings have been resolved by the LEA. DHS will recoup funds if systematic non-compliance is identified.

Contact Person: Deborah Florio, Administrator
Phone: 401.462.0140

Finding 2009-78 *Corrective Action*

The Department reviewed all deficiencies with Field Management staff, including the types and frequency of deficiencies found within this review. Specific concerns were discussed with field supervisors, highlighting common weaknesses and staff were offered refresher sessions on requirements of the MA policy and procedures. Using the analysis of the audit findings was very helpful in emphasizing how staff can improve adherence to program requirements in this area.

Contact Person: Donalda M. Carlson, Associate Director
Income Support Programs
Phone: 401.462.6833

Finding 2009-79 *Corrective Action*

The Department will follow-up with appropriate staff to assure that every effort is made to resolve monthly variance reports and better assure that these reports are attended to on a timely basis.

Contact Person: Donalda M. Carlson, Associate Director
Income Support Programs
Phone: 401.462.6833

Finding 2009-80 *Corrective Action*

Both recommendations will be taken into account in assessing future needs of the MEQC specialists.

As recommended, the reconsideration of continuing eligibility of recipients who fail to cooperate during MEQC reviews will be addressed through consultation with legal and policy office.

Contact Person: Donalda M. Carlson, Associate Director
Income Support Programs
Phone: 401.462.6833

Finding 2009-81 *Corrective Action*

2009-81a

DHS will review policies and procedures for review of enrollment in the Medical Assistance program and ensure eligibility for participation.

2009-81b

DHS will work with the fiscal agent to develop a process for a data match with the Department of Health's licensure web site.

2009-81c

DHS will provide guidance to other state agencies concerning licensure and participation requirements to be a Medical Assistance program provider.

2009-81d

DHS will evaluate the financial and staffing feasibility of centralizing medical licensure responsibility.

2009-81e

DHS will ensure that providers meet federal health and safety requirements

Contact Person: Ralph Racca, Administrator
Phone 401.462.1879

Finding 2009-82 *Corrective Action*

Invoices are reviewed each month to ensure that the appropriate funding sources and percentages are being charged. The Department utilizes Chapter 11 of the CMS Medicaid Manual as guidance for determining enhanced federal funding.

Contact Person: Ralph Racca, Administrator
Phone 401.462.1879

Finding 2009-83 *Corrective Action*

RIte Share: RIte Share enrollees have an affirmative obligation to notify the Department in a timely manner whenever their employment/insurance status changes in a way that would affect their eligibility or enrollment into RIte Share.

Maintaining accurate information on employment is a key element in sustaining valid health insurance information. Through enhancements made to our InRhodes system and a related interface between InRhodes and the Employer Contact Unit (ECU), the ECU is notified of enrollees' changes in employment as they are entered in InRhodes. In addition, the Department uses the information obtained through insurance data matches that are conducted quarterly through the Medicaid fiscal intermediary.

Additionally, as stated in previous audit responses, on a regular basis, prior to the financial cycle, the ECU faxes to the employer a list of individuals for whom a RIte Share payment will be made. The ECU requests that the employer confirm that the employee is still there or notify DHS of changes or deletions. For the most part, employers cooperate with this request. This process has proven successful in reducing overpayments.

A script created in the of Fall 2006 for the RIte Share staff to confirm health insurance and employment status on all telephone communications is still in place as is the printed reminder on all payment reports to RIte Share recipients which reads: "Please contact RIte Share at 462-0311 if your employment or health insurance has changed. Accepting payment after your insurance has ended may be considered Medicaid fraud."

Specifically with regard to the federal share of overpayments subject to recovery, Medicaid operates on a cash basis. Therefore, we pay the federal government its share upon recovery of the overpayment.

In an effort to collect these balances owed, in SFY10 DHS implemented RI General Law 44-30.1 entitled "Setoff of Refund of Personal Income Tax." This law allows the Division of Taxation to intercept an individual's tax refund to reimburse the state for "medical assistance benefit overpayments and arrearages." This includes RIte Share overpayments and Premium Collection balances. These dollars will be treated as expenditure credits and upon receipt, the state will pay the federal government its share of the recovery.

Contact Person: Deborah Florio, Administrator
Phone: 401.462.0140

Finding 2009-84 *Corrective Action*

DHS is preparing an RFP for an auditing firm to conduct DSH audits of the community hospitals and Eleanor Slater Hospital to meet requirements of section 1923 (j)(2) of the Social Security Act.

Contact Person: Ralph Racca, Administrator
Phone 401.462.1879

Finding 2009-85 *Corrective Action*

DHS believes that current policies to ensure enforcement of findings are adequate and in compliance with federal regulations. DHS will review policies of the DUR Board to ensure compliance with federal regulations.

Contact Person: Ralph Racca, Administrator
Phone 401.462.1879

Finding 2009-86 *Corrective Action*

Since the beginning of Medicaid Managed Care, the State of Rhode Island has developed a systematic approach to oversee the State's contracts with the Managed Care Organizations (MCOs). The oversight program as implemented by the State is comprised of two major components. One component is accomplished via regular reporting requirements as set out in the contract. The second consists of regular meetings between the State and the health plans' leadership to review various financial, programmatic and operational matters relating to the Medicaid Managed Care Program. These meetings are designed to review the operations and performance of the MCOs.

The overarching document that outlines the relationship between the State and the Managed Care Organizations is the health plan Contract. The contract defines the roles, rights and responsibilities of both the State and the health plan in the Medicaid Managed Care program. It, therefore, provides the primary basis for oversight and monitoring activities.

Under the terms of the contract, the plans agree to submit to the State periodic reports covering an array of operating, quality and financial areas. Some of the reports are submitted annually; others are submitted quarterly, while still others are required on a monthly basis. Among the reports relating to the plans' financial performance are the following:

- Copies of internal financial statements;
- Quarterly and annual copies of the filings submitted to the Department of Business Regulation;
- Copy of the annual financial statement as prepared by an outside audit firm;
- Monthly Risk Share / Gain Share Reports;
- Claims related to Stop Loss Provisions, generally submitted twice a year;
- Encounter Data;
- Third Party Liability (TPL) Reporting Requirements (plans are obligated to report TPL within 5 days of discovery)

Together these reports enable the State to monitor the financial activities of the plans participating in Medicaid Managed Care. They also aid the State in monitoring the financial health of the MCOs.

Before the State agrees to make a payment to a Manage Care Health Plan for Risk Share/ Gain Share or Stop Loss claims, the Department goes through several exercises and processes that are designed to test the reasonable of the expenses as reported, including regularly scheduled internal financial oversight meetings. To better document this systemic review, in SFY10, the Department developed and implemented the Risk Share/Gain Share Final Settlement template. This template is completed for each Final Risk Share/ Gain Share Claim received by each plan for each population. Once the Department has determined the plan's submission to be reasonable, the Risk Share/ Gain Share Final Settlement assessment tool and a copy of the plan's report are thoroughly reviewed and vetted by Medicaid Administrative staff for final review and authorization.

Contact Person: Deborah Florio, Administrator
Phone: 401.462.0140

Summary Schedule of Prior Audit Findings

Summary Schedule of Prior Audit Findings
Table of Prior Findings by Federal Program

Program Title	CFDA Number	Findings included in Previous Single Audit Reports
Food Distribution	10.550	08-41
Supplemental Nutrition Assistance Program (SNAP) Cluster:		
Supplemental Nutrition Assistance Program (SNAP)	10.551	08-42
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Unemployment Insurance	17.225	08-39, 08-40
Trade Adjustment Assistance - Workers	17.245	07-54
WIA Cluster:		
WIA Adult Program	17.258	08-39, 08-49, 08-50, 08-51
WIA Youth Activities	17.259	08-39, 08-49, 08-51
WIA Dislocated Workers	17.260	08-39, 08-49, 08-50, 08-51
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	08-39, 08-40, 08-52, 08-53, 08-54
Student Financial Assistance Cluster:		
Federal Supplemental Educational Opportunity Grants	84.007	08-55, 08-57, 08-61
Federal Family Education Loans	84.032	08-55, 08-56, 08-57, 08-58, 08-60, 08-61
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Federal Perkins Loan Program – Federal Capital Contributions	84.038	08-61
Federal Pell Grant Program	84.063	08-55, 08-57, 08-59, 08-61
Federal Direct Student Loans	84.268	08-61
Academic Competitiveness Grants	84.375	08-61
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	08-61
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Title I Grants to Local Educational Agencies	84.010	08-39

Summary Schedule of Prior Audit Findings
Table of Prior Findings by Federal Program

Program Title	CFDA Number	Findings included in Previous Single Audit Reports
Special Education Cluster:		
Special Education – Grants to States	84.027	08-39
Special Education – Preschool Grants	84.173	08-39
Immunization Grants	93.268	08-39, 08-63, 08-64, 08-65
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	07-66, 07-67
Temporary Assistance for Needy Families	93.558	07-73, 07-74, 08-39, 08-42, 08-48, 08-66, 08-67, 08-68, 08-69, 08-70, 08-71, 08-72
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Low-Income Home Energy Assistance Program	93.568	07-80, 07-81, 08-39, 08-75, 08-76, 08-77, 08-78, 08-79
CCDF Cluster:		
Child Care and Development Block Grant	93.575	08-39, 08-42, 08-48, 08-67, 08-71, 08-72, 08-80, 08-81
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	08-39, 08-42, 08-48, 08-67, 08-71, 08-72, 08-80, 08-81
Foster Care – Title IV-E	93.658	08-39, 08-40, 08-82, 08-83
Adoption Assistance	93.659	08-39, 08-40, 08-84
Social Services Block Grant	93.667	08-39, 08-42, 08-48, 08-80, 08-85, 08-86
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Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	08-39
State Survey and Certification of Health Care Providers and Suppliers	93.777	08-39
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Block Grants for the Prevention and Treatment of Substance Abuse	93.959	08-39, 08-105, 08-106, 08-107, 08-108, 08-109
Homeland Security Cluster:		
State Domestic Preparedness Equipment Support Program	97.004	07-102, 08-39, 08-40, 08-110, 08-111, 08-112, 08-113, 08-114, 08-115
Homeland Security Grant Program	97.067	07-102, 08-39, 08-40, 08-110, 08-111, 08-112, 08-113, 08-114, 08-115

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
02-30		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.						
	02-30a		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			Full schedule was not implemented in FY 2009; however, it is being addressed in FY 10.
	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			It is being addressed in FY 10.
07-47		10.553 10.555 10.559	Subrecipient monitoring reviews of Child Nutrition Cluster. SMI nutritional reviews should be completed timely and include communication of findings and development of a collaborative, corrective action plan.						
	07-47c		Enforce and impose fiscal sanctions when corrective action plans are not received timely.		X				
07-54		17.245	Trade Adjustment Assistance - Reporting. DLT should improve controls over federal financial reports						
	07-54a		Improve controls over federal finance reports by simplifying the multiple sources used to accumulate the data required for federal reporting and ensuring all sources are reconciled to the State's RIFANS accounting system from which program expenditures are disbursed. Reconcile supporting documentation for federal reports to ledger activity.	00-20c 01-22c		X			Reconciliations have been expanded to ensure agreement between the State's RIFANS accounting system; DLT's FARS cost allocation system: and the federal reports for all sources of data on a quarterly basis.
	07-54b		Review reports prior to submission to ensure data agrees to supporting information systems.		X				
	07-54c		Review reports prior to submission to ensure data is consistent with supporting information systems, including data on other federal reports.				X		See Corrective Action Plan for Finding 2009-39.
07-66		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.						

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*
	07-66c		Perform quarterly comparisons between budgeted salary allocations to actual time and effort and prepare adjustments for variances greater than ten percent. Prepare final adjustments for any variances remaining at year end.	06-36c			X		For employees working on federal programs the department will request and review after the fact distribution of activity reports and the relevant payroll allocation to compare actual costs and will process adjustments if differences are more than 10 percent.
07-67		93.283	CDC – Investigations and Technical Assistance – Subrecipient Monitoring. DOH should enhance documentation of monitoring of subrecipients, obtain and review audit reports, and determine whether audit reports necessitate adjustment of DOH's records						
	07-67a		Establish appropriate policies and procedures to monitor subrecipients, utilizing site visits, audits or other means as considered appropriate and enhance documentation of such activities.				X		New policies and procedures are under development.
	07-67b		Obtain and review subrecipient audit reports. Issue timely management decisions on any audit findings and ensure that the subrecipients take appropriate corrective action.	06-38b			X		New policies and procedures are under development.
	07-67c		Evaluate whether the subrecipient audit reports necessitate adjustment of OH's records, or impact its ability to comply with applicable federal regulations.				X		New policies and procedures are under development.
07-73		93.558	TANF – Special Reporting – Strengthen supervisory review and approval of the ACF-204.						
	07-73b		Correct the federal fiscal year 2006 ACF-204 report and resubmit it to the federal government.				X		See Corrective Action Plan for Finding 2009-58.
07-74		93.558	TANF – Activities Allowed or Unallowed. DHS billed TANF for amounts billed as other program costs by the vendor. Questioned costs - $295,783						
	07-74		Revise federal reports to properly charge the appropriate programs for the amounts indicated on the contractor's billing.			X			The department subsequently adjusted the TANF ACF-196 financial Report during the first quarter of FFY 2010 to correct the TANF program overcharges noted in the audit finding.
07-80		93.568	The OER contracted with Department of Elderly Affairs to provide monitoring services. Actual expenditures were over $22,000 more than the contracted amount.						

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	07-80c		Ensure funding limitations in contract award amounts are observed.				X		A contract monitoring system is being implemented in FY 2010.
07-81		93.568	Errors were noted in the preparation of SF-269 reports. Separate reports were not prepared for "regular" and Emergency contingency funds are required. Supporting documentation for the Carryover and Reallotment report was not maintained.						
	07-81d		Submit a revised Carryover and Reallotment Report for the 2006 grant awards as required.	06-50e	X				
07-102		97.067 97.004	Homeland Security Cluster – Period of Availability. Federal regulations require the State to liquidate all obligations within 90 days after the respective grant periods.						
	07-102b		Investigate expenditures charged in fiscal 2007 to the account linked to federal grants that had been closed. Determine if RIEMA has drawn federal funds for those expenditures under any other federal grants and/or reported the expenditures on any federal financial status reports pertaining to other federal grants.		X				
	07-102c		Close accounts in the State accounting system that are linked to federal grants that have expired		X				
08-39		Various	The State did not have adequate controls to ensure compliance with federal cash management requirements in drawing cash for federal programs.						
	08-39a		Continue to implement a centralized monitoring process to ensure compliance with cash management requirements for federal programs.	97-11 98-08 99-10 00-10 01-09 02-17a 03-20a 04-29a 05-29a 06-22a 07-44a		X			See Corrective Action Plan for Finding 2009 – 33.

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
	08-39b		Produce standard RIFANS reports and implement specific procedures to ensure data used by departments in drawing cash for federal programs is consistent and appropriate for the intended objective.	07-44b			X		See Corrective Action Plan for Finding 2009 – 33.
	08-39c		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 closely match funding techniques to current practices. Consider automating the process.	02-17c 03-20c 04-29c 05-29b 06-22b 07-44c		X			See Corrective Action Plan for Finding 2009 – 33.
	08-39d		Investigate automating all draws of federal funds through and interface between the RIFANS accounting system and federal government's automated funds management systems.			X			See Corrective Action Plan for Finding 2009 – 33.
	08-39e		Modify procedures to ensure that all programs or program components complying with the funding techniques specified in the Treasury/State agreement are excluded from the interest liability calculation.	02-17b 03-20b 04-29b 05-29c 06-22c 07-44d			X		See Corrective Action Plan for Finding 2009 – 33.
	08-39f		Calculate refund liabilities in accordance with the terms outlined in the Treasury-State Agreement. Submit a corrected CMIA Annual Report as necessary.	06-22d 07-44e		X			See corrective Action Plan for Finding 2009 – 33.
08-40		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 03-19 04-30 05-30 06-23 07-45		X			See Corrective Action Plan for Finding 2009-34 and Finding 2009-10.
08-41		10.550 10.553 10.555 10.559	We noted numerous variances in inventory records of food commodities.						

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*
	08-41		Investigate and resolve variances between physical counts and inventory records for federal donated food commodities.	03-21 04-31 05-31	X				
08-42		10.551 93.558 93.575 93.596 93.667 93.767 93.778	Control weaknesses exist in the InRHODES system for eligibility over Food Stamps, TANF, Child Care, SSBG, SCHIP and Medical Assistance.						
	08-42a		Finalize, document and implement standard monitoring and tracking security reports that will supply the DHS systems security administrator with required details pertaining to the activities of all INRHODES users.	05-32d 06-24d 07-46c			X		See Corrective Action Plan for finding 2009-35.
	08-42b		Develop policies and procedures detailing appropriate investigation of issues identified by the department's monitoring procedures.				X		See Corrective Action Plan for finding 2009-35.
08-43		10.553 10.555 10.559	Subrecipient monitoring reviews of Child Nutrition Cluster. SMI nutritional reviews should be completed timely and include communication of findings and development of a collaborative, corrective action plan.						
	08-43a		Ensure that CRE and SMI nutritional reviews are completed in a timely manner and include written communication of findings and development of a collaborative, corrective action plan.	06-25 07-47a	X				
	08-43b		Conduct follow up visits within required federal timeframes.		X				
08-44		10.553 10.555 10.556 10.559	State agencies shall ensure that school food authorities (SFAs) have selected and verified a sample of their approved free and reduced price applications. There were no controls in place to ensure that SFAs were completing the reviews and submitting results when required.						
	08-44a		Ensure the SFAs are sampling and verifying the minimum number of free and reduced price applications. Enhance monitoring procedures to ensure SFA compliance with the eligibility sampling and verification process.				X		See Corrective Action Plan for finding 2009-36.
	08-44b		Require the SFAs to submit the information to RIDE in accordance with the timelines outlined in federal regulations.		X				

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*
	08-44c		Verify the completeness and accuracy of the FNS-472 report prior to submission to the USDA.				X		See Corrective Action Plan for finding 2009-36.
08-45		10.557	DOH continues to charge the health insurance costs for an employee on military leave to the WIC program and not the assessed fringe account.						
	08-45		Transfer health insurance costs for the employee on military leave to the Assessed Fringe Benefits Fund. Determine if the state is required to continue to pay health insurance costs for an employee on extended military leave.				X		See Corrective Action Plan for finding 2009-38.
08-46		10.561	The State did not meet the matching requirement for administrative costs of the food stamp program.						
	08-46		Establish controls to determine that the required state match has been provided.			X			We will continue to strengthen our controls for the state match. Completion date September 2010.
08-47		10.561	We noted differences between amounts reported on the SF-269 and amounts in the State accounting system.						
	08-47		Strengthen controls to ensure amounts included in the federal SF-269 reports are valid and supported by the State's accounting system.			X			We will continue to strengthen our internal controls by bringing a new FTE into the Office of Financial Management and in the interim, requiring the employee who has done this report in the past to return to Financial Management on an interim basis. Completion date April 2010.
08-48		10.561 93.558 93.575 93.596 93.667 93.778	Controls over the cost allocation process require strengthening. We noted deficiencies regarding the cost allocation plan.						
	08-48a		Seek federal approval to allocate SSI expenditures through the CAP and obtain approval for the CAP methodology used.		X				

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
	08-48b		Correct CAP programming to prevent the duplication of personnel costs.				X		We are in the process of working with the Department of Administration Information Technology (DoIT) to review the feasibility of implementing procedures to prevent the duplication of personnel costs.
	08-48c		Correct applicable federal reports and resubmit to the federal government.				X		We calculated the financial impact of this finding and we adjusted the cost allocation plan in a subsequent quarter during state fiscal year 2010.
08-49		17.258 17.259 17.260	WIA Cluster – Reporting. DLT should improve controls over federal financial reporting by completing the State's required federal grant information schedule and reconciling to RIFANS.						
	08- 49a		Establish authorized balances within FARS ledgers consistent with grant award documentation.	07-55a			X		See Corrective Action Plan for finding 2009-41
	08- 49b		Reconcile FARS ledger activity to the State's RIFANS accounting system on a timely basis.	07-55b	X				
08- 50		17.258 17.260	The forms used as guides to determine program eligibility were not always properly completed by staff.						
	08- 50		Provide additional training to staff with regards to the appropriate completion of forms and documentation requirements.	07-56			X		See Corrective Action Plan for finding 2009-42.
08- 51		17.258 17.259 17.260	The subrecipient was overpaid on two occasions because of errors in the payment request form that were not found or corrected by DLT staff.						
	08- 51		Improve review of subrecipient payment requests and subrecipient payments by tracking payments and grant balances throughout the fiscal year, rather than relying solely on a year-end reconciliation.		X				
08-52		20.205	Required labor compliance checks were not always performed and proper documentation was not always maintained.						

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
	08-52		Strengthen oversight of the labor compliance monitoring procedures to ensure contractor compliance with Davis Bacon Act requirements. Enforce completion of labor compliance checklists and receipt of certified payrolls.	03-29 04-40 05-42 06-30 07-57		X			See Corrective Action Plan for finding 2009-43.
08-53		20.205	RIDOT should improve its quality assurance program with respect to materials testing.						
	08-53a		Improve the RIDOT quality assurance program for materials testing consistent with federal regulations and guidelines and the specific recommendations made by the Federal Highway Administration.	07-58a		X			See Corrective Action Plan for finding 2009-44.
	08-53b		Ensure all required certificates of compliance have been received and recorded in the materials test book prior to contractor payment for the materials.	06-33a 07-58b		X			See Corrective Action Plan for finding 2009-44.
	08-53c		Improve documentation for tests completed to comply with the FHWA approved Master Schedule for Sampling, Testing and Certification of Materials. Ensure that "unacceptable materials" test results are documented in accordance with PURK manual procedures and decisions to leave nonconforming materials in place are authorized consistent with those procedures.	06-33b 07-58c		X			See Corrective Action Plan for finding 2009-44.
	08-53d		Ensure that all construction field offices have the required materials test book.		X				
	08-53e		Require all test results be document in the materials test book prior to vendor payment of the related materials.			X			See Corrective Action Plan for finding 2009-44.
08-54		20.205	RIDOT did not have adequate policies or procedures in place to monitor its subrecipients.						
	08-54a		Establish written policies and procedures for subrecipient monitoring and establish a schedule of projects for review and document the monitoring performed.				X		See Corrective Action Plan for finding 2009-45.
	08-54b		Identify all federal awards passed-through to subrecipients by project.				X		See Corrective Action Plan for finding 2009-45.

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
	08-54c		Ensure subrecipients have had required single audits performed and review the audit reports on a timely basis including issuing management decisions within required timeframes.				X		See Corrective Action Plan for finding 2009-45.
	08-54d		Provide required information to subrecipients in contracts such as CFDA number and title, federal agency and applicable compliance requirements.				X		See Corrective Action Plan for finding 2009-45.
	08-54e		Evaluate the impact of subrecipient activities on RIDOT's ability to comply with applicable federal regulations.				X		See Corrective Action Plan for finding 2009-45.
08-55		84.007 84.032 84.063	Rhode Island College - One of the selected student's verification forms was completed incorrectly. This error did not change the student's estimated family contribution.						
	08-55		We recommend that the College implement policies and procedures to ensure accurate reporting and verification of the ISIR.		X				
08-56		84.032	Rhode Island College -One student had completed the entrance counseling interview after the subsidized loan had been disbursed.						
	08-56		We recommend the College implement policies and procedures to ensure timely entrance counseling.		X				
08-57		84.007 84.032 84.063	Rhode Island College -Some refunds were calculated incorrectly and refunds were late.						
			We recommend that the College implement policies and procedures to ensure accurate and timely calculation of refunds.		X				
08-58		84.032	Rhode Island College – One student's refund was not returned within the 45 day requirement.						
	08-58		We recommend that the College implement policies and procedures to ensure timely return of student refunds.		X				
08-59		84.063	University of Rhode Island – Pell Grant disbursements were not always reported in a timely manner.						
	08-59		We recommend that the University implement policies and procedures to ensure student data is reported timely.		X				

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08-60		84.032	University of Rhode Island – Students' disbursement notifications did not always agree to the underlying student accounting records.						
	08-60		We recommend that the University implement policies and procedures to ensure student disbursement notifications agree to underlying account disbursements and are provided timely.		X				
08-61		SFA Cluster	University of Rhode Island – Cost of attendance (COA) calculations were not always performed correctly.						
	08-61		We recommend that the University implement policies and procedures to ensure accurate COA calculations		X				
08-62		84.033	University of Rhode Island – Students in work-study programs did not always have written agreements with their employers.						
	08-62		We recommend that the University implement policies and procedures to ensure federal work-study students have written agreements with their employers.		X				
08-63		93.268	The Department of Health's quality assurance program to monitor providers should be enhanced to provide more assurance of provider compliance with regulations.						
	08-63		Improve quality assurance site visit documentation to include specific procedures performed regarding eligibility and permanent record of immunization.		X				
08-64		93.268	DOH did not prepare comparisons between budgeted and actual time reporting.						
	08-64		Perform quarterly comparisons between budgeted salary allocations to actual time and effort and prepare adjustments for variances greater than ten percent. Prepare final adjustments for any variances remaining at year-end.	07-111c			X		See Corrective Action Plan for finding 2009-54.
08-65		93.268	DOH did not prepare the required supplementary schedule to its SF 269 report.						
	08-65		Report the required supplementary expenditure information for the 2007 grant award. Establish separate accounts for each segment of the program to facilitate reporting.		X				
08-66		93.558 93.778	TANF eligibility discrepancies resulting from IEVS data matches were not investigated and resolved in a timely manner.						

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
	08-66a		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 03-41a 04-56a 05-59a 06-40a 07-71a		X			See Corrective Action Plan for finding 2009-57.
	08-66b		Maintain documentation supporting the resolution of data match discrepancies and initiate modifications when discrepancies impact eligibility and/or amount of benefits.	99-33b 00-32b 01-36a 02-41b 03-41b 04-56b 05-59b 06-40b 07-71b		X			See Corrective Action Plan for finding 2009-57.
	08-66c		Revisit the propriety and application of DHS policy (1022.10.20) and determine if it is supported by federal guidance or regulation.			X			See Corrective Action Plan for finding 2009-57.
08-67		93.558 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.						
	08-67a		Strengthen controls to ensure adherence to procedures requiring agency personnel obtain and properly utilize required documentation to update electronic case file records prior to determining eligibility and payment amounts, as well as, determining compliance with work participation requirements.	01-46 02-47 03-50 04-68 05-63a 06-43a 07-70a		X			See Corrective Action Plan for finding 2009-56.
	08-67b		Identify policies and procedures regarding supervision of individual job search activities.	05-63c 06-43c 07-70b				X	
	08-67c		Include child care cases in the sample case review process.	06-43d 07-70c		X			See Corrective Action Plan for finding 2009-56.

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
	08-67d		Explore scanning relevant applicant eligibility documentation to eliminate paper records and facilitate retrieval of critical eligibility documentation.			X			See Corrective Action Plan for finding 2009-56.
08-68		93.558	TANF – Performance Reporting. Enhance controls to ensure the accuracy and reliability of the data included in the ACF 199 TANF data report and the ACF 209 SSP-MOE Data Report.						
	08-68a		Enhance controls to ensure the accuracy and reliability of the information included in the ACF 199 TANF Data Report and the ACF 209 SSP-MOE Date Report.	07-72a	X				
	08-68b		Determine if the reporting of unapproved eligibility data is systemic. If so, determine the impact on data previously reported and correct the programming, if required.		X				
	08-68c		Correct reporting errors on the ACF 199 TANF Data Report and resubmit to the federal government.		X				
08-69		93.558	TANF – Special Reporting – Strengthen supervisory review and approval of the ACF-204.						
	08-69a		Strengthen supervisory and "quality control" procedures over the preparation of the ACF-196 and ACF-204 reports to ensure that all necessary information is included in the report and the information is accurate and is supported by appropriate data and calculations.	07-73a		X			See Corrective Action Plan for finding 2009-58.
	08-69b		Correct the federal fiscal year 2007 ACF-204 and ACF-196 reports and resubmit them to the federal government.				X		See Corrective Action Plan for finding 2009-58.
08-70		93.558	We found expenditures identified on the ACF-196 TANF financial report are not consistently supported by the State's accounting records.						
	08-70a		Reconcile and document timing differences which result in variances between the reported total expenditures on the quarterly ACF-196 TANF Financial Report and amounts reflected in the State accounting system.	06-41 07-69		X			We agree with the finding and will continue to document the timing differences going forward.
	08-70b		Adjust the ACF-196 TANF Financial Reports to charge the proper amounts for contract, administrative and child care costs.				X		The Department continues to review the details of this finding with the Federal government and will adjust accounts as deemed appropriate in the future.

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*
08-71		93.558 93.575 93.596	Maintenance of effort amounts included on federal reports did not agree to amounts in the State accounting system.						
	08-71a		Strengthen supervisory review and approval procedures to ensure amounts reported on the ACF-196 and ACF-204 are properly supported by information recorded in the State accounting system and that necessary accounting adjustments are recorded by year end.			X			We plan to centralize the documentation of these reports and review within the Office of Financial management.
	08-71b		Adjust the state accounts appropriately.				X		The Department continues to review the details of this finding with the Federal government and will adjust accounts as deemed appropriate in the future.
08-72		93.558 93.575 93.596 93.767 93.778	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.						
	08-72a		Develop an enterprise-wide 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.	03-43a 04-71a 05-64a 06-44a 07-75a			X		See Corrective Action Plan for finding 2009-55.
	08-72b		Implement procedures and dedicate information systems security resources to ensure that ADP risk assessments are conducted at required intervals and when significant system changes occur in accordance with federal regulation 45 CFR 95.621.	03-43b 04-71b 05-64b 06-44b 07-75b			X		See Corrective Action Plan for finding 2009-55.
	08-72c		Coordinate information system security activities for the MMIS and INRHODES systems with the State's Division of Information Technology to ensure compliance with the State's newly mandated information systems security policies and procedures.	06-44c 07-75c			X		See Corrective Action Plan for finding 2009-55.
08-73		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.						

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08-73a		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 03-44a 04-60a		X			The Associate Director at Child Support convened a series of meetings with staff from the Treasurer's office, Family Court Staff, and OCSS business office and systems staff to go through the daily process and to discuss all of the reasons the accounts may not reconcile. We agreed that the Citizens account and the Family Court postings on InRhodes are reconciled daily and problems are identified immediately. We also agreed that because of the nature of the program certain items may contribute to the lack of reconciliation. We were able to identify some issues and resolve them immediately. A detailed summary can be provided. Child Support now runs a quarterly ad-hoc report that further identifies some of the differences between the amounts recorded on INRHODES and those recorded on the State accounting system. Additional research is still required; however, a lack of staff resources prevents a more comprehensive review at this time.

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08-73b		Investigate and resolve the difference regarding child support collections pending distribution reported by the DHS and State accounting systems.	98-37b 99-34b 00-34b 01-38b 02-42b 03-44a 04-60b		X			In the prior year, a Child Support Administrative officer reviewed cases manually and was able to identify approximately one million dollars from pending distributions. However, also due to lack of staffing resources in the accounting section, only approximately half of that was distributed. With additional staff time, more progress could be made toward this effort. The State of RI has entered into an Interagency Partnership agreement with the State of Connecticut to privatize the State Disbursement Unit services currently being provided by the Family Court. Connecticut through a current vendor, will image all of the RI child support payments and post to the correct child support account. This will decrease the misidentified and unidentified payments, mispostings, insufficient funds and other issues thereby reducing the difference in the amounts of the various accounts. The kickoff meeting for programming is April 6, 2010. Completion date to take advantage of Economic Stimulus Funding is 9/30/10.
08-74	93.563	CSE personnel do not verify data supplied by the Division of Payment Management agrees to department records.						
08-74		Reconcile the cash balance reported on the PSC-272 report with the State accounting system.	03-45 04-61			X		With additional staff time, more progress could be made toward this effort.
08-75	93.568	The State Energy Office should continue strengthening procedures to ensure that payments of LIHEAP program funds to subrecipients are limited to their immediate cash needs, as required by federal regulations.						

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	08-75a		Document the data used to support payments to subrecipients which reflect their estimated cash needs.	06-46a 07-77a		X			Terri Brooks formally of the Central Business Office has been hired to manage the grants management of the Office of Energy Resources. Under the direction of Terri Brooks, The Office of Energy Resources is establishing a more concrete reimbursement process based upon current cash needs of the subrecipient. The goal is to eliminate excess cash funds on hand from this program, and require the subrecipients to be more accountable to the State's obligation to federal rules and regulations.
	08-75b		Restrict subrecipient funding to their immediate cash needs.	06-46b 07-77b		X			Same as above.
08-76		93.568	In order to monitor compliance with period of availability requirements, SEO uses grant award expenditure data and obligations. We found this data was not reliable.						
	08-76a		Maintain documentation to support the calculation of funds expended and obligated by grant award.	06-47a 07-78a		X			The Central Business Office with the cooperation of the State Budget Office established separate accounts by year of award to have a transparent review of the funds expended and obligated for each award; however it was not initiated in Federal Grant Year 2009.
	08-76b		Track expenditures by federal fiscal year grant award within the State accounting system.	06-47b 07-78b		X			Same as above.
	08-76c		Identify the federal grant award year when obligating program funds by purchase orders with subrecipients.	06-47d 07-78c	X				
08-77		93.568	The SEO does not perform any review or analysis during the year to ensure compliance with the earmarking requirements.						

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	08-77		Improve procedures and documentation to ensure compliance with the LIHEAP earmarking requirements.	06-48 07-79			X		Terri Brooks formerly of the Central Business Office has been hired to manage the grants management of the Office of Energy Resources. Under the direction of Terri Brooks and beginning with the 2011 LIHEAP grant, the Office of Energy Resources will be establishing a formal budget of the LIHEAP funds. Expenditures will be tracked on an ongoing basis to ensure we are in compliance with all LIHEAP earmarking requirements. This will include program limitation to administrative costs not exceeding 10% of the total LIHEAP grant, Assurance 16 costs not exceeding 5% and WAP transfer not to exceed 15%.
08-78		93.568	The SEO can improve the processed used to charge administrative personnel costs to LIHEAP to ensure that allocations are consistent with supporting documentation and that adequate supporting documentation exists.						
	08-78a		Allocate employee salary and fringe benefit costs to LIHEAP based upon personnel activity reports or equivalent documentation. Adjust estimated allocations on a timely basis after the completion of periodic time studies.	03-47 04-64 06-49a 07-80a			X		Terri Brooks formerly of the Central Business Office has been hired to manage the grants management of the Office of Energy Resources. Under the direction of Terri Brooks, she has trained the Office of Energy Resources staff in regards to the proper recording of time sheets. The plan is for the Central Business Office to coordinate payroll allocation changes based upon these reports to become compliant with federal rules and regulations requiring a quarterly review and adjustment in the payroll system. Implemented FY 2010.
	08-78b		Monitor the allocation of personnel costs to LIHEAP to ensure that only appropriate charges are made to the program.	06-49b 07-80b			X		Terri Brooks has trained the Office of Energy Resources staff in regards to the proper recording of time sheets. The managers within the Office of Energy Resources will be required to ensure eligibility of charges recorded. Implemented in FY 2010.

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08-79		93.568	Errors were noted in the preparation of SF-269 reports. Separate reports were not prepared for “regular” and Emergency contingency funds are required. Supporting documentation for the Carryover and Reallotment report was not maintained.						
	08-79a		Comply with LIHEAP Action Transmittal No. LIHEAP-AT-2001-1 and submit separate SF-269A reports for Block Grant funds and Emergency Contingency Grants funds. Implement revised reporting guidance for federal fiscal 2008 as provided in LIHEAP AT-2008-1.	06-50a 07-81a	X				
	08-79b		Complete a revised final SF-269A financial report for both "Regular" block grants and Emergency Contingency funds in accordance with the requirements outlined in the LIHEAP Action Transmittal No. LIHEAP-AT-2001-1, dated 10/18/00.	06-50b 07-81b			X		See Corrective Action Plan for finding 2009-65.
	08-79c		Submit corrected REACH SF-269A financial status reports related to the federal fiscal year 2004 and 2005 grant awards that are supported by expenditures as recorded in the State's accounting system.		X				
	08-79d		Ensure that the Carryover and Reallotment report is supported by sufficient documentation.	05-65 06-50d 07-81c			X		The Central Business Office did not implement in FY 2009 Federal Grant Year. See Corrective Action Plan for finding 2009-65.
	08-79e		Submit a revised Carryover and Reallotment Report for the 2007 grant awards as required.		X				
08-80		93.575 93.596 93.667	CCDF Cluster, Social Services Block Grant – Provider Contracts. DHS did not have provider contracts for 10 of the 13 multi-site day center-based child care vendors reviewed.						
	08-80		Strengthen internal controls to ensure that all contracts are renewed on a timely basis.	07-82	X				
08-81		93.575 93.596	The Department of Human Services over-claimed federal fiscal year earmarks by a total of $305,125.						

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	08-81		Strengthen controls to ensure expenditures claimed for earmarking requirements meet applicable period of availability requirements.			X			The Department has strengthened control procedures to assure that expenditures for earmarking meet applicable period of availability requirements. Also, the department continues to review the details of this finding with the Federal Government and will adjust accounts as deemed appropriate in the future.
08-82		93.658	One of the payments in our sample was not eligible for federal funding.						
	08-82		Adjust federal reports to reimburse the federal government for the unallowable maintenance costs.		X				
08-83		93.658	We found four instances where the day care authorization in RICHIST system provided for fewer hours than were actually paid by DHS.						
	08-83		Enhance control procedures over day care program expenditures by modifying the RICHIST system to reflect current service level authorizations. Alternatively, develop a standardized process for requesting, approving, and tracking changes to day care service levels entered to the INRHODES system.		X				
08-84		93.659	We questioned the eligibility for several payments in our sample because certain records were not available for our review.						
	08-84a		Adjust federal reports to reimburse the federal government for the unallowable adoption subsidy charges.	06-52a 07-85a	X				
	08-84b		Develop written policies and procedures regarding Title IV-E adoption assistance eligibility determinations and record retention practices to ensure consistent application.	05-67b 06-52b 07-85b	X				
	08-84c		Create a central repository for all records that support the Adoption Assistance eligibility determination. Consider electronic imaging of these critical documents to facilitate storage and retrieval.	06-52 07-85c		X			We have established this for current cases; however; because an adoption case can be active for 21 years, it will be some time before all active cases are in repository. We are not addressing imaging at this time.
	08-84d		Conduct random reviews of Adoption Assistance eligibility determinations as part of an appropriate quality control system to ensure that all claims meet federal eligibility requirements.	06-52d 07-85c	X				

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08-85		93.667	The Department has not filed the required SF-269 report.						
	08-85		Prepare the SF-269 Financial Status Report for federal fiscal 2008.		X				
08-86		93.667 93.778	Controls are not adequate to ensure that all payments for homemaker services are charged to the appropriate funding source.						
	08-86		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.	93.667 93.778 00-42 01-49 02-53 06-55 07-86 93.778 03-57 04-75 05-71		X			See Corrective Action Plan for finding 2009-69.
08-87		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.						
	08-87a		Ensure that federal reports properly credit the federal government, on a timely basis, for cost-sharing collections attributed to the SCHIP program.		X				
	08-87b		Ensure that cost-collections are allocated based on the approved CMS methodology and properly reflected on quarterly federal reports.	02-55 03-54 04-73 05-69 06-57 07-87	X				
08-88		93.767 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 Medicaid Management Information System and to ensure claims were processed in accordance with the Department's instructions and federal requirements.						

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	08-88a		Obtain an annual Type II "SAS 70" examination 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 03-59a 04-77a 05-72a 06-63a 07-88a			X		See Corrective Action Plan for finding 2009-71.
	08-88b		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 03-59b 04-77b 05-72b 06-63b 07-88b		X			See Corrective Action Plan for finding 2009-71.
08-89		93.767	Specific eligibility criteria for the SCHIP program have not been programmed into the INRHODES system. The Department must use queries to identify SCHIP eligible individuals and program costs. Controls over these queries were not adequate to ensure that only individuals meeting SCHIP eligibility requirements were claimed. In addition, the INRHODES system does not adequately consider other insurance when determining SCHIP eligibility.						
	08-89		Subject the results of queries used to accumulate eligible SCHIP program costs to a quality control process to ensure that eligibility and allowable cost program criteria are met.	02-54a 03-53a 04-72a 05-68a 06-56a 07-89			X		See Corrective Action Plan for finding 2009-70.
08-90		93.767 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.						

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	08-90a		Align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS.	02-65b 03-65b 04-82a 05-77a 06-59a 07-90a			X		See Corrective Action Plan for finding 2009-72.
	08-90b		Completely reconcile administrative expenditures reported on the CMS-64 with those reported in the State's accounting system.	02-65a 03-65a 04-82b 05-77b 06-59b 07-90b			X		See Corrective Action Plan for finding 2009-72.
	08-90c		Report cumulative disbursements accurately on the PMS-272 based on actual expenditures in accordance with report guidelines.	03-65f 04-82c 05-77c 06-59c 07-90c			X		See Corrective Action Plan for finding 2009-72.
	08-90d		Improve tracking of Medicaid and SCHIP expenditures reported on the PMS-272 reports to better document the collective reporting of program and administrative expenditures by grant period.				X		See Corrective Action Plan for finding 2009-72.
	08-90e		Improve controls over federal reporting by consistently reporting expenditure amounts that have been recorded in the State's accounting system.	07-90d			X		See Corrective Action Plan for finding 2009-72.
08-91		93.778 93.767	Medical Assistance – Unallowable Costs. DHS purchased monthly transportation passes for Medicaid eligible individuals rather than purchasing passes only for medical appointments. Also, certain staff training costs were over allocated to Medical Assistance.						
	08-91a		Reimburse the federal government for all costs deemed to be unallowable by CMS.	07-98				X	
	08-91b		Ensure that all claim reimbursements for non-emergency transportation services are processed through the MMIS.			X			See Corrective Action Plan for Finding 2009-73.
08-92		93.778	Medical Assistance – Formalize more specific guidelines for reimbursements relating to private providers of community services for adults with developmental disabilities and implement more extensive auditing procedures relative to private providers.						

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	08-92a		Implement the necessary system modifications that will allow all claims for services provided to adults with developmental disabilities to be processed through the MMIS.	07-91			X		See Corrective Action Plan for finding 2009-74.
	08-92b		Consider authorizing waiver services for individuals based on smaller units of service (i.e., hourly or daily, instead of monthly) to allow for more precise claim editing to be performed in the MMIS.				X		See Corrective Action Plan for finding 2009-74.
08-93		93.778	DHS needs to enhance monitoring and controls to evaluate compliance by LEAs and to ensure only Medicaid allowable procedures are being reimbursed.						
	08-93a		Consider pre-authorization within the MMIS for special education services specified in student's individualized education plans. Subject special education claims to edits for pre-authorization as a requirement for payment approval.	06-61a 07-92a				X	
	08-93b		Expand post audit/monitoring procedures of special education claims to ensure compliance with DHS's "Medicaid Direct Services Guidebook for Local Education Agencies".	05-74b 06-61b 07-92b		X			See Corrective Action Plan for finding 2009-77.
	08-93c		Implement review procedures for administrative claiming determinations being conducted by a third party contractor on behalf of local education agencies.	06-61d 07-92c			X		See Corrective Action Plan for finding 2009-77.
08-94		93.778	DHS should improve controls over Medicaid expenditures administered by other state agencies.						
	08-94a		Ensure that other state agencies responsible for administering Medicaid services comply with the terms of the interagency agreements and provide DHS with all required mandates.	06-62a 07-94a		X			See Corrective Action Plan for finding 2009-73.
	08-94b		Once approved, develop a review process to ensure compliance with authorized rate setting procedures for 1915(c) waiver services, adolescent residential placements and group home facilities administered by other State agencies.	06-62b 07-94b				X	
	08-94c		Process all benefit claiming for Medicaid eligible individuals through the MMIS to ensure proper controls over these Medicaid payments.	05-74a 07-94c			X		See Corrective Action Plan for finding 2009-73.

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08-95		93.778	Medical Assistance - Timely identification of claims paid on behalf of ineligible individuals. DHS should determine, on a timely basis, the amount of claims paid on behalf of ineligible individuals and reimburse the federal government for its share.						
	08-95a		Ensure the timely resolution of eligibility variances reported between INRHODES and MMIS to ensure that only eligible recipients receive Medicaid benefits.	07-95a	X				
	08-95b		Determine, on a timely basis, the amount of claims paid on behalf of ineligible individuals and reimburse the federal government for its share.	07-95b			X		See Corrective Action Plan for finding 2009-79.
08-96		93.778	Medical Assistance – Provider eligibility. We found licensure information lacking in the Medicaid provider files maintained by the fiscal agent.						
	08-96a		Improve fiscal agent oversight of provider enrollment and licensing to ensure that all providers enrolled in the Medical Assistance program are eligible to participate.	07-96a			X		See Corrective Action Plan for finding 2009-81.
	08-96b		Develop procedures to electronically match DOH licensure data with active Medicaid providers to periodically update licensure status.	07-96b			X		See Corrective Action Plan for finding 2009-81.
	08-96c		Provide specific guidance to other State agencies with responsibility for licensing provider groups to ensure the eligibility of all providers being reimbursed through the Medical Assistance Program.	07-96c			X		See Corrective Action Plan for finding 2009-81.
	08-96d		Consider centralizing all medical licensure responsibility within one department to ensure consistent application of Medicaid licensing requirements.	07-96d			X		See Corrective Action Plan for finding 2009-81.
08-97		93.778	Medical Assistance – Matching – Fiscal Agent Contract. DHS should obtain specific guidance from CMS regarding the allowability of services performed by the fiscal agent.						
	08-97		Review fiscal agent contract services to ensure their allowability for reimbursement at federally enhanced rates. Obtain specific guidance from CMS outlining the allowability of enhanced federal participation for services performed by the fiscal agent.	07-97			X		See Corrective Action Plan for finding 2009-82.
08-98		93.778	Controls over Medicaid claims for children in foster care should be enhanced to match controls in place for all other Medicaid claims processed through the State's MMIS.						

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	08-98a		Formalize a claiming methodology for DCYF residential placements which utilizes either an all-inclusive or prorated per diem rate that is consistent with federal regulations. Alternatively, reimburse providers on a fee-for-service basis or include residential placements as in-plan services through Rite Care.	06-64a 07-100a			X		See Corrective Action Plan for finding 2009-75.
	08-98b		Enhance controls over Medicaid claims originating from DCYF's RICHIST system to be equivalent to controls in place over all other Medicaid claims paid through the MMIS.	06-64b 07-100b			X		See Corrective Action Plan for finding 2009-75.
	08-98c		Move towards processing all Medicaid claims through the Medicaid Management Information System.	07-100c			X		See Corrective Action Plan for finding 2009-75.
08-99		93.778	Medical Assistance – Medicaid Eligibility Quality Control. DHS should re-evaluate MEQC policies to ensure compliance and revisit the continuing eligibility of recipients who fail to cooperate during MEQC reviews.						
	08-99a		Re-evaluate MEQC policies and procedures to ensure compliance with federal regulations and/or guidelines for conducting MEQC reviews.	07-101a			X		See Corrective Action Plan for finding 2009-80.
	08-99b		Revisit the continuing eligibility of recipients who fail to cooperate during MEQC reviews.	07-101b			X		See Corrective Action Plan for finding 2009-80.
08-100		93.767 93.778	Medical Assistance & SCHIP – DHS procedures were not adequate to restrict eligibility for those persons establishing legal residence within 5 years.						
	08-100		Credit the federal grantor for questioned costs relating to claims paid on behalf of individuals ineligible for Medical Assistance.	07-110b				X	
08-101		93.778	Program overpayments for individuals that terminated employment coverage as well as overpayments to hospitals are not being credited to the federal grantor in a timely manner.						

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	08-101		Reimburse the federal government for program overpayments within 60 days of discovery.	Hospitals 03-66 04-83 05-78a 06-60a 07-93a Premiums 03-63 04-81a 05-76a 06-58 07-99			X		See Corrective Action Plan for finding 2009-83.
08-102		93.778	DHS does not currently have controls in place to ensure the accuracy of the uncompensated care data provided by hospitals.						
	08-102		Improve controls over Medicaid DSH payments by implementing the federal requirements of section 1923 (j)(2) of the Social Security Act.				X		See Corrective Action Plan for finding 2009-84.
08-103		93.778	We noted numerous documentation deficiencies in our review of case files.						
	08-103		Improve controls over required eligibility documentation obtained during the Medical Assistance application process.				X		See Corrective Action Plan for finding 2009-78.
08-104		93.778	Provider response rates to alert letters sent to Medicaid pharmacies is not adequate to ensure proper monitoring.						
	08-104		Develop procedures to ensure the monitoring and enforcement of findings by the State's appointed DUR Board.				X		See Corrective Action Plan for finding 2009-85.
08-105		93.959	Program expenditures included a payment for the prevention and treatment of gambling addiction.						
	08-105		Correct the federal report to remove the inappropriate program charge and adjust the state accounting system accordingly.		X				
08-106		93.959	We found numerous deficiencies in contract files.						

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	08-106		Sign contracts at the beginning of the contracted period and ensure that contracts include all required appendices, contract language (including prohibitions), and description of services to be provided.				X		Primary prevention set aside contracts were issued in July. The substance abuse treatment contracts were delayed as a result of concerns raised by DOA over delegated authority which held up the issuance of master blankets for the current year. All current year contracts were completed by approximately 11/30/09 and include all required appendices, contract language (including prohibitions) and description of services.
08-107		93.959	We could not determine if earmarking requirements had been met due to insufficient tracking by the department.						
	08-107		Track and maintain documentation demonstrating compliance with all applicable federal earmarking program requirements.				X		RI is not an HIV designated state in FY10 therefore earmarking is not required. In future years in which RI is designated, expenditures detail will be collected. Procedures have been in place to monitor and track earmarking, if required, as of October 2009.
08-108		93.959	We could not determine if maintenance of effort requirements had been met due to insufficient tracking by the department.						
	08-108		Implement documentation procedures to monitor and track compliance with each MOE requirement.				X		A draft procedure manual for documenting, monitoring and tracking compliance with each MOE requirement is in process with a projected completion by 4/30/10.
08-109		93.959	MHRH is not monitoring its subrecipients to ensure that payments and cash balances are limited to the subrecipient's immediate needs.						
	08-109		Improve controls to ensure that payments to subrecipients are limited to their immediate cash needs and do not result in excess federal funds on hand.				X		The template report requiring subrecipients to report immediate cash needs is complete. Providers will be notified of the new reporting requirement by March 31 and will begin reporting to the Department on a monthly basis beginning on April 30, 2010.

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08-110		97.067 97.004	Homeland Security Cluster – Reporting. Ensure that all SF-269A reports and supporting documentation are reviewed and approved by an individual familiar with the state accounting system.						
	08-110a		Prepare SF-269A reports utilizing expenditure data recorded in the State accounting system's general ledger, and retain all supporting documentation.	04-90b 06-71 07-104b		X			System developed to crosswalk expenditures from web-based statement to the Oracle statements. This new system was implemented but it was not used consistently.
	08-110b		Ensure that all SF-269A reports and accounting system adjustments are reviewed and approved by an individual familiar with the State accounting system.	04-90d 06-71d 07-104c	X				
08-111		97.067 97.004	RIEMA used funds for construction projects, in violation of the underlying grant agreement.						
	08-111		Adjust federal reports and credit the federal government for amounts determined to be unallowable under the Homeland Security Cluster programs.	07-105	X				
08-112		97.067 97.004	Homeland Security Cluster – Allowable Costs/Cost Principles. RIEMA did not maintain documentation required to support payroll charged to the Homeland Security Cluster.						
	08-112		Prepare semi-annual certifications for those employees whose payroll costs are charged to a single program, and utilize personnel activity reports to allocate payroll costs for those employees who work on multiple programs.	06-66 07-106	X				
08-113		97.067 97.004	Homeland Security Cluster – Equipment Management. RIEMA has not consistently reported the equipment purchased with Homeland Security Cluster Funds.						
	08-113a		Complete compilation of inventory records. Include all pertinent data such as purchase date, acquisition cost, and grant under which the equipment was funded.	04-91 06-67a 07-107a		X			Agency is in process of updating inventory list to include purchase data, acquisition cost and applicable grant. Report is 25% completed.
	08-113b		Conduct a physical inventory of equipment at least once every two years.	07-107b	X				

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08-114		97.067 97.004	Homeland Security Cluster – Special Tests, Subgrant Awards. RIEMA is required to obligate federal funds for subgrants within 60 days after the date of the grant award. RIEAM did not obligate some grants within the 60 day time frame.						
	08-114		Obligate SHSP, UASI and LETPP funds for subgrants within 60 days after the grant award.	06-69a 07-108	X				
08-115		97.067 97.004	Homeland Security Cluster – Subrecipient Monitoring. RIEMA did not ensure that its subrecipients expending $500,000 or more have met applicable audit requirements.						
	08-115a		Review subrecipient audit reports. Issue timely management decisions on any audit findings and ensure that the subrecipients take appropriate corrective action.	04-89c 06-68b 07-109a	X				
	08-115b		Evaluate whether the subrecipient audit reports necessitate adjustment of RIEMA’s records, or impact its ability to comply with applicable federal regulations.	07-109b	X				