State of Rhode Island
and Providence Plantations

SINGLE AUDIT REPORT

Fiscal Year Ended June 30, 2010

Office of the Auditor General
General Assembly

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*

March 31, 2011

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, 2010. 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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Office of the Auditor General

General Assembly

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

STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

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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, 2010, 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 3% of the revenues of the aggregate remaining fund information;

- the Convention Center Authority, a major fund, which also represents 63% 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

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously 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, 2010, 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 6J, the State has borrowed $225 million from the federal Unemployment Insurance Trust Fund to fund employment insurance benefits paid from the Employment Security Fund, a major fund, to eligible unemployed individuals. The Employment Security Fund had a deficit net asset balance of $116 million at June 30, 2010.

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

The Management's Discussion and Analysis, on pages A-4 through A-16, the Budgetary Comparison Schedules on pages A-96 through A-98, and the Schedules of Funding Progress on pages A-99 through A-100 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

December 30, 2010

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, 2010. 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, 2010 by $801.1 million. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government. Of this amount, ($1,597.1) million was reported as unrestricted net assets (deficit), $380.9 million as restricted net assets, and $2,017.3 million as invested in capital assets, net of related debt.

- **Changes in Net Assets:** In the Statement of Activities, the State's total net assets increased by $3.3 million in fiscal year 2010. Net assets of governmental activities increased by $128.3 million, while net assets of the business-type activities decreased by $125.0 million.

Fund Financial Statements

<u>Governmental Funds</u>

- The State's governmental funds reported a combined ending fund balance of $883.7 million, a decrease of $14.8 million in comparison with the previous fiscal year, primarily as a result of expenditure of bond and note proceeds in the various capital projects funds.

- The General Fund ended the current fiscal year with an unreserved, undesignated balance of $17.9 million, an increase of $80.2 million from June 30, 2009.

  - This significant increase in fund balance is primarily attributable to the inclusion in the final revised FY2010 budget of sufficient resources to fully fund the deficit that existed at the end of FY2009. In addition, very careful management of expenditures in FY2010 resulted in actual general revenue expenditures being $23.2 million less than the amount included in the final revised budget.

  - The Budget Reserve and Cash Stabilization Account ended the fiscal year with a balance of $112.3 million, the maximum allowed by law. This is an increase of $32.2 million in comparison with the previous fiscal year.

- The Intermodal Surface Transportation Fund ended the fiscal year with an unreserved fund balance of $3.4 million, which was an increase of $3.2 million from the previous year.

- The GARVEE Fund ended its fiscal year with a fund balance of $162.2 million, a decrease of $105.9 million in comparison with the previous fiscal year. Of the fund balance, $17.3 million is reserved for debt. The decrease in fund balance resulted from planned expenditures for a number of infrastructure projects.

- The Bond Capital Fund ended the fiscal year with a fund balance of $139.5 million, an increase of $78.0 million from the previous year. This increase is primarily attributable to the issuance of $143.8 million of new bonds in the latter part of the fiscal year.

Proprietary Funds

- The Rhode Island State Lottery transferred $344.7 million to the General Fund in support of general revenue expenditures during the fiscal year, an increase of $7.2 million in comparison with the previous fiscal year.

- The Employment Security Fund ended the fiscal year with a deficit of ($116.2) million, as compared with a fund balance of $6.8 million at the end of fiscal year 2009. This change was primarily attributable to a significant increase in unemployment benefits paid as a result of the very high unemployment rate in the State. This necessitated the borrowing of an additional $155.2 million from the Federal Unemployment Trust Fund.

- The R.I. Convention Center Fund ended the fiscal year with a net asset deficiency of ($47.3) million, a reduction of $2.7 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 longer than the depreciable life of the assets.

Overview of the Financial Statements

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

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

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

Government-wide Financial Statements

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

- The **Statement of Net 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(C). The Intermodal Surface Transportation Fund, Bond Capital 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. Similar to 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.

Discretely Presented Component Units

Discretely presented component units are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These discretely presented component units serve or benefit those outside of the primary government. The State does not distinguish between major and non-major component units and includes the combining statement for the discretely presented component units as part of the basic financial statements.

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 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 $801.1 million at the end of fiscal year 2010, compared to $797.8 million at the end of the prior fiscal year. Governmental activities have unrestricted net assets (deficit) of ($1,590.4) 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, 2010
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009*	2010	2009	2010	2009*
Current and other assets	$ 1,673,986	$ 1,610,728	$ 150,798	$ 120,086	$ 1,824,784	$ 1,730,814
Capital assets	3,048,505	2,855,128	196,283	205,282	3,244,788	3,060,410
Total assets	4,722,491	4,465,856	347,081	325,368	5,069,572	4,791,224
Long-term liabilities outstanding	2,848,899	2,796,056	482,646	335,548	3,331,545	3,131,604
Other liabilities	900,878	825,379	36,035	36,394	936,913	861,773
Total liabilities	3,749,777	3,621,435	518,681	371,942	4,268,458	3,993,377
Net assets:						
Invested in capital assets, net of related debt	2,079,153	1,958,718	(61,806)	(59,453)	2,017,347	1,899,265
Restricted	483,931	420,215	(103,022)	20,130	380,909	440,345
Unrestricted	(1,590,370)	(1,534,512)	(6,772)	(7,251)	(1,597,142)	(1,541,763)
Total net assets (as restated)	$ 972,714	$ 844,421	$ (171,600)	$ (46,574)	$ 801,114	$ 797,847

* - Cumulative effect of prior period adjustments is fully explained in Note 17(F).

As indicated above, the State reported a balance in unrestricted net assets (deficit) of ($1,597.1) million at June 30, 2010 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 other than the primary government's direct capital purposes. 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 the financial statements of 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 to provide funding for cultural facilities;

- Capital improvements for privately-owned and operated group homes for developmentally disabled citizens of the State as well as children who are dependent 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.

The long-term liabilities of business-type activities increased primarily as a result of the State borrowing $225 million from the federal government (Unemployment Insurance Trust Fund) to fund employment insurance benefits from the Employment Insurance Fund to eligible unemployed individuals.

Changes in Net Assets

The State's net assets increased by $3.2 million during the current fiscal year. Total revenues of $9,125.8 million were more than expenses of $9,122.6 million. Approximately 28.2% of the State's total revenue came from taxes, while 32.2% resulted from grants and contributions (including federal financial aid). Charges for various goods and services provided 38.2% of the total revenues. The State's expenses covered a range of services. The largest expenses were for human services, 31.8%, and education, 14.0%. In fiscal year 2010, governmental activity expenses exceeded program revenues by $2,870.6 million, with excess expenses being funded through general revenues. On the other hand, net program revenues from business-type activities in fiscal year 2010 exceeded expenses by $173.4 million.

State of Rhode Island's Changes in Net Assets
For the Fiscal Year Ended June 30, 2010
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	$ 462,226	$ 428,854	$ 3,021,260	$ 2,772,889	$ 3,483,486	$ 3,201,743
Operating grants and contributions	2,361,446	2,114,821	418,270	194,857	2,779,716	2,309,678
Capital grants and contributions	162,090	103,515			162,090	103,515
General revenues:						
Taxes	2,577,519	2,588,417			2,577,519	2,588,417
Interest and investment earnings	4,309	9,435	164	4,279	4,473	13,714
Miscellaneous	91,110	95,758	20,224	11,782	111,334	107,540
Gain on sale of capital assets		1,656				1,656
Payments from component units	7,228	13,569			7,228	13,569
Total revenues	5,665,928	5,356,025	3,459,918	2,983,807	9,125,846	8,339,832
Program expenses:						
General government	741,329	754,386			741,329	754,386
Human services	2,900,673	2,719,346			2,900,673	2,719,346
Education	1,273,985	1,287,577			1,273,985	1,287,577
Public safety	418,485	414,830			418,485	414,830
Natural resources	73,551	75,103			73,551	75,103
Transportation	305,460	324,007			305,460	324,007
Interest	142,924	136,737			142,924	136,737
Lottery			2,431,562	2,215,602	2,431,562	2,215,602
Convention Center			50,732	48,764	50,732	48,764
Employment insurance			783,878	573,288	783,878	573,288
Total expenses	5,856,407	5,711,986	3,266,172	2,837,654	9,122,579	8,549,640
Change in net assets before transfers	(190,479)	(355,961)	193,746	146,153	3,267	(209,808)
Transfers	318,772	315,408	(318,772)	(315,408)		
Change in net assets	128,293	(40,553)	(125,026)	(169,255)	3,267	(209,808)
Net assets - Beginning	835,635	876,188	(46,574)	122,681	789,061	998,869
Cumulative effect of prior period adjustments	8,786				8,786	
Net assets - Beginning, as restated	844,421	876,188	(46,574)	122,681	797,847	998,869
Net assets - Ending	$ 972,714	$ 835,635	$ (171,600)	$ (46,574)	$ 801,114	$ 789,061

The cumulative effect of prior period adjustments are fully explained in Note 17(F).

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 $883.7 million, a decrease of $14.8 million. Reserved fund balances are not available for new spending because they have already been committed as follows: (1) $112.3 million for a "rainy day" account, (2) $57.9 million for continuing appropriations, (3) $90.4 million principally for liquidating debt, (4) $149.9 million for employment insurance programs and (5) $35.6 million for transportation capital projects. Additionally, $371.6 million of the ending fund balance, are debt proceeds that were issued for specific capital projects.

The major governmental funds of the primary government are:

General Fund

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, the unreserved fund balance of the General Fund was $17.9 million, while total fund balance was $188.0 million.

Revenues and other sources of the General Fund totaled $5,509.9 million in fiscal year 2010, an increase of $291.6 million, 5.59%, from the previous year. The revenues from various sources and the change from the previous year are shown in the following tabulation (expressed in thousands):

			Increase (decrease) from 2009	
	2010	2009	Amount	Percent
Taxes:				
Personal income	$ 879,007	$ 897,305	$ (18,298)	-2.04%
Sales and use	1,002,233	998,513	3,720	0.37%
General business	355,664	345,792	9,872	2.85%
Other	37,543	37,359	184	0.49%
Subtotal	2,274,447	2,278,969	(4,522)	-0.20%
Federal grants	2,275,606	2,001,605	274,001	13.69%
Restricted revenues	149,638	133,872	15,766	11.78%
Licenses, fines, sales, and services	310,505	295,069	15,436	5.23%
Other general revenues	27,351	30,307	(2,956)	-9.75%
Subtotal	2,763,100	2,460,853	302,247	12.28%
Total revenues	5,037,547	4,739,822	297,725	6.28%
Other sources	472,355	478,516	(6,161)	-1.29%
Total revenue and other sources	$ 5,509,902	$ 5,218,338	$ 291,564	5.59%

The increase in Federal grants of $274.0 million is primarily attributable to 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 and Education categories.

Expenditures and other uses totaled $5,391.8 million in fiscal year 2010, an increase of $136.8 million, 2.60%, from the previous year. Changes in expenditures and other uses by function from the previous year are shown in the following tabulation (expressed in thousands):

			Increase (decrease) from 2009	
	2010	2009	Amount	Percent
General government	$ 552,229	$ 586,628	$ (34,399)	-5.86%
Human services	2,884,419	2,711,167	173,252	6.39%
Education	1,239,074	1,217,271	21,803	1.79%
Public safety	394,860	401,976	(7,116)	-1.77%
Natural resources	67,427	68,932	(1,505)	-2.18%
Debt Service:				
Principal	115,395	102,683	12,712	12.38%
Interest	73,960	67,273	6,687	9.94%
Total expenditures	5,327,364	5,155,930	171,434	3.32%
Other uses	64,448	99,104	(34,656)	-34.97%
Total expenditures and other uses	$ 5,391,812	$ 5,255,034	$ 136,778	2.60%

Intermodal Surface Transportation Fund

The Intermodal Surface Transportation Fund (IST) 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 IST fund was $3.4 million, while the total fund balance was $39.0 million. Total fund balance of the IST fund increased by $3.6 million during the current fiscal year. The primary reason for this was an increase in gasoline taxes and Federal grant revenue.

GARVEE Fund

The GARVEE Fund is a capital projects fund that accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the R.I. 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 $162.2 million, a decrease of $105.9 million. This decrease was caused by significant expenditures for highway and bridge construction that were made this fiscal year from the proceeds of prior year bond issuances.

Bond Capital Fund

The Bond Capital Fund is a capital projects fund that accounts for the proceeds of the bonds issued and the related capital expenditures not required to be accounted for in another capital projects fund. The fund ended the fiscal year with a fund balance of $139.5 million, an increase of $77.9 million. This increase primarily resulted from the proceeds of new bonds that were issued in the latter part of fiscal year 2010.

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 State Budget Reserve Account. If the balance in the Reserve exceeded three percent of the total general revenues and opening surplus, the excess was transferred to the R.I. Capital Plan Fund to be used for capital projects. In FY2009, the spending cap decreased by .2% and Reserve limitation increased by .4%. For FY2010 and subsequent years the spending cap decreases by .2% and the reserve limitation increases 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 $57.8 million, 1.9%, between the original budget and the final budget. General revenue appropriations decreased from the original budget by $113.6 million. Some significant changes between the preliminary and final estimated general revenues and the enacted and final general revenue appropriations (expressed in thousands) are listed below.

General revenues	Original Budget vs. Final Budget Change		Percent
Taxes			
Personal Income	$	(44,700)	-4.6%
Public Utilities Gross Earnings		(18,000)	-15.7%
Insurance Companies		16,100	19.7%
Sales and Use		(27,500)	-3.4%
Cigarettes		(8,400)	-5.7%
Other Miscellaneous		25,908	287.9%
Other General Revenue		(1,215)	
Total Change in Estimated Revenue	$	(57,807)	-1.9%
General revenue appropriations			
Department			
Administration	$	(10,736)	-2.5%
Revenue		(2,846)	-7.9%
Legislature		(1,931)	-5.4%
Children, Youth and Families		(6,538)	-4.1%
Elderly Affairs		(2,098)	-21.2%
Health		(2,595)	-8.8%
Human Services		1,887	0.3%
Behavioral Healthcare, Developmental Disabilities and Hospitals		(3,871)	-2.3%
Elementary and Secondary Education		(50,685)	-5.9%
Public Higher Education		(12,098)	-7.0%
Attorney General		(1,465)	-6.9%
Corrections		(6,271)	-3.5%
Judicial		(5,042)	-6.0%
Environmental Management		(3,055)	-8.6%
Other		(6,210)	
Total Change in Appropriations	$	(113,554)	-3.8%

The significant variance of $50.7 million in the general revenue budget of the Department of Elementary and Secondary Education was primarily caused by reductions in local school aid and the State share of teacher retirement contributions. These reductions were partially offset by an increase in ARRA funding for local school districts.

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, 2010, amounts to $3,244.8 million, net of accumulated depreciation of $1,895.0 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. The total increase in the State's investment in capital assets for the current fiscal year was approximately 6.0% of net book value. This increase is primarily caused by construction in progress for the building and rehabilitation of roads and other infrastructure as well as a number of significant building projects, as discussed in the second paragraph below.

Actual expenditures to purchase or construct capital assets were $324.4 million for the year. Of this amount, $217.0 million was used to construct or reconstruct roads. Depreciation charges for the year totaled $138.6 million.

State of Rhode Island's Capital Assets as of June 30, 2010
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009*	2010	2009	2010	2009*
Capital assets not being depreciated						
Land	$ 348,990	$ 344,042	$ 45,558	$ 45,558	$ 394,548	$ 389,600
Works of Art	422	314			422	314
Intangibles	151,076	145,180			151,076	145,180
Construction in progress	588,133	494,250	649	412	588,782	494,662
Total capital assets not being depreciated	1,088,621	983,786	46,207	45,970	1,134,828	1,029,756
Capital assets being depreciated						
Land improvements	3,700	3,700			3,700	3,700
Buildings	582,779	577,823	234,086	233,047	816,865	810,870
Building improvements	210,608	208,342			210,608	208,342
Equipment	235,227	230,558	22,943	22,407	258,170	252,965
Intangibles	11,986	8,428			11,986	8,428
Infrastructure	2,703,672	2,509,729			2,703,672	2,509,729
	3,747,972	3,538,580	257,029	255,454	4,005,001	3,794,034
Less: Accumulated depreciation	1,788,088	1,667,238	106,953	96,142	1,895,041	1,763,380
Total capital assets being depreciated	1,959,884	1,871,342	150,076	159,312	2,109,960	2,030,654
Total capital assets (net)	$ 3,048,505	$ 2,855,128	$ 196,283	$ 205,282	$ 3,244,788	$ 3,060,410

* - The restatement of the FY2009 balance is fully explained in Note 17(F).

At June 30, 2010, the State had a number of significant capital projects in process, including the construction of a new facility for the College of Pharmacy at the University of Rhode Island, relocation of office facilities for the Division of Motor Vehicles, construction of a new school facility for the School for the Deaf, and construction of a new headquarters building for use by the R.I. State Police. The latter three projects were completed in the summer and fall of 2010. Also, the State is investing in new technology to significantly enhance the operations of the Division of Motor Vehicles. In addition, a number of significant highway and bridge improvement projects are underway, including construction of a new Sakonnet River Bridge. Finally, the State has made a significant investment in commuter rail service by expanding service from Providence to Warwick's T.F. Green Airport and plans to further expand service to 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 $2,539.0 million of which $1,118.0 million is general obligation debt, $613.3 million is special obligation debt and $807.7 million is debt of the blended component units. Additionally, accreted interest of $13.5 million has been recognized for debt of one blended component unit, which will not be paid until 2052. The State's total bonded debt increased by $15.9 million during the current fiscal year. This increase is the net of an $81.8 million increase in general obligation debt, a decrease of $45.2 million in special obligation debt, and a decrease of $20.7 million in the blended component units' debt. The general obligation debt is supported by the full faith and credit of the State. Other obligations subject to annual appropriation by the R.I. General Assembly totaled $399.5 million and are discussed in Note 6.

During the current fiscal year, the State issued $223.6 million of general obligation bonds, of which $79.0 million were refunding bonds used to defease $78.3 million of outstanding bonds.

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 $84.6 million; other obligations that are authorized but unissued totaled $416 million and are described in Note 6. Additional information on the State's long-term debt can be found in the notes to the financial statements of this report.

Conditions Expected to Affect Future Operations

Fiscal Year 2011 Budget

At the November 2010 Revenue Estimating Conference (REC), the enacted FY 2011 estimate of general revenues was revised upward by $16.7 million to $3.037 billion. Of the nineteen general revenue sources that are estimated at the REC, eleven were revised upward from enacted estimates including sales and use and business corporation taxes. The most significant tax category, personal income tax, was revised downward by $1.4 million based on year to date trends.

In addition, the first quarter report for FY 2011 prepared by the Budget Office and issued on November 15, 2010 projects that expenditures will exceed appropriations for a number of programs by $41.6 million. The estimated opening surplus for FY 2011 and the upward revision of the revenue estimate for FY2011, as discussed in the preceding paragraph, help to offset the expenditure overages so that resources available approximately equal planned expenditures.

Lottery Revenue

The General Fund derives more than 11% of general revenue from the Rhode Island Lottery. The Lottery's largest source of revenue, video lottery operations, currently competes with Indian gaming casinos in nearby Connecticut. Proposals are sometimes made in Rhode Island, as well as neighboring Massachusetts, to seek approval from the voters to allow other casinos in Rhode Island and Massachusetts. The Lottery's operations may be impacted by competition from future gaming interests that may be developed within Rhode Island or neighboring states. Revenues overall are down at many gaming venues throughout New England due to current economic conditions. Competition among gaming venues has increased, resulting in more promotional allowances and player reward incentives being offered.

Pension and Other Post Employment Benefits

Independent actuarial valuations are conducted of the Employees' Retirement System each year. As part of this valuation, the progress toward funding pension obligations of the System is measured by comparing the actuarial value of assets to the actuarial accrued liability. This measure is referred to as the funded ratio or funded status. As reflected in the most recent actuarial valuation (June 30, 2009), the funded ratio decreased to 59.0% for State Employees and 58.1% for Teachers within the Employees' Retirement System plan. The funded ratio for the Judges' plan decreased to 88.3%. The State Police plan's funded ratio increased to 79.8%. The Municipal Employees' Retirement System plan's funded ratio decreased with an overall average ratio of 88.3%.

During fiscal 2011, the Employees' Retirement System will be conducting another periodic experience study. These studies are routinely done to examine the actuarial assumptions underlying the development of the annual actuarial valuations of the plans and compare them to actual experience. As is customary, the experience study will include analysis of the investment rate of return assumption. Any changes in actuarial assumptions resulting from the experience study could affect the unfunded actuarial accrued liability of the plans and future employer contribution rates.

In May 2010, unions representing State employees and teachers filed a lawsuit against the State challenging legislative changes made in 2009 to the pension benefit provisions for State employees and teachers. The lawsuit was later amended to include the 2010 legislative changes made to pension benefits. Management cannot estimate the likelihood of loss to the State, if any, if the plaintiffs prevail. If these challenges to the statutory changes are successful, future State contributions as well as the unfunded actuarial liability could be materially impacted.

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 $55.8 million, and the actual contribution made was $38.4 million. Consequently, the net Other Post Employment Benefit (OPEB) obligation as of June 30, 2010 increased by $17.4 million to $40.2 million. For fiscal year 2010, the State funded the retiree health care program on a pay as you go basis.

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

Liquidity and Short-term Borrowing

The State sold $350 million of General Obligation Tax Anticipation Notes in July 2010. The notes bear interest at 2.00% and are due on June 30, 2011. 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.

Unemployment Insurance Program

The State has borrowed from the Federal Unemployment Trust Fund to continue to pay benefits to unemployed individuals. Borrowings through November 2010 totaled approximately $225 million. It is expected that additional borrowings will be needed in calendar year 2011. Effective January 1, 2011, the Job Development assessment rate is being increased from .21% to .51% to accumulate funds to begin to repay the balance borrowed.

Funding- American Reinvestment and Recovery Act

Beginning in FY2009, the State received significant additional federal grant revenue under 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. This enhanced federal funding is being phased down and is scheduled to end on June 30, 2011. After that date, federal financial participation in the programs will be reduced to pre-ARRA levels. This and other reductions in ARRA funding will result in a gap in the FY2012 budget of approximately $240 million. Measures to address this gap are currently being developed and will be included in the Governor's budget proposal that is submitted to the General Assembly in February 2011.

Local Government Financial Matters

In June 2010, the General Assembly enacted "An Act Providing for the Financial Stability of Cities and Towns" to provide a mechanism for the State to work with cities and towns undergoing financial distress. The Act gives the State, acting through the Department of Revenue, three levels of State oversight and control: fiscal overseer, budget commission, and state receiver. The City of Central Falls is currently under the control of a State appointed executive receiver. The State appointed receiver released his report in December 2010 which includes recommendations to seek merging with a neighboring community and proposals to resolve the City's continued future deficits and severely underfunded pension and OPEB plans.

Economic Factors

The unemployment rate for the State of Rhode Island was 11.6 percent in November 2010, which is a slight decrease from the rate of 11.7 percent during the third quarter of 2009. In their November 2010 forecast, Moody's Economy.com noted that the unemployment rate for Rhode Island may increase slightly in the near future as previously discouraged workers seek to reenter the labor force. The State's unemployment rate compares unfavorably with the U.S. unemployment rate of 9.6 percent as of September 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 their November 2010 forecast, Moody's Economy.com noted that construction in Rhode Island has started to recover and the housing market is showing initial signs of recovery despite a low level of sales. The number of foreclosures, one of the main initial catalysts of the local recession, is starting to decline. Retail sales have also stabilized but remain low relative to pre-recession totals. Rhode Island is expected to begin a slow recovery by the end of the year, although employment growth will lag the U.S. over the course of the recovery.

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 Peter.Keenan@doa.ri.gov. The State's Comprehensive Annual Financial Report may be found on the State Controller's home page, http://controller.admin.ri.gov/index.php. Requests for additional information related to component units should be addressed to the entities as listed in Note 1 of the financial statements.

State of Rhode Island and Providence Plantations

Statement of Net Assets

June 30, 2010

(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business - Type Activities	Totals	Component Units
Assets				
Current assets:				
Cash and cash equivalents	$ 491,359	$ 19,240	$ 510,599	$ 396,713
Funds on deposit with fiscal agent	249,764	39,676	289,440	
Investments	166		166	25,515
Receivables (net)	462,103	71,504	533,607	226,524
Restricted assets:				
Cash and cash equivalents		13,161	13,161	606,245
Investments	71,895		71,895	269,144
Receivables (net)				14
Other assets				38,720
Due from primary government				16,608
Due from component units	1,473		1,473	355
Internal balances	2,098	(2,098)		
Due from other governments and agencies	243,582	3,189	246,771	2,568
Inventories	1,571	1,191	2,762	10,350
Other assets	78,091	672	78,763	44,011
Total current assets	1,602,102	146,535	1,748,637	1,636,767
Noncurrent assets:				
Investments				131,413
Receivables (net)	18,379		18,379	1,921,085
Due from other governments and agencies	5,120		5,120	
Restricted assets:				
Cash and cash equivalents				135,734
Investments				232,218
Receivables (net)				1,521,595
Other assets				199,252
Due from component units	33,908		33,908	3,427
Capital assets - nondepreciable	1,088,621	46,207	1,134,828	530,672
Capital assets - depreciable (net)	1,959,884	150,076	2,109,960	1,665,302
Other assets	14,477	4,263	18,740	222,753
Total noncurrent assets	3,120,389	200,546	3,320,935	6,563,451
Total assets	4,722,491	347,081	5,069,572	8,200,218
Liabilities				
Current Liabilities:				
Accounts payable	539,994	14,734	554,728	119,015
Due to primary government				1,473
Due to component units	16,608		16,608	355
Due to other governments and agencies		3,210	3,210	212,999
Accrued expenses				78
Deferred revenue	16,467	786	17,253	34,264
Other current liabilities	111,967	3,263	115,230	334,258
Current portion of long-term debt	215,842	8,848	224,690	181,689
Obligation for unpaid prize awards		5,194	5,194	
Total current liabilities	900,878	36,035	936,913	884,131
Noncurrent Liabilities:				
Due to primary government				33,908
Due to other governments and agencies		225,473	225,473	371,130
Net OPEB obligation	36,212	139	36,351	32,897
Deferred revenue		7,500	7,500	7,970
Due to component units				3,427
Notes payable	13,100	607	13,707	1,406
Loans payable				590,817
Obligations under capital leases	228,603		228,603	12,405
Compensated absences	21,288	221	21,509	21,440
Bonds payable	2,483,098	248,634	2,731,732	3,679,407
Other liabilities	66,598	72	66,670	129,229
Total noncurrent liabilities	2,848,899	482,646	3,331,545	4,884,036
Total liabilities	3,749,777	518,681	4,268,458	5,768,167
Net Assets				
Invested in capital assets, net of related debt	2,079,153	(61,806)	2,017,347	1,240,443
Restricted for:				
Budget reserve	112,280		112,280	
Transportation	1,420		1,420	
Debt	90,407	13,161	103,568	373,506
Assistance to Other Entities	73,793		73,793	
Employment insurance program	149,892	(116,183)	33,709	
Other	54,514		54,514	479,403
Nonexpendable-education	1,625		1,625	92,904
Unrestricted	(1,590,370)	(6,772)	(1,597,142)	245,795
Total net assets	$ 972,714	$ (171,600)	$ 801,114	$ 2,432,051

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, 2010

(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating grants and contributions	Program Revenues: Capital grants and contributions	Net (Expense) Revenue and Changes in Net Assets — Primary Government: Governmental activities	Primary Government: Business-type activities	Primary Government: Totals	Component Units
Primary government:								
Governmental activities:								
General government	$ 741,329	$ 179,646	$ 108,172	$ 1,003	$ (452,508)	$	$ (452,508)	$
Human services	2,900,673	198,555	1,833,078	4,130	(864,910)		(864,910)	
Education	1,273,985	18,263	264,321	97	(991,304)		(991,304)	
Public safety	418,485	35,272	43,599	2,051	(337,563)		(337,563)	
Natural resources	73,551	29,746	15,944	4,749	(23,112)		(23,112)	
Transportation	305,460	744	96,332	150,060	(58,324)		(58,324)	
Interest and other charges	142,924				(142,924)		(142,924)	
Total governmental activities	5,856,407	462,226	2,361,446	162,090	(2,870,645)		(2,870,645)	
Business-type activities:								
State lottery	2,431,562	2,775,832				344,270	344,270	
Convention center	50,732	23,623				(27,109)	(27,109)	
Employment security	783,878	221,805	418,270			(143,803)	(143,803)	
Total business-type activities	3,266,172	3,021,260	418,270			173,358	173,358	
Total primary government	$ 9,122,579	$ 3,483,486	$ 2,779,716	$ 162,090	(2,870,645)	173,358	(2,697,287)	
Component units:	$ 1,247,087	$ 973,618	$ 75,272	$ 54,467				(143,730)
General Revenues:								
Taxes					2,577,519		2,577,519	
Interest and investment earnings					4,309	164	4,473	30,315
Miscellaneous					91,110	20,224	111,334	29,311
Gain (loss) on sale of capital assets								(332)
Transfers (net)					318,772	(318,772)		
Payments from component units					7,228		7,228	
Payments from primary government								272,008
Total general revenues and transfers					2,998,938	(298,384)	2,700,554	331,302
Change in net assets					128,293	(125,026)	3,267	187,572
Net assets - beginning as restated					844,421	(46,574)	797,847	2,244,479
Net assets - ending					$ 972,714	$ (171,600)	$ 801,114	$ 2,432,051

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, 2010

(Expressed in Thousands)

	General	Intermodal Surface Transportation	Bond Capital	GARVEE	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	$ 153,730	$ 22,423	$ 167,247	$	$ 117,521	$ 460,921
Funds on deposit with fiscal agent				175,810	73,954	249,764
Investments					166	166
Restricted investments					71,895	71,895
Receivables (net)	417,603	14,484		32	39,789	471,908
Due from other funds	5,586	6,282			2,857	14,725
Due from component units	139					139
Due from other governments and agencies	191,993	51,357	2			243,352
Loans to other funds	12,777				78,648	91,425
Other assets	69,222					69,222
Total assets	$ 851,050	$ 94,546	167,249	$ 175,842	$ 384,830	$ 1,673,517
Liabilities and Fund Balances						
Liabilities						
Accounts payable	454,057	21,719	9,071	9,950	23,586	518,383
Due to other funds			6,280	887	3,300	10,467
Due to component units	7,948	4,487	2,745		1,428	16,608
Loans from other funds	78,646		9,500		817	88,963
Deferred revenue	32,512	18,501				51,013
Other liabilities	89,838	10,845	144	2,850	695	104,372
Total liabilities	663,001	55,552	27,740	13,687	29,826	789,806
Fund Balances						
Reserved for:						
Budget reserve	112,280					112,280
Appropriations carried forward	57,879					57,879
Debt				17,346	73,061	90,407
Transportation capital projects		35,628				35,628
Employment insurance programs					149,892	149,892
Unreserved, reported in:						
General fund	17,890					17,890
Special revenue funds		3,366			43,144	46,510
Capital projects funds			139,509	144,809	87,282	371,600
Permanent fund					1,625	1,625
Total fund balances	188,049	38,994	139,509	162,155	355,004	883,711
Total liabilities and fund balances	$ 851,050	$ 94,546	$ 167,249	$ 175,842	$ 384,830	$ 1,673,517

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, 2010
(Expressed in Thousands)

Fund balance - total governmental funds		$	883,711
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	4,830,399		
Accumulated depreciation	(1,784,671)		
			3,045,728
Bonds, 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	(78,756)		
Bonds payable	(2,576,485)		
Net premium/discount and deferred amount on refunding	(28,660)		
Refunding costs	7,252		
Cost of issuance	12,037		
Obligations under capital leases	(244,805)		
Premium	(6,025)		
Refunding costs	1,467		
Cost of issuance	2,440		
Interest payable	(22,500)		
Other liabilities	(122,071)		
			(3,056,106)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			
Receivables	7,642		
Due from component units	35,242		
Deferred revenue	34,546		
			77,430
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.			21,951
Net assets - total governmental activities		$	972,714

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

State of Rhode Island and Providence Plantations

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2010

(Expressed in Thousands)

	General	Intermodal Surface Transportation	Bond Capital	GARVEE	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	$ 2,274,447	$ 137,266	$	$	$ 165,693	$ 2,577,406
Licenses, fines, sales, and services	310,505				535	311,040
Departmental restricted revenue	149,638	719				150,357
Federal grants	2,275,606	242,442				2,518,048
Income from investments	285	37	87	34	3,764	4,207
Other revenues	27,066	3,524			48,661	79,251
Total revenues	5,037,547	383,988	87	34	218,653	5,640,309
Expenditures:						
Current:						
General government	552,229				162,632	714,861
Human services	2,884,419					2,884,419
Education	1,239,074				184	1,239,258
Public safety	394,860					394,860
Natural resources	67,427				8	67,435
Transportation		306,672			58	306,730
Capital outlays			30,168	107,356	113,129	250,653
Debt service:						
Principal	115,395	2,568		30,390	14,710	163,063
Interest and other charges	73,960	314	1,369	25,167	38,913	139,723
Total expenditures	5,327,364	309,554	31,537	162,913	329,634	6,161,002
Excess (deficiency) of revenues over (under) expenditures	(289,817)	74,434	(31,450)	(162,879)	(110,981)	(520,693)
Other financing sources (uses):						
Bonds and notes issued			143,765		11,900	155,665
Refunding bonds issued			78,960			78,960
Premium and accrued interest			9,839			9,839
Operating transfers in	450,691	35,530		56,970	42,834	586,025
Payments from component units	7,228					7,228
Other	14,436					14,436
Payment to refunded bonds escrow agent			(84,769)			(84,769)
Operating transfers out	(64,448)	(106,370)	(38,372)		(52,283)	(261,473)
Total other financing sources (uses)	407,907	(70,840)	109,423	56,970	2,451	505,911
Net change in fund balances	118,090	3,594	77,973	(105,909)	(108,530)	(14,782)
Fund balances - beginning (as restated)	69,959	35,400	61,536	268,064	463,534	898,493
Fund balances - ending	$ 188,049	$ 38,994	$ 139,509	$ 162,155	$ 355,004	$ 883,711

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, 2010
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ (14,782)
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	319,509	
Depreciation expense	(127,096)	
		192,413
Bond, note, and certificate of participation proceeds provide current financial resources to governmental funds by issuing debt which increases long-term debt in the Statement of Net 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.		
Principal paid on debt	163,063	
Debt defeased in refunding	78,290	
Interest and other charges	(9,976)	
Proceeds from sale of debt	(234,625)	
Deferral of premium/discount	(9,838)	
Amortization of premium/discount	12,268	
Deferral of issuance costs	548	
Amortization of issuance costs	(2,209)	
Deferral of refunding costs	4,030	
Amortization of refunding costs	(1,384)	
		167
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	(17,383)	
Program expenses	(25,271)	
Program revenue	831	
Capital grant revenue	5,227	
General revenue - taxes	113	
General revenue-misc	(1,969)	
		(38,452)
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.		(11,053)
Change in net assets - total governmental activities		$ 128,293

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, 2010
(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	$ 14,443	$ 2,199	$ 2,598	$ 19,240	$ 30,436
Restricted cash and cash equivalents		13,161		13,161	
Funds on deposit with fiscal agent			39,676	39,676	
Receivables (net)	2,773	1,367	67,364	71,504	6,237
Due from other funds					194
Due from other governments and agencies			3,189	3,189	
Inventories	1,191			1,191	1,575
Other assets	152	520		672	8,918
Total current assets	18,559	17,247	112,827	148,633	47,360
Noncurrent assets:					
Capital assets - nondepreciable		46,207		46,207	
Capital assets - depreciable (net)	691	149,385		150,076	2,773
Other assets		4,263		4,263	
Total noncurrent assets	691	199,855		200,546	2,773
Total assets	19,250	217,102	112,827	349,179	50,133
Liabilities					
Current Liabilities:					
Accounts payable	10,465	4,269		14,734	21,611
Due to other funds	1,771		327	2,098	2,354
Due to other governments and agencies			3,210	3,210	
Loans from other funds					2,462
Deferred revenue	786			786	
Other current liabilities	1,299	1,964		3,263	1,546
Bonds and notes payable		8,848		8,848	
Obligation for unpaid prize awards	5,194			5,194	
Total current liabilities	19,515	15,081	3,537	38,133	27,973
Noncurrent Liabilities:					
Due to other governments and agencies			225,473	225,473	
Deferred revenue	7,500			7,500	
Bonds and notes payable		249,241		249,241	
Compensated absences	221			221	
Net OPEB obligation	139			139	209
Other liabilities		72		72	
Total noncurrent liabilities	7,860	249,313	225,473	482,646	209
Total liabilities	27,375	264,394	229,010	520,779	28,182
Net Assets					
Invested in capital assets, net of related debt	691	(62,497)		(61,806)	2,773
Restricted for:					
Debt		13,161		13,161	
Employment insurance programs			(116,183)	(116,183)	
Unrestricted	(8,816)	2,044		(6,772)	19,178
Total net assets	$ (8,125)	$ (47,292)	$ (116,183)	$ (171,600)	$ 21,951

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, 2010
(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	$ 2,775,832	$ 23,343	$ 221,805	$ 3,020,980	$ 299,704
Grants			418,270	418,270	
Miscellaneous		280		280	
Total operating revenues	2,775,832	23,623	640,075	3,439,530	299,704
Operating expenses:					
Personal services	4,728	13,296		18,024	10,346
Supplies, materials, and services	212,149	10,126		222,275	294,484
Prize awards, net of prize recoveries	2,214,438			2,214,438	
Depreciation and amortization	247	11,022		11,269	268
Benefits paid			769,997	769,997	
Total operating expenses	2,431,562	34,444	769,997	3,236,003	305,098
Operating income (loss)	344,270	(10,821)	(129,922)	203,527	(5,394)
Nonoperating revenues (expenses):					
Interest revenue	98	60	6	164	103
Other nonoperating revenue	930		19,294	20,224	18
Interest expense		(16,288)		(16,288)	
Other nonoperating expenses			(13,881)	(13,881)	
Total nonoperating revenue (expenses)	1,028	(16,228)	5,419	(9,781)	121
Income (loss) before transfers	345,298	(27,049)	(124,503)	193,746	(5,273)
Transfers in		24,348	1,813	26,161	
Transfers out	(344,673)		(260)	(344,933)	(5,780)
Change in net assets	625	(2,701)	(122,950)	(125,026)	(11,053)
Total net assets - beginning	(8,750)	(44,591)	6,767	(46,574)	33,004
Total net assets - ending	$ (8,125)	$ (47,292)	$ (116,183)	$ (171,600)	$ 21,951

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, 2010
(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	$ 2,781,753	$ 22,438	$ 212,901	$ 3,017,092	$ 302,916
Cash received from grants			417,121	417,121	
Cash payments to suppliers for goods and services	(4,965)	(9,771)		(14,736)	(293,725)
Cash payments to employees for services	(4,568)	(12,914)		(17,482)	(9,987)
Cash payments to prize winners	(2,218,829)			(2,218,829)	
Cash payments for commissions	(205,949)			(205,949)	
Cash payments for benefits			(770,007)	(770,007)	
Other operating revenue (expense)			2,958	2,958	18
Net cash provided by (used for) operating activities	347,442	(247)	(137,027)	210,168	(778)
Cash flows from noncapital financing activities:					
Loan from federal government			150,437	150,437	
Loans from other funds					623
Loans to other funds					(3,090)
Repayment of loans to other funds					1,770
Repayment of loans from other funds					(3,072)
Operating transfers in		25,398	1,813	27,211	27
Operating transfers out	(344,579)		(260)	(344,839)	(5,804)
Net transfers from (to) fiscal agent			(13,418)	(13,418)	
Net cash (used for) noncapital financing activities	(344,579)	25,398	138,572	(180,609)	(9,546)
Cash flows from capital and related financing activities:					
Principal paid on capital obligations		(7,765)		(7,765)	
Interest paid on capital obligations		(14,984)		(14,984)	
Acquisition of capital assets	(132)	(3,022)		(3,154)	(135)
Net cash provided by (used for) capital and related financing activities	(132)	(25,771)		(25,903)	(135)
Cash flows from investing activities:					
Interest on investments	99	62		161	104
Net cash provided by investing activities	99	62		161	104
Net increase (decrease) in cash and cash equivalents	2,830	(558)	1,545	3,817	(10,355)
Cash and cash equivalents, July 1	11,613	15,918	1,053	28,584	40,791
Cash and cash equivalents, June 30	$ 14,443	$ 15,360	$ 2,598	$ 32,401	$ 30,436
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	344,270	(10,821)	(129,922)	203,527	(5,394)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	247	11,022		11,269	268
Other revenue (expense) and operating transfer in (out)	307		2,510	2,817	18
Net changes in assets and liabilities:					
Receivables, net	1,919	(254)	(9,615)	(7,950)	2,554
Inventory	(453)			(453)	87
Prepaid items		81		81	
Other assets	253			253	
Due to / due from transactions	(13)			(13)	
Accounts and other payables	1,695	657		2,352	1,353
Accrued expenses	212			212	336
Deferred revenue	(152)	(932)		(1,084)	
Prize awards payable	(843)			(843)	
Total adjustments	3,172	10,574	(7,105)	6,641	4,616
Net cash provided by (used for) operating activities	$ 347,442	$ (247)	$ (137,027)	$ 210,168	$ (778)

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, 2010

(Expressed in Thousands)

	Pension Trust	Private Purpose: Touro Jewish Synagogue	Agency
Assets			
Cash and cash equivalents	$ 7,065	$	$ 29,593
Deposits held as security for entities doing business in the State			89,788
Receivables			
Contributions	33,074		
Due from state for teachers	23,343		
Miscellaneous	613		1,838
Total receivables	57,030		1,838
Investments, at fair value			
Equity in Pooled Trust	6,512,473		
Other investments		1,821	
Total investments	6,512,473	1,821	
Property and equipment, at cost, net of accumulated depreciation	4,070		
Total assets	6,580,638	1,821	121,219
Liabilities			
Accounts payable	3,163		4,729
Deferred revenue	226		
Net OPEB liability	112		
Deposits held for others			116,490
Total liabilities	3,501		121,219
Net assets held in trust for pension and other benefits	$ 6,577,137	$ 1,821	$

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, 2010
(Expressed in Thousands)

	Pension Trust	Private Purpose: Touro Jewish Synagogue
Additions		
Contributions		
Member contributions	$ 171,327	$
Employer contributions	270,983	
State contributions for teachers	68,543	
Interest on service credits purchased	1,054	
Service credit transfer payments	2	
Total contributions	511,909	
Investment income		
Net appreciation in fair value of investments	752,814	214
Interest	78,722	
Dividends	2,484	44
Other investment income	9,870	1
	843,890	259
Less investment expense	13,053	
Net income from investing activities	830,837	259
Total additions	1,342,746	259
Deductions		
Benefits		
Retirement benefits	618,454	
Cost of living adjustment	164,598	
SRA Plus Option	29,697	
Supplemental benefits	1,105	
Death benefits	3,110	
Total benefits	816,964	
Refund of contributions	9,777	
Administrative expense	7,892	
Service credit transfer payments	2	
Distribution		116
Total deductions	834,635	116
Change in net assets	508,111	143
Net assets held in trust for pension benefits		
Net assets - beginning	6,069,026	1,678
Net assets - ending	**$** 6,577,137	**$** 1,821

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

State of Rhode Island and Providence Plantations
Combining Statement of Net Assets
Component Units
June 30, 2010
(Expressed in Thousands)

	RIHMFC	RISLA	RITBA	RIEDC	NBC	RIHEBC	RIRRC
Assets							
Current Assets:							
Cash and cash equivalents	$ 1,802	$ 437	$ 3,200	$ 44,553	$ 13,673	$ 233	$ 18,827
Investments						5,152	
Receivables (net)	1,299	84,847	128	10,115	13,751	795	7,741
Restricted assets:							
Cash and cash equivalents	286,749	277,147	5,332	26,294			
Investments	38,086	15,298	54,635	3,386			
Receivables (net)							
Other assets	28,865		485	8,864			
Due from primary government				1,491			
Due from other governments				1,224	113		
Due from other component units				83			
Inventories			386				3,684
Other assets	1,988	30,887	104	2,067	238	32	498
Total current assets	358,789	408,616	64,270	98,077	27,775	6,212	30,750
Noncurrent Assets:							
Investments	7,062		16,591			750	
Receivables (net)		1,199,686		6,582		1,997	
Restricted assets:							
Cash and cash equivalents				77,091	43,823		658
Investments	212,076			953			1,645
Receivables (net)	1,521,595						
Other assets				32,077			82,375
Capital assets - nondepreciable			1,507	237,773	196,598		15,159
Capital assets - depreciable (net)		1,912	87,935	413,346	476,758	43	36,016
Due from other component units				696			
Other assets, net of amortization	172,753	4,527	1,072	5,616	5,851		14,474
Total noncurrent assets	1,913,486	1,206,125	107,105	774,134	723,030	2,790	150,327
Total assets	2,272,275	1,614,741	171,375	872,211	750,805	9,002	181,077
Liabilities							
Current liabilities:							
Accounts payable		619	2,549	45,171	5,422		7,946
Due to primary government							
Due to other component units		258					
Due to other governments		212,920					
Accrued liabilities							
Deferred revenue		9,176		5,429	274		
Other liabilities	260,535	3,278	2,088	6,332	6,323	160	4,091
Current portion of long-term debt	110,103	5,993	2,270	1,950	18,914		895
Total current liabilities	370,638	232,244	6,907	58,882	30,933	160	12,932
Noncurrent liabilities:							
Due to primary government				8,260			
Due to other governments		371,130					
Due to other component units		2,035					
Deferred revenue	6,301			360			
Notes payable		1,365					
Loans payable				350,629	238,613		
Obligations under capital leases				882	154		
Net OPEB obligation	2,429				121		202
Other liabilities		9,695		4,935			85,947
Compensated absences					70		
Bonds payable	1,607,266	913,609	68,439		152,927		12,856
Total noncurrent liabilities	1,615,996	1,297,834	68,439	365,066	391,885		99,005
Total liabilities	1,986,634	1,530,078	75,346	423,948	422,818	160	111,937
Net assets							
Invested in capital assets, net of related debt	9,120	(135)	66,573	350,511	264,347	43	44,591
Restricted for:							
Debt	229,964	83,613	59,929				
Other				50,165	146		284
Other nonexpendable	2,014						
Unrestricted	44,543	1,185	(30,473)	47,587	63,494	8,799	24,265
Total net assets	$ 285,641	$ 84,663	$ 96,029	$ 448,263	$ 327,987	$ 8,842	$ 69,140

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

(Continued)

State of Rhode Island and Providence Plantations
Combining Statement of Net Assets
Component Units
June 30, 2010
(Expressed in Thousands)

	RIHEAA	RIPTA	RIIFC	RICWFA	RIIRBA	RIWRBC	RIPTCA
Assets							
Current Assets:							
Cash and cash equivalents	$ 6,556	$ 4,499	$ 512	$ 158,609	$ 3,267	$ 770	$ 213
Investments	13,205	3,778					
Receivables (net)	496	3,079	4	64,207	5	252	514
Restricted assets:							
Cash and cash equivalents				9,446			
Investments				155,844			
Receivables (net)							
Other assets							
Due from primary government		6,541		2,403			
Due from other governments	928						
Due from other component units	258		14				
Inventories		2,760					
Other assets	195	146		7,391		36	44
Total current assets	21,638	20,803	530	397,900	3,272	1,058	771
Noncurrent Assets:							
Investments	4,088					1,163	
Receivables (net)	67			686,300			
Restricted assets:							
Cash and cash equivalents	623		696				
Investments							
Receivables (net)							
Other assets							
Capital assets - nondepreciable	194	40,811			181		820
Capital assets - depreciable (net)	975	73,000		37	353		5,473
Due from other component units	2,035				696		
Other assets, net of amortization				6,963		74	50
Total noncurrent assets	7,982	113,811	696	693,300	1,230	1,237	6,343
Total assets	29,620	134,614	1,226	1,091,200	4,502	2,295	7,114
Liabilities							
Current liabilities:							
Accounts payable	381	6,453	4	459		20	537
Due to primary government		678					39
Due to other component units			42		55		
Due to other governments	79						
Accrued liabilities						78	
Deferred revenue	50	100	22		21		66
Other liabilities	648	6,319	2	26,471		5	84
Current portion of long-term debt				32,030		860	
Total current liabilities	1,158	13,550	70	58,960	76	963	726
Noncurrent liabilities:							
Due to primary government		8,483					
Due to other governments							
Due to other component units			696		696		
Deferred revenue	1,141		95		73		
Notes payable							
Loans payable							
Obligations under capital leases							
Net OPEB obligation	83	17,027					29
Other liabilities	254	7,417		4,209			
Compensated absences	213						214
Bonds payable				643,731		4,089	
Total noncurrent liabilities	1,691	32,927	791	647,940	769	4,089	243
Total liabilities	2,849	46,477	861	706,900	845	5,052	969
Net assets							
Invested in capital assets, net of related debt	1,170	104,650		37	534		6,294
Restricted for:							
Debt							
Other	25,601			358,371		(2,757)	918
Other nonexpendable							
Unrestricted		(16,513)	365	25,892	3,123		(1,067)
Total net assets	$ 26,771	$ 88,137	$ 365	$ 384,300	$ 3,657	$ (2,757)	$ 6,145

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

(Continued)

State of Rhode Island and Providence Plantations
Combining Statement of Net Assets
Component Units
June 30, 2010
(Expressed in Thousands)

	TCCRI	URI	RIC	CCRI	CFSD	Totals
Assets						
Current Assets:						
Cash and cash equivalents	$ 171	$ 93,268	$ 23,929	$ 20,723	$ 1,471	$ 396,713
Investments	3,380					25,515
Receivables (net)	457	31,653	4,219	2,748	214	226,524
Restricted assets:						
Cash and cash equivalents	4	1,273				606,245
Investments	1,895					269,144
Receivables (net)				14		14
Other assets		506				38,720
Due from primary government					6,173	16,608
Due from other governments					303	2,568
Due from other component units						355
Inventories		2,326	562	632		10,350
Other assets	15	159	5	206		44,011
Total current assets	5,922	129,185	28,715	24,323	8,161	1,636,767
Noncurrent Assets:						
Investments		99,917		1,842		131,413
Receivables (net)		22,069	4,329	55		1,921,085
Restricted assets:						
Cash and cash equivalents		172	10,246	2,425		135,734
Investments			17,544			232,218
Receivables (net)						1,521,595
Other assets		83,331	699	770		199,252
Capital assets - nondepreciable		27,701	4,382	5,546		530,672
Capital assets - depreciable (net)	1	436,750	87,580	41,662	3,461	1,665,302
Due from other component units						3,427
Other assets, net of amortization		11,338	35			222,753
Total noncurrent assets	1	681,278	124,815	52,300	3,461	6,563,451
Total assets	5,923	810,463	153,530	76,623	11,622	8,200,218
Liabilities						
Current liabilities:						
Accounts payable	176	27,432	9,057	7,731	5,058	119,015
Due to primary government			756			1,473
Due to other component units						355
Due to other governments						212,999
Accrued liabilities						78
Deferred revenue	127	14,806	1,816	2,377		34,264
Other liabilities	552	3,249	8,803	5,318		334,258
Current portion of long-term debt		7,719	585	221	149	181,689
Total current liabilities	855	53,206	21,017	15,647	5,207	884,131
Noncurrent liabilities:						
Due to primary government			17,165			33,908
Due to other governments						371,130
Due to other component units						3,427
Deferred revenue						7,970
Notes payable			9	32		1,406
Loans payable		1,575				590,817
Obligations under capital leases		9,757		1,519	93	12,405
Net OPEB obligation		4,104	2,924	1,485	4,493	32,897
Other liabilities		12,725	4,047			129,229
Compensated absences		17,156	2,072	277	1,438	21,440
Bonds payable		252,517	21,873	2,100		3,679,407
Total noncurrent liabilities		297,834	48,090	5,413	6,024	4,884,036
Total liabilities	855	351,040	69,107	21,060	11,231	5,768,167
Net assets						
Invested in capital assets, net of related debt	1	287,723	61,603	40,049	3,332	1,240,443
Restricted for:						
Debt						373,506
Other	1,895	38,782	2,452	2,839	707	479,403
Other nonexpendable		75,914	14,976			92,904
Unrestricted	3,172	57,004	5,392	12,675	(3,648)	245,795
Total net assets	$ 5,068	$ 459,423	$ 84,423	$ 55,563	$ 391	$ 2,432,051

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

(Concluded)

State of Rhode Island and Providence Plantations
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Component Units
For the Year Ended June 30, 2010
(Expressed in Thousands)

	RIHMFC	RISLA	RITBA	RIEDC	NBC
Operating revenues:					
Charges for services	$ 9,961	$	$ 17,217	$ 59,180	$ 71,736
Interest income on loans	87,650	38,868		724	
Investment income (net)	15,121	526			
Other operating income		1,379	745	3,473	38
Total operating revenues	112,732	40,773	17,962	63,377	71,774
Operating expenses:					
Personal services	12,515	3,563	2,687	24,636	18,767
Supplies, materials, and services	4,706	6,383	5,801	17,594	13,936
Interest expense	66,865	18,651			
Grants, scholarships and contract programs	9,335			525	
Depreciation, depletion and amortization	2,526	452	3,758	21,215	9,065
Other operating expenses	7,160	10,818		7,713	1,603
Total operating expenses	103,107	39,867	12,246	71,683	43,371
Operating income (loss)	9,625	906	5,716	(8,306)	28,403
Nonoperating revenues (expenses):					
Interest revenue			1,304	5,545	48
Grants				12,811	280
Payments (to) from primary government				21,192	
Gain (loss) on sale of property				(213)	(15)
Interest expense			(1,058)	(18,144)	(10,820)
Investment income (net)					
Other nonoperating revenue (expenses)		7,916	(36)	(11,241)	259
Total nonoperating revenue (expenses)		7,916	210	9,950	(10,248)
Income (loss) before contributions	9,625	8,822	5,926	1,644	18,155
Capital contributions				17,679	4,906
Change in net assets	9,625	8,822	5,926	19,323	23,061
Total net assets - beginning as restated	276,016	75,841	90,103	428,940	304,926
Total net assets - ending	$ 285,641	$ 84,663	$ 96,029	$ 448,263	$ 327,987

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

(Continued)

State of Rhode Island and Providence Plantations
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Component Units
For the Year Ended June 30, 2010
(Expressed in Thousands)

	RIHEBC	RIRRC	RIHEAA	RIPTA	RIIFC
Operating revenues:					
Charges for services	$ 2,159	$ 45,224	$ 19,602	$ 26,641	$ 62
Interest income on loans	122				
Investment income (net)					
Other operating income		3,560	200	1,055	4
Total operating revenues	2,281	48,784	19,802	27,696	66
Operating expenses:					
Personal services	1,038	11,604	2,714	72,060	
Supplies, materials, and services		18,476	9,108	20,276	130
Interest expense					
Grants, scholarships and contract programs		1,241	12,627		
Depreciation, depletion and amortization	12	11,024		9,484	
Other operating expenses	404	1,063		3,927	12
Total operating expenses	1,454	43,408	24,449	105,747	142
Operating income (loss)	827	5,376	(4,647)	(78,051)	(76)
Nonoperating revenues (expenses):					
Interest revenue	8	1,735	323	42	
Grants			635	21,854	
Payments (to) from primary government	(1,500)		6,612	41,788	
Gain (loss) on sale of property	(2)	10		(198)	
Interest expense		(723)		(387)	
Investment income (net)	(3)				
Other nonoperating revenue (expenses)		3,467	120	3,383	125
Total nonoperating revenue (expenses)	(1,497)	4,489	7,690	66,482	125
Income (loss) before contributions	(670)	9,865	3,043	(11,569)	49
Capital contributions				25,166	
Change in net assets	(670)	9,865	3,043	13,597	49
Total net assets - beginning as restated	9,512	59,275	23,728	74,540	316
Total net assets - ending	$ 8,842	$ 69,140	$ 26,771	$ 88,137	$ 365

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

(Continued)

State of Rhode Island and Providence Plantations
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Component Units
For the Year Ended June 30, 2010
(Expressed in Thousands)

	RICWFA	RIIRBA	RIWRBC	RIPTCA	TCCRI
Operating revenues:					
Charges for services	$	$ 176	$ 986	$ 1,650	$
Interest income on loans	16,880				
Investment income (net)	10,391				336
Other operating income	6,455			2,287	836
Total operating revenues	33,726	176	986	3,937	1,172
Operating expenses:					
Personal services	553			3,218	2,138
Supplies, materials, and services		137	31	132	52
Interest expense	28,153				3
Grants, scholarships and contract programs				135	1,156
Depreciation, depletion and amortization	448	15	106	653	7
Other operating expenses	2,879	11		1,596	452
Total operating expenses	32,033	163	137	5,734	3,808
Operating income (loss)	1,693	13	849	(1,797)	(2,636)
Nonoperating revenues (expenses):					
Interest revenue		13	54		
Grants	22,356				2,857
Payments (to) from primary government				1,001	528
Gain (loss) on sale of property					86
Interest expense			(233)	(7)	
Investment income (net)					
Other nonoperating revenue (expenses)			3		
Total nonoperating revenue (expenses)	22,356	13	(176)	994	3,471
Income (loss) before contributions	24,049	26	673	(803)	835
Capital contributions					
Change in net assets	24,049	26	673	(803)	835
Total net assets - beginning as restated	360,251	3,631	(3,430)	6,948	4,233
Total net assets - ending	$ 384,300	$ 3,657	$ (2,757)	$ 6,145	$ 5,068

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

(Continued)

State of Rhode Island and Providence Plantations
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Component Units
For the Year Ended June 30, 2010
(Expressed in Thousands)

	URI	RIC	CCRI	CFSD	Totals
Operating revenues:					
Charges for services	$ 369,911	$ 63,382	$ 32,021	$ 1,151	$ 721,059
Interest income on loans					144,244
Investment income (net)					26,374
Other operating income	3,598	23,578	34,721	12	81,941
Total operating revenues	373,509	86,960	66,742	1,163	973,618
Operating expenses:					
Personal services	259,188	90,496	89,112	43,692	637,981
Supplies, materials, and services	116,384	25,558	9,744	11,050	259,498
Interest expense					113,672
Grants, scholarships and contract programs	20,949	6,019	6,026		58,013
Depreciation, depletion and amortization	22,693	5,528	3,285	259	90,530
Other operating expenses	7,792		136		45,566
Total operating expenses	427,006	127,601	108,303	55,001	1,205,260
Operating income (loss)	(53,497)	(40,641)	(41,561)	(53,838)	(231,642)
Nonoperating revenues (expenses):					
Interest revenue	20,932			7	30,011
Grants		2,229		12,250	75,272
Payments (to) from primary government	79,789	37,654	42,720	42,224	272,008
Gain (loss) on sale of property					(332)
Interest expense	(8,772)	(1,564)	(119)		(41,827)
Investment income (net)	(1,420)	1,525	202		304
Other nonoperating revenue (expenses)	25,164	(418)	569		29,311
Total nonoperating revenue (expenses)	115,693	39,426	43,372	54,481	364,747
Income (loss) before contributions	62,196	(1,215)	1,811	643	133,105
Capital contributions		4,263	2,453		54,467
Change in net assets	62,196	3,048	4,264	643	187,572
Total net assets - beginning as restated	397,227	81,375	51,299	(252)	2,244,479
Total net assets - ending	$ 459,423	$ 84,423	$ 55,563	$ 391	$ 2,432,051

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

(Concluded)

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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 a) legally separate entities for which a primary government (such as the State) is financially accountable, or b) legally separate entities for which a primary government is not financially accountable but whose exclusion from the State's financial statements would cause said 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 either a) the ability of the State to impose its will on that entity or b) the potential for the entity to provide specific financial benefits to, or to 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 to be potential component units. Audited financial statements of the individual component units can be obtained from their respective administrative offices. Those entities that were deemed to be component units were included as such because of the fact that the State appoints a voting majority of the entity's governing body or because of the entity's potential to provide specific financial benefits to, or to 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. All remaining obligations of the RIRBA were retired during fiscal 2010. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Investment Officer, 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 rail operations in the State. Separately issued financial statements are not available for the RIPRC.

Discretely Presented Component Units

Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These discretely presented component units serve or benefit those outside of the primary government. The State does not distinguish between major and non-major component units and includes the combining statement for the discretely presented component units as part of the basic financial statements. 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. The financial statements can also be viewed at www.ribghe.org.

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, or at www.rhodeislandhousing.org.

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, or at www.risla.com.

Rhode Island Turnpike and Bridge Authority (RITBA)

This authority was created by the General Assembly as a body corporate and politic, with powers to construct, acquire, maintain and operate bridge projects as defined by law. 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, so as to 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, or at www.riedc.com.

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, or at www.narrabay.com.

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 monies 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, or at www.rirrc.org.

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, or at www.riheaa.org.

Rhode Island Public Transit Authority (RIPTA)

This authority was established in 1964 to acquire any mass motor bus transportation system that has filed a petition to discontinue its service, provided that the Authority has determined it to be in the public interest to continue such service. Revenues of RIPTA include 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, or at www.ripta.com.

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, or at www.riedc.com.

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. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Industrial-Recreational Building Authority, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at www.riedc.com.

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 to 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, 235 Promenade Street, 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, or at www.ripbs.org.

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. Financial Statement Presentation

Government-wide 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 the amount of outstanding bonds and other debt attributable to the acquisition, construction or improvement of those assets.
>
> **Restricted net assets** – This category represents the portion of net assets whose use is subject to constraints that are either a) imposed externally by creditors, grantors or contributors, or b) imposed by law through constitutional provisions or enabling legislation.
>
> **Unrestricted net assets -** This category represents net assets that do not meet the definition of the two preceding categories. The use of unrestricted net assets is often subject to constraints imposed by management, but such constraints can be removed or modified.

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

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

Fund Financial Statements

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

The State reports the following fund types:

Governmental Fund Types

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

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

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.

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

Fiduciary Fund Types

Pension 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, assets 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 (IST)** 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.

Major Funds

Governmental funds:

General Fund

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

Intermodal Surface Transportation Fund

This fund accounts for the collection of the gasoline tax, federal grants, 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.

Bond Capital Fund

The Bond Capital Fund accounts for the proceeds of general obligation bonds issued and related capital expenditures not required to be accounted for in another capital projects fund.

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 program. Revenues consist of taxes assessed on employers to pay benefits to qualified unemployed persons. Funds are also provided by the federal government and interest income.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 other taxable events occur (miscellaneous taxes), net of estimated tax refunds. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due.

In accordance with GASB Statement No. 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 these definitions are reported as nonoperating revenues and expenses.

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

E. Cash and Cash Equivalents

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

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, as opposed to 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, in order to avoid distorting the direct costs and program revenues of the applicable functions, interfund services provided and used between different functional categories have not been eliminated.

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

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

K. Inventories

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

L. Capital Assets

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

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

Asset Category	Capitalization Thresholds	Estimated Useful Lives
Capital Assets (Depreciable)		
Land improvements	$1 million	20 years
Buildings	$1 million	20 - 50 years
Building Improvements	$1 million	10 - 20 years
Furniture and equipment	$5,000	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 asset 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 and amortization 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. In the government-wide financial statements, bond discounts, premiums, issuance costs and deferred amounts on refundings are deferred and amortized over the term of the bonds using the outstanding principal method.

For proprietary fund types and component units, bond discounts, premiums, deferred amounts on refundings, 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(E)).

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, an additional category of leave obligation has been established as a result of pay reductions taken by certain classes of employees. For governmental fund types, such obligations are recognized when paid. For proprietary fund types, they are recorded as fund liabilities when earned.

P. Other Liabilities

Other liabilities include 1) escrow deposits, accrued salary and fringe benefits for the governmental fund types; 2) accrued interest payable, accrued salaries, accrued vacation and sick leave for the proprietary fund types; and 3) escrow deposits, landfill closure costs, accrued expenses, 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, 2010, the State adopted the following new accounting standards issued by GASB:

GASB Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*

GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments*

GASB Statement No. 58 – *Accounting and Financial Reporting for Chapter 9 Bankruptcies.*

GASB Statement No. 53 modified note disclosures about derivative instruments reported in the State's fiduciary funds. Due to the fact that the State was already reporting its investment in intangible assets, the adoption of other recently issued accounting standards did not have a significant impact on the State's financial statements and disclosures.

The State will adopt the following new pronouncements in the fiscal year ending June 30, 2011:

GASB Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*

GASB Statement No. 59 – *Financial Instruments Omnibus.*

Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* requires, within the governmental funds, that fund balance be reorganized to include identifications of amounts that are considered nonspendable, such as fund balance associated with inventories and permanent funds. Additional classifications of restricted, committed, assigned and unassigned amounts will be used based on the relative strength of the constraints that control how specific amounts can be spent. Restricted fund balances are those that can only be spent on specific purposes stipulated by constitution, external resource providers or through enabling statute. Committed balances are those that can be used only for actions authorized by the State's highest level of decision-making authority. Assigned balances are to be used for specific purposes, but are not restricted or committed. Unassigned fund balances will only be shown in the General Fund and will be those that are not restricted, committed, or assigned. The effect of implementing this statement will be a reorganization of the fund balance section of the balance sheet for the governmental funds only and additional disclosure in the notes to the basic financial statements.

Statement No.59, *Financial Instruments Omnibus* will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards.

The State will adopt the following new pronouncement in the fiscal year ending June 30, 2012:

> GASB Statement No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* certain provisions are effective for the State's fiscal year ending June 30, 2012.

Management is determining the impact of these new pronouncements on future financial statements.

S. Change in Presentation

The Bond Capital Fund, a capital projects fund, met the criteria of a major fund in fiscal year 2010.

The State has elected to include the combining statements for the discretely presented component units as part of the basic financial statements for fiscal year 2010.

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

A. Primary Government-Governmental and Business Type Activities

Cash Deposits

At June 30, 2010, the carrying amount of the State's cash deposits was $214,973,000 and the bank balance was $246,766,000. 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.

Several of the financial institutions holding the State's deposits have elected to participate in the Federal Deposit Insurance Corporation's Transaction Account 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, 2010 pursuant to this statutory provision. However, the Office of the General Treasurer instituted a collateralization requirement for institutions holding the State's deposits during FY2009. It was further developed into a formal policy, renewable annually, and adopted by the State's Investment Commission in FY2010. Financial institutions are required to pledge collateral equal to 102% of the collected balance of 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, 2010 within the governmental and business type activities:

Bank balance	$	246,766
Bank balance insured by federal depository insurance or collateralized by securities held by an independent third party custodian in the State's name		168,557
Bank balance collateralized by securities held by an independent third party custodian but not in the State's name		67,553
Uninsured and uncollateralized balance	$	10,656

The uninsured or uncollateralized bank balance of $10,656,000 consisted of the uncollected bank balances of the primary government. As of October 2010 the uncollected bank balances of the primary government are also collateralized.

Cash Equivalent Investments and Investments

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

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.

Of the State's investments equaling $72,061,000, the Tobacco Settlement Financing Corporation, a non-major governmental fund, has restricted investments totaling $71,895,000.

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, 2010 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	$ 17,472	$ 17,472	$ 0	$ 0	$ 0
Money Market Mutual Funds	309,287	309,287	0	0	0
Commercial Paper	52,527	52,527	0	0	0
Repurchase Agreements	1,562	1,562	0	0	0
	380,848	$ 380,848	$ 0	$ 0	$ 0

(166)	Investments
(71,895)	Restricted investments
308,787	Cash equivalents
214,973	Cash deposits
$ 523,760	Total cash and cash equivalents

	Statement of Net Assets
$ 510,599	Cash and cash equivalents
13,161	Restricted cash and cash equivalents
$ 523,760	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 the fact that maximum participation by any one issuer is limited to 35% of the total portfolio. Credit risk policies have been developed for investments in commercial paper.

As of June 30, 2010, information about the State's exposure to credit risk for investments (expressed in thousands) is as follows:

Issuer	Fair Value	Type of Investment	S & P Rating	Average Maturities in Days
US Government Agencies				
Federal Home Loan Mortgage Corporation (Freddie Mac)	$ 17,472		AAA	
Money Market Funds				
Black Rock Liquidity Funds: Fed Fund	71,742	Money Market	AAAm	42
Dreyfus Govt Cash Management	13,709	Money Market	AAAm	51
Fidelity Institutional Money Market Funds Gvt. Port Class I	221,773	Money Market	AAAm	25
Goldman Sachs Treasury Investment	2	Money Market	AAAm-G	52
Wells Fargo Advantage 100% Treasury Plus	2,060	Money Market	AAAm	54
Commercial Paper				
Silver Tower US Funding	52,527	Commercial Paper	A-1	
TOTAL	$ 379,285			

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, 2010 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	$ 64,029	$ 48,433	$ 15,596	$ 0	$ 0
Money Market Mutual Funds	180,975	180,975	0	0	0
Investment Contracts	4,760	4,760	0	0	0
Funds on deposit with fiscal agent	$ 249,764	$ 234,168	$ 15,596	$ 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 in Days
US Government Agencies			
Federal Home Loan Mortgage Corporation (Freddie Mac)	$ 14,672	AAA	
Federal Home Loan Bank (FHLBank)	42,899	AAA	
Federal National Mortgage Association (Fannie Mae)	6,458	AAA	
Money Market Funds			
Dreyfus Treasury Prime Cash Management Fund	19,982	AAAm-G	51
Federated Govt. Obligation Tax Managed Fund	26,837	AAAm	44
Fidelity Institutional Money Market Funds Gvt. Port Class III	128,467	AAAm	25
JP Morgan US Govt. Money Market Fund Agency Class	2,426	AAAm	41
Wells Fargo Advantage 100% Treasury Money Market Fund	3,262	AAAm-G	50
JP Morgan 100% US Treasury Securities Money Market Fund	1	AAAm-G	34
Investment Contracts			
FSA Capital Management GIC	4,760		
TOTAL	$ 249,764		

B. 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
US Government Agencies	Federal Home Loan Mortgage Corporation (Freddie Mac)	$ 32,144	5.11%
US Government Agencies	Federal Home Loan Bank (FHLBank)	42,899	6.82%
Money Market Funds	Black Rock Liquidity Funds: Fed Fund	71,742	11.40%
Money Market Funds	Fidelity Institutional Money Market Funds Gvt. Port Class I	221,773	35.26%
Money Market Funds	Fidelity Institutional Money Market Funds Gvt. Port Class III	128,467	20.42%
Commercial Paper	Silver Tower US Funding	52,527	8.35%

C. 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, 2010, the carrying amount of the ERS cash deposits was $4,963,000 and the bank balance was $7,372,000. 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 is also fully collateralized.

Cash equivalent type investments consist of money market mutual funds totaling $2,101,003. The money market mutual fund (BlackRock Liquidity Funds: FedFund (Institutional Shares)) is invested in a portfolio of U.S. Treasury bills, notes and obligations guaranteed by the U.S. government and its agencies and instrumentalities and repurchase agreements are fully collateralized by such obligations. The fund was rated AAAm by Standard & Poors and had an average maturity of 42 days at June 30, 2010.

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, 2010. However, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the deposit amounts.

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 assets of the ERS in a Pooled Trust and each plan holds units in the trust. The number of units held by each plan is a function of each plans' respective contributions to, or withdrawals from, the trust. Investment expense is allocated to each plan based on the plan's units in the Pooled Trust at the end of each month.

The following table presents the fair value of investments by type that are held within the Pooled Trust at June 30, 2010 (expressed in thousands):

Investment Type	Fair Value
Cash Deposits	$ 13,910
Money Market Mutual Fund	718,501
U.S. Government Securities	497,740
U.S. Government Agency Securities	443,964
Collateralized Mortgage Obligations	22,897
Corporate Bonds	702,459
Domestic Equity Securities	65,997
International Equity Securities	8,796
Commingled Funds - Domestic Equity	2,147,314
Commingled Funds - International Equity	1,094,165
Private Equity	631,263
Real Estate	
Limited Partnership	99,927
Commingled Funds	95,358
Real Estate Investment Trusts	46,687
	$ 6,588,978
Net investment receivable (payable)	(76,505)
Total	$ 6,512,473

Consistent with a 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, 2010, 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, 2010 (expressed in thousands):

Investment Type	Fair Value	Effective Duration
U.S. Government Securities	$ 497,740	3.66
U.S. Government Agency Securities	443,964	2.78
Collateralized Mortgage Obligations	22,897	3.68
Corporate Bonds	702,459	5.59
Total Fixed Income	$ 1,667,060	4.23

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 29 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, 2010 is as follows (expressed in thousands):

Quality Rating (1)	Collateralized Mortgage Obligations	U.S. Government Agency Obligations	Corporate Bonds
Aaa	$ 12,831	$ 443,964	$ 118,586
Aa	1,363		56,023
A	2,882		150,764
Baa	3,068		200,149
Ba	5		61,924
B	2,266		71,098
Caa	415		15,586
Ca			190
C			
D			511
Not rated	67		27,628
Fair Value	$ 22,897	$ 443,964	$ 702,459

(1) 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, 2010 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 17.50%. 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, 2010 (expressed in thousands), was as follows:

Currency	Commingled Fund	Equities	Private Equity	Total
Australian Dollar	$ 59,494	$	$	$ 59,494
Brazilian Real	38,511			38,511
Canadian Dollar	84,468	250	17,899	102,617
Chilean Peso	3,875			3,875
Colombian Peso	1,967			1,967
Czech Koruna	963			963
Danish Krone	7,580			7,580
Egyptian Pound	1,262			1,262
Euro Currency	218,642		81,279	299,921
Hong Kong Dollar	66,760	4,844		71,604
Hungarian Forint	1,106			1,106
Indian Rupee	21,268			21,268
Indonesian Rupiah	6,079	866		6,945
Israeli Shekel	6,362			6,362
Japanese Yen	171,042			171,042
Malaysian Ringitt	7,475			7,475
Mexican Peso	11,203			11,203
Moroccan Dirham	380			380
New Taiwan Dollar	27,218			27,218
New Zealand Dollar	672			672
Norwegian Krone	5,402			5,402
Philippine Peso	1,221			1,221
Polish Zloty	3,224			3,224
Pound Sterling	153,330			153,330
Singapore Dollar	12,779			12,779
South African Rand	18,365			18,365
South Korean Won	34,244	2,836		37,080
Swedish Krona	21,482		98	21,580
Swiss Franc	59,185			59,185
Thailand Dollar	3,904			3,904
Turkish Lira	4,106			4,106
Total	$ 1,053,569	$ 8,796	$ 99,276	$ 1,161,641
US Dollar	40,596			
Commingled Fund	$ 1,094,165			

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.

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

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, 2010 (expressed in thousands).

Investment Derivative Instruments	Change in fair value included in investment income	Fair value at June 30, 2010	Notional amount
Equity options written	$ 89	$ -	$ -
Fixed income futures - long	12,862	1,544	171,014
Fixed income futures - short	79	-	-
Foreign currency forward contracts	5,151	457	(A)
Index futures - long	16,386	(66)	2,109
Index futures - short	4,965	1,557	58,740
"To-be announced" securities - long	5,878	1,162	118,250
"To-be announced" securities - short	46	(50)	(8,400)
Warrants	(38)	24	325
	$ 45,418	$ 4,628	

(A) - Foreign Curreny Forward Contracts

Pending receivable	$ 42,434
Pending payable	(41,977)
Foreign currency forward contract asset (liability)	$ 457

The ERS is exposed to credit risk on derivative instruments that are in asset positions. The aggregate fair value of derivative instruments in asset positions at June 30, 2010 was $477,604. This represents the maximum loss that would be recognized if all counterparties failed to perform as contracted. Risk is mitigated by using a continuous linked settlement process.

The ERS executes (through its investment managers) derivative instruments with various counterparties. The credit ratings of counterparties for all but 2% (which were unrated) were Aa3 (Moody's) or better.

Securities Lending

At June 30, 2010, 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 limited 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, 2010 in the commingled fund which participates in securities lending activity was $653,366,538. In August 2010, the commingled fund manager removed the withdrawal restrictions and in November 2010, the ERS completed its conversion of units from the lending commingled fund to a similar non-lending commingled fund.

D. Private Purpose Trust

The private purpose trust (Touro Jewish Synagogue) had investments of $1,821,000 in the Fidelity Balanced Fund.

E. Agency Funds

At June 30, 2010, the carrying amount of the State's cash deposits within the agency funds was $29,593,000 and the bank balance was $17,793,000. 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.

Several of the financial institutions holding the State's deposits have elected to participate in the Federal Deposit Insurance Corporation's Transaction Account 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, 2010 pursuant to this statutory provision. However, the Office of the General Treasurer instituted a collateralization requirement for institutions holding the State's deposits during FY2009. It was further developed into a formal policy, renewable annually, and adopted by the State's Investment Commission in FY2010. Financial institutions are required to pledge collateral equal to 102% of the collected balance of 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, 2010 within the agency funds (in thousands):

Bank balance	$	17,793
Bank balance insured by federal depository insurance or collateralized by securities held by an independent third party custodian		17,312
Uninsured and uncollateralized balance	$	481

Investments (classified as cash equivalents) within the agency funds totaled $11,800,000 and consisted of a money market fund – Fidelity Institutional Money Market Funds–Government Portfolio Class I rated AAAm by Standard and Poors Investors Service with an average maturity of 25 days.

Note 3. Receivables

Receivables at June 30, 2010 (expressed in thousands) consist of the following:

Primary Government	Taxes Receivable	Accounts Receivable	Due from Other Governments and Agencies	Notes and Loans	Other Receivables	Total
Governmental receivables	$ 388,989	$ 278,039	$ 251,891	$ 1,000	$ 13	$ 919,932
Business-type activity receivables	66,425	20,328				86,753
Less: allowance for uncollectibles	93,140	109,668				202,808
Receivables, net of allowance for uncollectibles	362,274	188,699	251,891	1,000	13	803,877
Less: current portion:						
Governmental activities	289,246	171,844	243,582	1,000	13	705,685
Business-type activities	64,270	7,234	3,189			74,693
Noncurrent receivables	$ 8,758	$ 9,621	$ 5,120	$	$	$ 23,499

Note 4. Intra-Entity Receivables and Payables

Intra-entity receivables and payables as of June 30, 2010 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	$ 5,586	$
Intermodal Surface Transportation	6,282	
Bond Capital		6,280
GARVEE		887
Other		
Coastal Resources Management Council Dredge	12	
RI Temporary Disability Insurance		870
RI Capital Plan		2,430
RI Clean Water Environmental	1,998	
Certificates of Participation	847	
Total Other	2,857	3,300
Total Governmental	14,725	10,467
Proprietary Funds		
Enterprise		
RI Lottery		1,771
Employment Security Trust		327
Total Enterprise		2,098
Internal Service	194	2,354
Totals	$ 14,919	$ 14,919

In addition, at June 30, 2010, amounts totaling $34.5 million representing employer retirement contributions were recorded in the Employer Pension Contribution Fund (an agency fund) and the General Fund. In the Employer Contribution Fund, $19.1 million was classified as deposits held for others. The remaining $15.4 million was recorded as accounts payable in the General Fund at year-end. These amounts were paid to the Employees' Retirement System in August 2010 and October 2010, respectively.

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 or amortized:				
Land *	$ 344,042	$ 5,102	$ (154)	$ 348,990
Works of Art	314	108		422
Intangibles	145,180	5,896		151,076
Construction in progress	494,250	224,400	(130,517)	588,133
Total capital assets not being depreciated or amortized	983,786	235,506	(130,671)	1,088,621
Capital assets being depreciated or amortized:				
Land improvements	3,700			3,700
Buildings	577,823	5,668	(712)	582,779
Building Improvements	208,342	2,266		210,608
Furniture and equipment	230,558	11,515	(6,846)	235,227
Intangibles	8,428	3,558		11,986
Infrastructure	2,509,729	193,943		2,703,672
Total capital assets being depreciated or amortized	3,538,580	216,950	(7,558)	3,747,972
Less accumulated depreciation or amortization for:				
Land improvements	3,077	157		3,234
Buildings **	177,813	11,596	(349)	189,060
Building Improvements **	152,017	7,455		159,472
Furniture and equipment	188,272	18,097	(6,165)	200,204
Intangibles	4,783	1,831		6,614
Infrastructure	1,141,276	88,228		1,229,504
Total accumulated depreciation or amortization	1,667,238	127,364	(6,514)	1,788,088
Total capital assets being depreciated or amortized, net	1,871,342	89,586	(1,044)	1,959,884
Governmental activities capital assets, net	$ 2,855,128	$ 325,092	$ (131,715)	$ 3,048,505

* Beginning balances have been restated, see Note 17, Section F.

** Certain beginning balances have been reclassified by category.

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

General government	$ 8,975
Human services	7,914
Education	2,807
Public safety	11,663
Natural resources	3,570
Transportation	92,435
Total depreciation or amortization expense - governmental activities	$ 127,364

Business-type activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 45,558	$	$	$ 45,558
Construction in progress	412	1,602	(1,365)	649
Total capital assets not being depreciated	45,970	1,602	(1,365)	46,207
Capital assets being depreciated:				
Buildings	233,047	1,094	(55)	234,086
Machinery and equipment	22,407	892	(356)	22,943
Total capital assets being depreciated	255,454	1,986	(411)	257,029
Less accumulated depreciation	96,142	11,219	(408)	106,953
Total capital assets being depreciated, net	159,312	(9,233)	(3)	150,076
Business-type activities capital assets, net	$ 205,282	$ (7,631)	$ (1,368)	$ 196,283

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land	$ 107,782	$ 5,730	$ (956)	$ 112,556
Construction in progress	561,764	170,543	(314,441)	417,866
Other	250			250
Total capital assets not being depreciated or amortized	669,796	176,273	(315,397)	530,672
Capital assets being depreciated or amortized:				
Buildings	1,492,513	44,943	(4,411)	1,533,045
Land improvements	178,530	5,178		183,708
Machinery and equipment	303,871	26,014	(16,016)	313,869
Intangibles	4,100			4,100
Infrastructure	375,194	267,789		642,983
Total capital assets being depreciated or amortized	2,354,208	343,924	(20,427)	2,677,705
Less accumulated depreciation or amortization for:				
Buildings	550,687	51,773	(4,575)	597,885
Land improvements	102,409	8,260		110,669
Machinery and equipment	196,162	16,950	(15,060)	198,052
Intangibles	1,435	820		2,255
Infrastructure	93,879	9,663		103,542
Total accumulated depreciation or amortization	944,572	87,466	(19,635)	1,012,403
Total capital assets being depreciated or amortized, net	1,409,636	256,458	(792)	1,665,302
Total capital assets, net	$ 2,079,432	$ 432,731	$ (316,189)	$ 2,195,974

Note 6. Long-Term Liabilities

A. Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010, are presented in the following table.

Long-term Liabilities
(Expressed in Thousands)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Governmental Activities						
Bonds Payable						
General obligation bonds (see section B)	$ 1,036,189	$ 223,625	$ (141,784)	$ 1,118,030	$ 68,630	$ 1,049,400
RIEDC Grant Anticipation Bonds	427,425		(26,910)	400,515	28,205	372,310
RIEDC Rhode Island Motor Fuel Tax Revenue Bonds	81,125		(3,480)	77,645	3,585	74,060
Revenue bonds - RIRBA	6,040		(6,040)			
Tobacco Settlement Asset-Backed Bonds	822,441		(14,710)	807,731		807,731
Accreted interest on TSFC bonds	23,877	13,492		37,369		37,369
Historic Tax Credit Bonds	150,000		(14,805)	135,195	14,375	120,820
Net unamortized premium/discount	30,004	9,838	(11,182)	28,660		28,660
Deferred amount on refunding	(4,315)	(4,030)	1,093	(7,252)		(7,252)
Bonds Payable, net	2,572,786	242,925	(217,818)	2,597,893	114,795	2,483,098
Obligation under capital leases (see section E)						
Obligation under capital leases	269,340		(24,535)	244,805	20,760	224,045
Net unamortized premium/discount	7,111		(1,086)	6,025		6,025
Deferred amount on refunding	(1,758)		291	(1,467)		(1,467)
Obligation under capital leases, net	274,693		(25,330)	249,363	20,760	228,603
Compensated absences	62,004	68,459	(50,161)	80,302	59,014	21,288
Net OPEB Obligation (see note 14 C)	20,725	15,487		36,212		36,212
Special obligation notes	13,179	11,000	(4,729)	19,450	6,350	13,100
Other Long-term liabilities						
Arbitrage rebate	3,398	442	(1,184)	2,656	2,420	236
Pollution remediation	17,131	4,271	(1,281)	20,121	5,706	14,415
Other	51,480	25,144	(17,880)	58,744	6,797	51,947
Total Governmental Long-term Liabilities	$ 3,015,396	$ 367,728	$ (318,383)	$ 3,064,741	$ 215,842	$ 2,848,899
Business-type Activities						
Revenue bonds (see section B)	$ 275,810	$	$ (7,530)	$ 268,280	$ 8,660	$ 259,620
Net unamortized premium/discount	1,212		(116)	1,096		1,096
Deferred amount on refunding	(13,318)		1,236	(12,082)		(12,082)
Revenue bonds, net	263,704		(6,410)	257,294	8,660	248,634
Notes payable	1,030		(235)	795	188	607
Due to Other Governments and Agencies	70,000	155,473		225,473		225,473
Total Business-type Long-term Liabilities	$ 334,734	$ 155,473	$ (6,645)	$ 483,562	$ 8,848	$ 474,714
Component Units						
Bonds payable (see section B)	$ 3,949,789	$ 552,515	$ (407,417)	$ 4,094,887	$ 94,890	$ 3,999,997
Net unamortized premium/discount	25,383	13,462	(3,815)	35,030	11	35,019
Deferred amount on refunding	(9,016)	(4,679)	902	(12,793)		(12,793)
Notes payable (see section C)	75,815	259,000	(254,490)	80,325	75,874	4,451
Loans payable (see section D)	278,224	74,290	(22,249)	330,265	16,971	313,294
Obligations under capital leases	15,043	926	(2,049)	13,920	2,020	11,900
Net OPEB obligation	22,784	10,637	(1,164)	32,257		32,257
Compensated absences	30,688	5,933	(3,734)	32,887	11,447	21,440
Arbitrage rebate	17,819	1,856	(4,904)	14,771	868	13,903
Due to primary government	36,687	1,222	(2,567)	35,342	1,434	33,908
Pollution remediation	17,729		(1,444)	16,285		16,285
Other liabilities	95,689	1,036	(755)	95,970	594	95,376
Total Component Units Long-term Liabilities	$ 4,556,634	$ 916,198	$ (703,686)	$ 4,769,146	$ 204,109	$ 4,565,037

B. Bonds Payable

At June 30, 2010, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government - Governmental Activities Principal	Primary Government - Governmental Activities Interest	Primary Government - Business Type Activities Principal	Primary Government - Business Type Activities Interest	Component Units Principal	Component Units Interest
2011	$ 114,795	$ 119,355	$ 8,660	$ 14,470	$ 169,875	$ 151,680
2012	121,360	115,553	9,110	14,030	104,841	147,997
2013	146,480	109,433	9,570	13,565	127,760	143,530
2014	128,775	103,016	10,060	13,075	117,482	138,537
2015	138,585	96,804	10,550	12,535	133,379	133,443
2016 - 2020	630,165	384,044	61,305	54,019	663,455	585,307
2021 - 2025	393,330	252,707	78,625	36,521	637,191	427,671
2026 - 2030	128,660	182,976	51,355	15,354	619,450	283,410
2031 - 2035	168,260	136,768	29,045	5,487	644,840	160,386
2036 - 2040		116,156			614,310	60,900
2041 - 2045	371,700	46,463			276,890	17,221
2046 - 2050					65,145	2,906
2051 - 2055	197,006	2,834,180 *				
	$ 2,539,116	$ 4,497,455	$ 268,280	$ 179,056	$ 4,174,618	$ 2,252,988

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

Primary Government - *Governmental Activities*

General obligation bonds of the State are serial bonds with interest payable semi-annually. During the year ended June 30, 2010 the State issued the following general obligation bonds:

- $78,960,000 Consolidated Capital Development Loan of 2010, Refunding Series A, with interest rates ranging from 2.500% to 5.00%, maturing from 2012 through 2021. The proceeds were used to effect an advance refunding of $78,290,000 of general obligation bonds. The net proceeds from the sale of the refunding bonds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded bonds. The refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the Statement of Net Assets. The refunding decreases total debt service payments over the next 11 years by $2,496,000 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $2,993,000.

- $40,865,000 Consolidated Capital Development Loan of 2010, Series B, with interest rates ranging from 2.00% to 5.00%, maturing from 2011 through 2025.

- $80,000,000 Capital Development Loan of 2010, Series C, with interest rates ranging from 4.663% to 5.363%, maturing from 2021 through 2025. These bonds are federally taxable as they are Issuer Subsidy-Recovery Zone Economic Development bonds. The State will receive a cash subsidy for interest from the federal government instead of tax credits accruing to purchasers of bonds. The State will be entitled to a subsidy equal to 45% of all interest payable on the bonds, based on required filings to the United States Treasury from the State. The State is obligated for all debt service of these bonds, regardless of whether subsidy payments are received or not.

- $23,800,000 Capital Development Loan of 2010, Series D, with interest rates ranging from 0.962% to 4.627%, maturing from 2011 through 2020. These bonds are federally taxable.

At June 30, 2010, general obligation bonds authorized by the voters and unissued amounted to $84,600,000. 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.

RIEDC Grant Anticipation Bonds and Rhode Island Motor Fuel Tax Revenue Bonds - 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 ($.02) per gallon of the thirty-two cents ($.32) 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.

Tobacco Settlement Asset-Backed Bonds and Accreted Interest - 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. Certain of the TSFC 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 current funding requirements of the indenture to the early redemption of the bonds. During the year ended June 30, 2010, TSFC utilized $14,710,000 of excess collections to early redeem an equal amount of outstanding bonds.

Historic Tax Credit Bonds - 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. There is remaining authorization to issue up to $206,200,000 of Historic Tax Credit Bonds.

In addition to the debt authorized by the voters for which the full faith and credit is pledged, the General Assembly has authorized the issuance of other debt that is subject to annual appropriation. The following authorizations have been enacted and the State plans to issue the debt over the next several years; (1) Energy Conservation Certificates of Participation - $85,270,000, and (2) Economic Development Corporation – Fund to Grow Rhode Island Companies - $125,000,000 ($75,000,000 issued subsequently to June 30, 2010 – see Note 18. Subsequent Events).

Primary Government - Business-Type Activities

R.I. Convention Center Authority

The R.I. Convention Center Authority (RICCA) is limited to the issuance of bonds or notes in an aggregate principal amount of $305,000,000. At June 30, 2010, outstanding bond and note indebtedness totaled $269,075,000.

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 agreement between the RICCA and the State covering all property purchased by the RICCA. The agreement 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 guaranty insurance policies.

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

Each of the RICCA's Bond Resolutions contains certain restrictive covenants. During fiscal year 2010, the RICCA was unable to fund the Operating Reserve and Debt Service Reserve requirements.

Discretely Presented Component Units

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

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

R.I. Housing and Mortgage Finance Corporation

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.

R.I. Student Loan Authority

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.

R.I. Economic Development Corporation

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.

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 $270,910,000 in airport revenue bonds. Proceeds from the bonds were used for various airport improvement projects. The amount available to pay debt service per the Master Indenture, including pledged passenger facility charges, was approximately $34,252,000 for the year ended June 30, 2010. Principal and interest payments for the year ended June 30, 2010 were approximately $21,487,000.

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 $4,758,000 for the year ended June 30, 2010. Interest paid for the year ended June 30, 2010 was approximately $2,418,000. 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 2011 with a final maturity in fiscal year 2042. Such repayments are payable solely from the net revenues derived from the Intermodal Facility. As of June 30, 2010, RIAC had $5,109,000 in borrowings under this agreement.

R.I. Turnpike and Bridge Authority

The R.I. Turnpike and Bridge Authority has issued a number of series of revenue bonds to finance the renovation, renewal, repair, rehabilitation, retrofitting, upgrading and improvement of Claiborne Pell Bridge and the Mount Hope Bridge.

Narragansett Bay Commission

The Narragansett Bay Commission has issued a number of series of revenue bonds to finance the construction and renovation of its treatment facilities and waste water collection systems.

R.I. Clean Water Finance Agency

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.

On May 6, 2010, the Agency issued the 2010 Series A Water Pollution Control Subordinated Refunding Revenue Bonds. The proceeds from this bond issue were used to defease portions of the 1995 Series A, 1999 Series A, 1999 Series C, 2000 Series A, 2002 Series A, 2002 Series B, 2003 Series B, and to fully refund the 1999 Series B Bonds. Upon delivery of the 2010 Series A Subordinated Refunding Bonds, the agency established an irrevocable escrow trust fund pursuant to a Refunding Trust Agreement between the Agency and U.S. Bank National Association. Under the terms of the Refunding Trust Agreement, the proceeds of the 2010 Series A Subordinated Refunding Bonds were deposited into escrow funds, established for each series of Refunded Bonds, which were invested in Investment Obligations maturing in amounts and bearing interest at rates sufficient to pay, when due, interest, and upon maturity or prior redemption on the earliest available redemption date, the outstanding principal of the Refunded Bonds. Each escrow fund is pledged solely for the benefit of holders of the applicable series of Refunded Bonds.

Since those bonds have, in effect, been redeemed under the defeasance, they are no longer outstanding under the Agency's basic bond resolution and, therefore, they are not entitled to the pledge of the basic bond resolution. Accordingly, these bonds and the related escrow funds are not reflected in the June 30, 2010 financial statements.

The Agency completed the advance refunding to reduce its total debt service payments over the next 14 years by $6,354,832 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately $5,251,498.

R.I. Water Resources Board Corporate

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.

R.I. Industrial-Recreational Building Authority

The $60,000,000 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.

C. Notes Payable

Primary Government

Special Obligation Notes (expressed in thousands) at June 30, 2010 are as follows*:*

Note payable to R.I. Housing and Mortgage Finance Corporation - to provide financing for various affordable housing initiatives	$	8,450
Note payable to a financial institution - to finance the design, development and implementation of a motor vehicles information management system for the Division of Motor Vehicles – the note is payable with interest of 4.2137% due semi-annually and principal due April 1, 2011-2017		11,000
	$	19,450

Both special obligation notes are subject to annual appropriation by the General Assembly. The note payable to a financial institution will be repaid from a $1.50 surcharge on every transaction processed at the Division of Motor Vehicles. This surcharge is pledged to fund debt service on the note.

Discretely Presented Component Units

Notes payable (expressed in thousands) at June 30, 2010 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.	$	1,696
R.I. Housing and Mortgage Finance Corporation bank notes, 2.46% to 5.275% interest, payable through 2027.		24,048
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		2,048
R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 4.15% interest, payable through 2015		533
		28,325
Less: current payable		(26,919)
	$	1,406

D. Loans Payable

Discretely Presented Component Units

Loans payable include liabilities of the Narragansett Bay Commission (NBC) to the R.I. Clean Water Finance Agency (RICWFA) of $323,193,116.

E. 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, 2010 consists of the present value of future minimum lease payments less any funds available in debt service reserve funds. Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly.

The following is a summary of material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2010:

Fiscal Year Ending June 30	COPS
2011	$ 31,774
2012	30,525
2013	29,465
2014	27,827
2015	27,153
2016 - 2020	104,571
2021 - 2025	66,315
2026 - 2030	9,929
Total future minimum lease payments	327,559
Amount representing interest	(82,754)
Present value of future minimum lease payments	$ 244,805

F. 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, 2010, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	$ 224,010
Certificates of Participation	18,800
R.I. Convention Center Authority	30,975
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	248,440
R.I. Economic Development Corporation	55,980
R.I. Turnpike and Bridge Authority	32,300

G. 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, 2010 was $113,500,000, $2,744,709,000 and $1,147,000,000 respectively. Certain issues of conduit debt are moral obligations of the State, and the current amounts outstanding are disclosed in Note 12.

H. Short-Term Borrowing

The table below summarizes General Fund short-term borrowing (expressed in thousands) for the fiscal year ended June 30, 2010:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010
General Obligation Tax Anticipation Notes	$ 0	$ 350,000	$ 350,000	$ 0
RI Capital Plan Fund	101,948	39,700	63,000	78,648
Total Short Term Borrowing	$ 101,948	$ 389,700	$ 413,000	$ 78,648

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

In addition, R.I. Housing & Mortgage Corporation had outstanding balances of $52,000,000 on two lines of credit that are payable on demand and accrue interest at rates ranging from 1.262% to 2.099%.

I. Pollution Remediation Liabilities

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

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

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

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

J. Due to Other Governments and Agencies

The State has borrowed $225,473,000 from the federal government (Unemployment Insurance Trust Fund) to fund employment insurance benefits paid from the Employment Security Fund to eligible unemployed individuals. Interest on the borrowings were deferred through June 30, 2010; however, interest will accrue beginning January 1, 2011 and is payable on October 1 of each year.

The interest due on federal loans cannot be paid from the State's UI Trust Fund or UI grant funds. As a result, the General Assembly passed legislation which added 0.3% to the Job Development Fund Assessment that will be dedicated to paying the principal and interest on the State's UI loans.

K. Compensated Absences

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

L. Arbitrage Rebate

The State and certain component units have a liability for income on the investment of debt proceeds determined to be arbitrage earnings in accordance with federal regulations. These amounts are generally payable to the federal government five years after the issuance date of the bonds.

M. Due to the Primary Government

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

N. Other Long-Term Liabilities

Governmental Activities - the liabilities consist primarily of:

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

- *Tax refunds payable* – these amounts are tax carry-forward credits for taxpayers not expected to be paid in the subsequent fiscal period.

In addition, certain other long-term payables are included in this category.

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

Note 7. Net Assets/Fund Balances

Governmental Activities

Restricted Net Assets

The Statement of Net Assets reflects $483,931,000 of restricted net assets, of which $204,406,000 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.

Governmental Funds – 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.

General Fund Reserved Fund Balances and Changes in General Fund Reserved Fund Balances are detailed below (expressed in thousands):

	Reserved Fund Balance July 1	Additions	Reductions	Reserved Fund Balance June 30
State Budget Reserve Account	$ 80,145	$ 70,913	$ (38,778)	$ 112,280
Appropriations carried forward				
General revenue	998	3,365	(998)	3,365
Departmental restricted revenue	49,543	52,044	(49,543)	52,044
Other	1,559	2,470	(1,559)	2,470
Total	$ 132,245	$ 128,792	$ (90,878)	$ 170,159

The State maintains a State Budget Reserve and Cash Stabilization Account in the General Fund. For fiscal year 2010, 2.40% of general revenues and opening surplus are set aside in this account. Amounts in excess of 3.80% 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.

Reserved fund balances in the governmental funds (other than the General Fund) principally represent amounts committed for transportation projects, future debt service, and employment insurance programs.

Unreserved fund balances in the governmental funds (other than the general fund) principally represent unspent debt proceeds for capital outlay or debt service expenditures associated with capital projects.

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	$ 879,007	$ 879,012
General Business Taxes:		
Business Corporations	146,166	145,929
Public Utilities Gross Earnings	95,794	96,894
Financial Institutions	2,130	1,950
Insurance Companies	69,460	69,346
Bank Deposits	1,860	1,860
Health Care Provider Assessment	40,254	40,202
Sub-total - General Business Taxes	355,664	356,181
Sales and Use Taxes:		
Sales and Use	803,395	803,292
Motor Vehicle	48,285	48,284
Motor Fuel	969	954
Cigarettes	138,315	138,286
Alcoholic	11,269	11,269
Sub-total - Sales and Use Taxes	1,002,233	1,002,085
Other Taxes:		
Inheritance and Gift	29,057	28,796
Racing and Athletics	1,492	1,492
Realty Transfer	6,994	6,994
Sub-total - Other Taxes	37,543	37,282
Total - General Fund	2,274,447	2,274,560
Intermodal Surface Transportation Fund		
Gasoline	137,266	137,266
Other Governmental Funds	165,693	165,693
Total Taxes	$ 2,577,406	$ 2,577,519

Note 9. Operating Transfers

Operating transfers for the fiscal year ended June 30, 2010 are presented below (expressed in thousands):

	Transfers	Description
Governmental Activities		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	$ 49,399	Debt service and operating assistance
Bond Capital	109	Interest earnings transfer
Nonmajor Funds		
RI Temporary Disability Insurance	1,973	Administrative cost reimbursement
Historic Tax Credit	50,198	Reimbursement for tax credits claimed
RI Capital Plan	112	Transfer of remaining appropriations to RICAP Fund
Business-Type Activities		
Lottery	344,673	Net income transfer
Employment Security	260	Administrative cost reimbursement
Internal Service	3,967	Charges for Information Technology Services and equity transfer from Vehicle Replacement Fund
Intermodal Surface Transportation		
Bond Capital	35,530	Infrastructure funding
GARVEE		
Intermodal Surface Transportation	56,970	Debt Service
Nonmajor Funds		
COPs		
General	1,322	Debt service reserve
RI Capital Plan		
General	38,778	Transfer statutory excess in budget reserve
Bond Capital	2,734	Premium on new bonds
Total Governmental Activities	586,025	
Business-Type Activities		
Convention Center		
General	24,348	Debt service
Employment Security		
Assessed Fringe Benefits	1,813	Reimbursement for State employees' unemployment compensation
Total operating transfers	$ 612,186	

Note 10. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately $11,630,000 for the fiscal year ended June 30, 2010.

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, 2010:

Fiscal Year Ending June 30	
2011	$ 10,854
2012	8,755
2013	7,212
2014	7,025
2015	6,988
2016 - 2020	11,253
Total	$ 52,087

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, 2010 are listed below (expressed in thousands):

Major funds		
General	$	10,017
Bond Capital		1,711
IST		305,399
GARVEE		126,664
Total major funds		443,791
Other governmental funds		8,378
Total encumbrances outstanding	$	452,169

The primary government is committed at June 30, 2010 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, 2010 under contractual obligations with various service providers, which will be funded through appropriations of general revenue and federal and restricted revenue in succeeding fiscal years.

Performance-based Agreements

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, 2010, $3,560,000 was paid to the developer.

The RIEDC has issued economic development revenue bonds whereby the State will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the State paid $2,532,526 of the debt on the related economic development revenue bonds in fiscal year 2010.

Rhode Island Lottery – Master Contract Agreements

Gaming Systems Provider - GTECH

The Lottery in May 2003 entered into a 20-year master contract with its gaming systems provider, GTECH, granting it 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 it 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.

Video Lottery Facilities – UTGR, Inc.

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 manage one of the State's licensed video lottery facilities. The contract entitles UTGR, Inc. to compensation ranging from 26% to 28.85% of video lottery net terminal income at the facility. Under the contract, 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. Certain extensions are contingent on UTGR's compliance with full-time employment mandates.

In May 2010, legislation was enacted which authorized the Lottery to amend its Master Contract with UTGR and which satisfied certain requirements of UTGR's corporate reorganization. The legislation provides for a promotional points program up to 4% of the facility's prior year net terminal income. The legislation also requires the Lottery, beginning in fiscal 2011, to reimburse UTGR for allowable marketing expenses at an amount not to exceed $6 million multiplied by the Lottery's percentage of net terminal income (approximately 61% for fiscal 2010). The reimbursement of marketing expenses by the Lottery occurs only after UTGR has incurred $4 million in qualified marketing expenses (as defined by the Lottery) and is contingent on the State receiving net terminal income from UTGR at least equal to fiscal year 2009 amounts. UTGR gave notice of its intent to extend the contract, and the first five-year extension term of the Lottery's contract with UTGR commenced on July 18, 2010.

Video Lottery Facilities – Newport Grand

On November 23, 2005, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with Newport Grand to continue to manage one of the State's licensed video lottery facilities. In May 2010, legislation was enacted that authorized the Lottery to amend its Master Contract with Newport Grand to include two (2) successive five (5) year extension terms, with the first term commencing on November 23, 2010. On September 21, 2010, Newport Grand gave notice of its intent to extend the contract, and the first five-year extension term of the contract will commence on November 23, 2010. The second term, which would commence on November 23, 2015, is contingent on Newport Grand's compliance with full-time employment mandates.

The legislation also provides for a promotional points program up to 4% of the facility's prior year net terminal income and requires the Lottery, beginning in fiscal 2011, to reimburse Newport Grand for allowable marketing expenses at an amount not to exceed $840,000 multiplied by the Lottery's percentage of net terminal income (approximately 63% for fiscal 2010). The reimbursement of marketing expenses by the State occurs only after Newport Grand has incurred $560,000 in qualified marketing expenses (as defined by the Lottery) and is contingent on the State receiving net terminal income from Newport Grand at least equal to fiscal year 2010 amounts.

Component Units

R. I. Public Rail Corporation

The R. I. Public Rail Corporation (RIPRC), a blended component unit, has obtained a letter of credit in the amount of $7,500,000 in favor of AMTRAK to secure the RIPRC's performance of its obligations arising under any South County Rail Service agreements. RIPRC has been designated as the entity responsible for securing and maintaining a liability insurance policy to provide funds to pay all or a portion of the liabilities of the State and AMTRAK for property damage, personal injury, bodily injury or death arising out of the South County Commuter Rail Service with policy limits of $200 million subject to a self-insured retention of $7.5 million.

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 $7,394,000, which are expected to be funded from current available resources and future operations. As of June 30, 2010, RIAC was also obligated for completion of the Warwick Intermodal Facility under commitments of approximately $59,328,000.

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 $56,053,000 at June 30, 2010.

R.I. Resource Recovery Corporation

Landfill closure and post-closure:

The EPA established closure and post-closure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. The landfill operated by the Corporation has been segregated into five distinct phases. Phases I, II and III were closed by the Corporation in prior years. 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.

A liability for closure and post-closure care of $71,439,011 as of June 30, 2010 has been recorded in the accompanying statement of net assets, as summarized by Phases below:

	Year ended June 30, 2010
Phase I	$ 18,724,443
Phase II and III	6,387,138
Phase IV	11,994,270
Phase V	34,333,160
	$ 71,439,011

The Corporation has received site approval for Phase VI from the State Planning Council. The Corporation has submitted an application for licensure of Phase VI to RIDEM and is currently awaiting RIDEM's approval.

The Corporation expects to record an estimated additional $82,000,000 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.

As of June 30, 2010, the remaining total estimated current cost to be recognized in the future as landfill closure and post-closure care expense for Phase IV, and the estimated percent of landfill capacity used for Phase IV, are $1,414,304 and 89.5%, respectively. The corresponding amounts for Phase V are $17,237,607 and 66.6%, respectively. Estimated remaining years for accepting waste is less than one year for Phase IV and 4.5 years for Phase V.

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, 2010 is $40,775,182 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.

The pollution remediation obligation for the year ended June 30, 2010 is as follows:

Balance, June 30, 2009	Additions	Reductions	Balance, June 30, 2010	Current Portion
$ 19,817,040	$ 167,668	$ (1,385,565)	$ 18,599,143	$ 2,313,623

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 balance of the trust fund totaled $41,599,897 as of June 30, 2010 and has been included in restricted assets held in trust in the accompanying statement 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 $17,431,000 as of June 30, 2010.

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. The Corporation has recorded a liability for future remediation costs of approximately $1,168,000 as of June 30, 2010.

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, 2010 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 wetlands restoration work was completed in the spring of 1999 and is awaiting RIDEM approval.

R.I. Turnpike and Bridge Authority

The R.I. Turnpike and Bridge Authority has entered into a contract for improvements to bridges and property. At June 30, 2010 the remaining commitments on this contract are approximately $41,363,000.

R.I. Public Transit Authority

The R.I. Public Transit Authority is committed under construction contracts in the amount of $46,239,624 at June 30, 2010.

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 CollegeBoundfund®, Rhode Island’s IRS section 529 college savings program.

During FY 2010, these revenues totaled approximately $6,000,000. 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 CollegeBoundfund®. 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 CollegeBoundfund® Matching Grant Program: up to $500,000 may be made available annually by the Authority to invest through RIHEAA in CollegeBoundfund® as matching contribution amounts for individuals' accounts established for the benefit of income-qualifying students and their families.

In addition, CollegeBoundfund® revenues also support the Adult Education Grant Program, which provides up to $6,000 to academic and income-qualifying students enrolled on a less than half-time basis over a two year scholarship period.

During FY 2010, RIHEAA invested $1,000,000 to be used for Academic Promise Scholarship Program recipients and provided over $4,800,000 in supplemental funding for the State Scholarship/Grant Program.

R.I. Industrial-Recreational Building Authority

At June 30, 2010, the Authority had insured contractual principal and interest payments required under first mortgages and first security agreements principally for land and buildings of manufacturing and distribution entities located throughout Rhode Island. Principal balances outstanding under first mortgages and first security agreements insured by the Authority at June 30, 2010 are $18,143,189.

Other Component Units

Other component units have various commitments that have been entered into in the normal course of their operations. These commitments are not significant to the State's financial statements.

Note 12. Contingencies

Primary Government

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

A claim has been made by the Cranston School Committee for reimbursement for sums paid for salaries of the director and guidance counselors and for the costs of building repairs to the Cranston Area Vocational Technical Center. The School Committee contends that it is owed the amounts it paid for salaries from 1990-present and building repairs it made from 1999-present, a total of $7,166,656. The Department of Elementary and Secondary Education responded, setting forth several legal and equitable defenses on behalf of the State and the Department. The School Committee, joined by the City of Cranston, proceeded before an administrative hearing officer to present evidence in support of this claim. On August 26, 2009, counsel for the Department filed a preliminary motion to dismiss on several grounds. That motion was granted and the matter was dismissed by the Commissioner on January 21, 2010. The School Committee appealed to the Board of Regents and filed a brief with the Regents on February 17, 2010. RIDE submitted a reply brief in this matter. The Board of Regents affirmed the dismissal. The Cranston School Department has filed both an Administrative Procedures Act appeal, PC10-4288, and a Petition for Writ of Mandamus, PC10-3837, in the Superior Court on the basis of these same claims.

Also, a claim was made by the Chariho Regional School Committee for reimbursement for salaries of the director and guidance counselors at the Chariho Career and Technical Center. The School Committee contends that it is owed the amounts it paid for salaries of its director and guidance counselors from 1990-

present, a total of $4,142,893 based on the language in the Regulations of the Board of Regents Governing the Management & Operation of Area Vocational-Technical Centers in Rhode Island. The Department of Elementary and Secondary Education has filed a Motion to Dismiss this Claim, to which Chariho filed an Objection on December 30, 2009. The Department's defenses to this claim are sound; however, a full assessment of the likelihood of an unfavorable outcome cannot be made at this time.

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 November of 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 overtime bypass occurred over a period from 2002 to 2007 and amounts to more than 13,000 hours. Because the parties disagreed about which deputies were qualified to share in the reimbursement for the overtime, the arbitrator conducted further hearings at which almost 100 deputies testified regarding their qualifications to perform the extradition work at issue. The arbitrator recently ruled that 59 deputies were qualified to share in the remedy payments. Each qualified deputy is due payment for some portion of the remedy period, but the dates of each deputy's eligibility are different, and each deputy had different overtime rates of pay at different times within their remedy period. The calculation of the individual payments is therefore complicated and time-consuming, but it appears that the total payout amount will be significant and could well exceed $100,000.

In May 2010, unions representing State employees and teachers filed a lawsuit against the State challenging legislative changes made in 2009 to the pension benefit provisions for state employees and teachers. The lawsuit was later amended to include the 2010 legislative changes made to pension benefits. Management cannot estimate the likelihood of loss to the State, if any, if the plaintiffs prevail. If these challenges to the statutory changes are successful, future State contributions as well as the unfunded actuarial liability could be materially impacted.

With respect to other 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.

Tobacco Settlement Financing Corporation

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. In addition, class action lawsuits have been filed in jurisdictions alleging violations of state Medicaid agreements. To date, no such lawsuits have been successful. The enforcement of the terms of the MSA may continue to be challenged in the future. In the event of an adverse court ruling, the corporation may not have adequate financial resources to service its debt obligations.

From April 2005 through April 2010, many of the tobacco manufacturers participating in the MSA either withheld all or portions of their payments due, or remitted their payments to an escrow account, disputing the calculations of amounts due under the agreement. These manufacturers assert that the calculations of the amounts due failed to recognize a prescribed adjustment for non-participating manufacturers. The Corporation's share of these disputed payments is approximately $23,909,000. However, there is no assurance that these funds will be collected by the Corporation in the future. Due to these uncertainties regarding the ultimate realization of the remaining amount of these disputed payments, they have not been recognized as revenue in the accompanying financial statements. The Corporation and the other affected parties are taking actions prescribed in the MSA to arrive at a resolution of these matters.

On January 31, 2006 the Corporation received a subpoena requesting the production of documents and information relative to the SEC's investigation of "Certain GIC Brokers." The Corporation responded to this request on a timely basis. On April 17, 2008, the Corporation received a subpoena from the US Department of Justice for the production of documents. The Corporation responded to this request on a timely basis and has not received any further notices or communications from the Department of Justice regarding this matter.

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.

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, 2009 was issued in May 2010. That report identified approximately $11.8 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 2010 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 a capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the 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, 2010, the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had $267,259,100 and $38,554,285 respectively, in "moral obligation" bonds outstanding.

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. 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 become 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, (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. Higher Education Assistance Authority (RIHEAA) and R.I. Student Loan Authority (RISLA)

On March 30, 2010, the President of the United States signed into law the Health Care and Education Reconciliation Act of 2010 (the Act), which included the Student Aid and Fiscal Responsibility Act (SAFRA). The Act makes sweeping changes in student financial assistance programs, including a provision which eliminates loan originations under the Federal Family Education Loan (FFEL) Program effective July 1, 2010. As a result, all new guaranteed student loans will be originated under the Federal Direct Loan Program. RIHEAA's role as a guaranty agency in the FFEL Program constitutes its single largest activity, and approximately 75% of the Authority's employees are allocated to the guaranty agency functions. The elimination of new loan originations will have a significant impact on the Authorities' ongoing operations.

Management continues to evaluate the impact of the Act. RISLA will continue to provide services for loans currently in its portfolio, including claims payments and reinsurance transactions, default prevention and aversion activities, and collections of defaulted student loans. RIHEAA believes it is difficult to predict the time period over which such services would be required, and to what extent these responsibilities would constitute a substantive activity for the Authority. RIHEAA currently anticipates that the period would be in the range of three to five years.

Due to the fact that all federally guaranteed student loans will be originated under the Federal Direct Loan Program, RISLA will no longer originate new federal Stafford or Plus loans. RISLA will continue to hold and administer its $705 million portfolio of federally guaranteed Stafford, Plus, and Consolidation loans, SAFRA may provide not for profit state based organizations like RISLA the opportunity to service Direct Student loans on behalf of the US Department of Education. RISLA's management is analyzing the possibility of Direct Loan servicing.

R.I. Housing and Mortgage Finance Corporation

As of June 30, 2010, the Corporation may borrow up to a maximum of $40,000,000 under one revolving loan agreement expiring in October 2011 and up to a maximum of $19,500,000 under an additional revolving loan agreement expiring in May 2011 and up to a maximum of $15,000,000 under an additional revolving loan agreement expiring in December 2010.

The Corporation is a party to financial instruments with off-balance sheet risk in connection with its commitments to provide financing. Such commitments expose the Corporation to credit risk in excess of the amounts recognized in the accompanying balance sheets. The Corporation's exposure to credit loss in the event of nonperformance by the borrowers is represented by the contractual amount of such instruments. Total credit exposure as a result of loan commitments at June 30, 2010 is $43,130,133.

Other Component Units

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

Note 13. Employer Pension Plans

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 Chapter 36-10 of the General Laws. 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, real estate funds and an EFT (exchange traded fund) commodity fund. 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 ERS 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 ERS 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, ASC Topic 820, *Fair Value Measurements and Disclosures,* requires private equity and real estate limited partnership general partners to value non-publicly traded assets at current fair value, taking into consideration the financial performance of the issuer, cash flow analysis, recent sales prices, market comparable transactions, a new round of financing, a change in economic conditions, and other pertinent information. 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 9.7% and 3.7%, respectively of the total reported fair value of all ERSRI investments at June 30, 2010. Of the underlying holdings within private equity investments, approximately 10% 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	20.78%	26.03%	16.19%
Plan members - state employees	8.75%	8.75%	8.75%
State contribution for teachers	7.32 and 7.76%		
Annual pension cost	$192,091	$3,591	$1,181
Contributions made - state employees	$123,548	$3,591	$1,181
Contributions made - teachers	$68,543		
Actuarial valuation date	June 30, 2008 (Restated)	June 30, 2007 (Restated)	June 30, 2008 (Restated)
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	21 years	22 years	21 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	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%
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	6/30/08	214,016	100%	0
	6/30/09	199,898	100%	0
	6/30/10	192,091	100%	0
State Police Retirement Benefits Trust	6/30/08	3,720	100%	0
	6/30/09	3,341	100%	0
	6/30/10	3,591	100%	0
Judicial Retirement Benefits Trust	6/30/08	2,128	100%	0
	6/30/09	1,700	100%	0
	6/30/10	1,181	100%	0

Funded Status and Funding Progress

The table below displays the funded status of each plan for the year ended June 30, 2009, 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	$ 2,646,081,020	$ 4,482,244,291	$ 1,836,163,271	59.00%	$ 605,872,460	303.10%
Teachers	4,008,931,337	6,900,963,108	2,892,031,771	58.10%	987,463,633	292.90%
SPRBT	60,232,045	75,480,005	15,247,960	79.80%	17,096,202	89.20%
JRBT	36,839,221	41,738,040	4,898,819	88.30%	6,843,454	71.60%

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, 2009 actuarial valuation:

	ERS			
	State Employees	Teachers	SPRBT	JRBT
Valuation Date	6/30/2009	6/30/2009	6/30/2009	6/30/2009
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	20 years	20 years	20 years	20 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 09/30/09 - 3.0% compounded members not eligible at 09/30/09 - 2.5% compounded Schedule B members – 2.5% compounded	Schedule A members eligible at 09/30/09 - 3.0% compounded members not eligible at 09/30/09 - 2.5% compounded Schedule B members – 2.5% compounded	$1,500 per annum	3.00% 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 employees' gross biweekly earnings. Total expenses by the institutions for such annuity contracts amounted to approximately $15,348,000 during the year ended June 30, 2010.

The Rhode Island Public Transit Authority has a defined benefit 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 2010 totaled $7,743,892. At January 1, 2010, the most recent valuation date, the total actuarial accrued liability was $88,349,703 and the actuarial value of assets was $45,904,451. The Authority contributed 100.00% of its annual pension cost for fiscal year 2010 and had a net pension obligation of $1,799,084 at June 30, 2010.

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

Note 14. Other Post-Employment Benefits

A. Plan Descriptions

The 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.

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 retiree 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 retiree 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 (excluding teachers) who retired on or before September 30, 2008 the fiscal 2010 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 $501.68 (the active rate plan).

(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 $218.54 for the individual plan, and the monthly premium for the Medicare HMO plan was $115 for the first six months of fiscal year 2010 and $142 thereafter. Retirees can choose between the two plans. The retiree's cost is then calculated on their years-of-service subsidy above.

Teachers who retired on or before September 30, 2008 receive the Tier I subsidy but no other State cost sharing.

For anyone (excluding teachers) 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 2010. 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.

For all teachers retiring on or after October 1, 2008, the Tier I subsidy ends and there is no other cost sharing by the State. Retired teachers may purchase coverage through the State.

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

B. 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.

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 (plan member) contributions to the plan. Contributions are recognized when made. Benefits (health care claims) and refunds are recognized when due and payable in accordance with the terms of the plan. A liability for incurred but not reported claims is determined based on past claims payment trends and is included in the State's financial statements. Working premium rates are determined by the State each fiscal year and are designed to fund current claims incurred during the fiscal year as well as the costs of administering the plan. For the year ended June 30, 2010, the Plan operated on a pay-as-you-go basis, and no provision has been made to fund future benefits to be provided to RIRHCBP members.

In fiscal year 2010 the State and other participating employers were not required to fund the Plans beyond the pay-as-you-go amount necessary to provide current benefits to retirees and administrative costs. For the fiscal year ended June 30, 2010, the State and other participating employers paid $38,434,000 into the Plans.

C. 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, 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	06/30/07	06/30/07	06/30/07	06/30/07	06/30/07
Annual required contribution as a percent of payroll	7.91%	N/A	11.64%	29.83%	116.91%
Annual required contribution	$ 45,824	$ 2,345	$ 1,127	$ 4,628	$ 1,861
Plus: Interest on net OPEB obligation at beginning of year	523	NA	66	209	13
Less: Adjustment to ARC	495	NA	62	197	13
Annual OPEB cost	45,852	2,345	1,131	4,640	1,861
Participating State and/or other employer contributions	33,504	2,345	173	2,268	144
Increase in OPEB obligation	12,348	0	958	2,372	1,717
Net OPEB obligation at beginning of year	14,677		1,853	5,850	378
Net OPEB obligation at end of year	$ 27,025	$ 0	$ 2,811	$ 8,222	$ 2,095

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation for 2010, 2009, and 2008 (the first year of GASB 45 implementation) were 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
	2010	45,852	73.07%	27,025
Teachers	2008	1,428	100.00%	-
	2009	2,180	100.00%	-
	2010	2,345	100.00%	-
Judges	2008	1,382	33.57%	918
	2009	1,109	15.34%	1,853
	2010	1,131	15.33%	2,811
State Police	2008	4,827	32.57%	3,255
	2009	4,609	43.55%	5,850
	2010	4,640	48.88%	8,222
Legislators	2008	285	21.05%	225
	2009	298	48.40%	378
	2010	1,861	7.72%	2,095

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

Rhode Island Retiree Health Care Benefit Plan	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)
State Employees	$ 0	$ 679,538	$ 679,538	0.0%	$ 626,145	108.5%
Teachers	0	10,243	10,243	0.0%	n/a	n/a
Judges	0	14,024	14,024	0.0%	9,888	141.8%
State Police	0	54,620	54,620	0.0%	15,977	341.9%
Legislators	0	29,764	29,764	0.0%	1,592	1869.6%

Covered payroll and the UAAL as a percentage of covered payroll is not presented for teachers since the required contribution by the State is for the Tier I subsidy for teachers who have elected to participate in the State's Retiree Health Care Benefit Plan.

D. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the 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 Annual Required Contributions for fiscal year 2010 was determined based on the June 30, 2007 valuation. The Unfunded Actuarial Accrued Liability (UAAL) was amortized by a level (principal and interest combined) percent of payroll contribution for each component unit employer. The UAAL was determined using the actuarial value of assets and actuarial accrued liability calculated as of the valuation date. The UAAL for all plans, except teachers, is being amortized over the remainder of a closed 30-year (or shorter) period from June 30, 2006. The remaining amortization period at June 30, 2007 is 29 years. The UAAL for teachers is being amortized over an 8-year period from June 30, 2007.

Plan changes effective for employees retiring after October 1, 2008 have been reflected in the actuarial valuation performed as of June 30, 2007.

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 (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), a health care cost trend assumption of 10% progressively declining to 4.5% after 8 years, and salary growth assumption rates ranging between 4.5% and 13.25%. Other assumptions, including those relating to rates of termination, rates of retirement, percent married, and retiree health care election rates, were based on the experience study for the Employees' Retirement System of Rhode Island as well as on anticipated experience changes in conjunction with the adopted retirement plan changes recently enacted through legislation.

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.

E. Other OPEB Plans

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, 2010, 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 year 2010, annual OPEB cost for the university and colleges was $3,742,063, and actual contributions made were $1,820,629. 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. Plan distributions are normally available to employees at the later of age 59 or retirement and mandatory distributions must commence once the individual reaches age 70½. The plan also allows for distributions for qualifying events such as termination, death or "unforeseeable emergency".

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

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

Note 16. Risk Management

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

The State has entered into agreements with commercial insurance companies for comprehensive insurance coverage 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. During Fiscal 2010, and the two preceding fiscal years, no settlements exceeded insured coverage limits.

The State also has a contract with an insurance company to provide health care benefits to active and retired employees. For coverage provided to active employees, the State retains the risk of loss. Retirees that are Medicare eligible may choose Medicare supplement coverage that is either premium based (State retains no risk of loss) or a self-insured plan option. Except for the premium based coverage provided to certain Medicare eligible retirees, 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, 2010 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				
Unpaid claims	$ 17,806	$ 232,147	$ 230,098	$ 19,855

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. 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	$ 14,725	$ 194	$ 14,919	$ (12,821)	$ 2,098
Loans to other funds	91,425		91,425	(91,425)	
Total assets	$ 106,150	$ 194	$ 106,344	$ (104,246)	$ 2,098
Liabilities					
Due to other funds	$ 10,467	$ 2,354	$ 12,821	$ (12,821)	$
Loans from other funds	88,963	2,462	91,425	(91,425)	
Total liabilities	$ 99,430	$ 4,816	$ 104,246	$ (104,246)	$
Program revenue					
General government	$ 24	$ 287,454	$ 287,478	$ (287,478)	
Human services		(130)	(130)	130	
Public safety		12,380	12,380	(12,380)	
Expenses					
General government	24	287,823	287,847	(287,847)	
Human services					
Public safety		11,881	11,881	(11,881)	
Net revenue (expenses)	$	$	$	$	$
Transfers					
Operating transfers in	$ 586,025	$	$ 586,025	$ (267,253)	$ 318,772
Operating transfers out	(261,473)	(5,780)	(267,253)	267,253	
Net transfers	$ 324,552	$ (5,780)	$ 318,772	$	$ 318,772

	Total Business-type Activities		Total	Eliminations	Internal Balances
Assets					
Due from other funds	$	$	$	$	$
Total assets	$	$	$	$	$
Liabilities					
Due to other funds	$ 2,098	$	$ 2,098	$	$ 2,098
Total liabilities	$ 2,098	$	$ 2,098	$	$ 2,098
Transfers					
Operating transfers in	$ 26,161	$	$ 26,161	$ (26,161)	$
Operating transfers out	(344,933)		(344,933)	26,161	(318,772)
Net transfers	$ (318,772)	$	$ (318,772)	$	$ (318,772)

B. Related Party Transactions

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

The State entered into a lease and operating agreement (the agreement) with the R.I. Airport Corporation (RIAC), 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, 2010 were as follows:

Guaranteed loans outstanding at June 30, 2010	$846,242,000
Loans guaranteed during the year	255,772,000
Guarantee claims paid during the year	22,956,000

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 $45,653,000 been made during the years ended June 30, 1998 through 2010.

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.

The Narragansett Bay Commission has approximately $323,000,000 of loans payable to the R.I. Clean Water Finance Agency.

C. Budgeting, Budgetary Control, and Legal Compliance

Budget Preparation

An annual budget is adopted on a basis consistent with generally accepted accounting principles. The budget encompasses the General 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 97.6 percent of estimated general revenues. The remaining 2.4 percent is contributed to the Budget Reserve Account until such account equals 3.8 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.

D. Significant Transactions with Component Units

The significant transactions with the discretely presented component units are presented (expressed in thousands) below:

Significant transactions between primary government and component units

	Expense	Description
Governmental activities		
General		
R.I. Higher Education Assistance Authority	$ 6,612	Operating assistance
R.I. Economic Development Corporation	11,032	Operating and capital assistance
University of Rhode Island	56,939	Operating assistance
Rhode Island College	38,003	Operating assistance
Community College of Rhode Island	43,296	Operating assistance
Central Falls School District	52,831	Operating assistance
R.I. Public Transit Authority	5,102	Operating assistance
ISTEA		
R.I. Public Transit Authority	42,490	Operating assistance
Bond Capital		
University of Rhode Island	13,054	Construction, improvement or purchase of assets
Certificates of Participation		
University of Rhode Island	5,313	Construction, improvement or purchase of assets
Total Governmental Activities	$ 274,672	

E. Individual Fund Deficits

The following Internal Service Funds had cumulative fund deficits at June 30, 2010:

- Central Utilities ($104,000)
- State Telecommunications ($356,000)
- Records Center ($115,000)
- Capitol Police ($15,000)

The deficits will be eliminated through charges for services in fiscal year 2011.

F. Restatements, Reclassifications and Other Changes in Presentation

	Governmental Activities	Discretely Presented Component Units	Governmental Funds
June 30, 2009			
Net assets as previously reported	$ 835,635	$ 2,253,527	
Fund balance as previously reported			$ 889,307
Correction of errors	(400)	138	
Change in RI Public Laws	9,186	(9,186)	9,186
June 30, 2009 net assets/fund balance as restated	$ 844,421	$ 2,244,479	$ 898,493

The beginning net assets of certain discretely presented component units decreased by an aggregate amount of approximately $9,048,000. This decrease primarily consists of a $9,186,000 decrease in net assets for URI ($5,735,000), RIC ($1,294,000) and CCRI ($2,157,000) due to enactment of a provision in the RI Public Laws that changed the manner in which appropriations from the RI Capital Fund to the colleges are recorded as revenue. Additionally, the beginning net assets of Governmental Activities within the government-wide financial statements and the beginning fund balance of the Statement of Revenues, Expenditures, and Changes in Fund Balances in the fund financial statements were increased by $9,186,000 to reflect the same provision in the RI Public Laws.

The beginning net assets of the RIPTCA increased by $138,000 due to the correction of an error in the amount reported as due to the primary government.

The beginning balance for land was reduced by $400,000 because several parcels of land were recorded twice.

In a prior year, expenditures of $1,998,000 were recorded in the RI Clean Water Fund (a capital projects fund) that should have been recorded in the Bond Capital Fund. The correction was made in FY2010, as an adjustment to beginning fund balance in each of the funds; however, there is no aggregate effect on beginning fund balance.

Note 18. Subsequent Events

Primary Government

The State sold $350 million of General Obligation Tax Anticipation Notes in July 2010. The notes bear interest at 2.5% and are due on June 30, 2011.

Twin River is one of the two licensed video lottery facilities of the State. In June of 2009, the operator of Twin River, UTGR, Inc., d/b/a Twin River, and their investors BLB Management Services, Inc and BLB Holdings, Inc commenced a Chapter 11 bankruptcy proceeding by filing voluntary petitions for relief. In June of 2010, the United States Bankruptcy Court approved the Second Amended Joint Plan of Reorganization. A facility permit application which had been filed by UTGR, Inc. with the Department of Business Regulation seeking approval for a change of ownership and management structure of UTGR was approved on October 18, 2010. After conducting its due diligence, the Division of Lotteries approved UTGR's application for a video lottery retail license and issued that license to UTGR on November 4, 2010. On or about November 5, 2010, the Debtors' Second Amended Joint Plan of Reorganization became effective allowing the Debtors to emerge from bankruptcy.

Pursuant to legislation enacted by the General Assembly, the State established a trust on December 16, 2010 to accumulate assets and pay benefits and other costs associated with the Rhode Island Retiree Health Care Benefit Plan (see Note 14 for information about the RIRHCBP). In addition, effective in fiscal year 2011, all participating employers are required to fully fund the actuarially determined annual required contribution to the RIRHCBP.

Component Units

In July and August 2010, the R.I. Student Loan Authority (RISLA) retired bonds from various Student Loan Program Revenue Bonds. The Bonds were retired at a discount ranging from 85% to 95% of the Bonds stated par value. $158,600,000 of the outstanding bonds were retired, resulting in a gain of $8,246,000.

On September 2, 2010, the RISLA sold to the US Department of Education (DOE) participating interest in loans under the DOE's Loan Purchase Commitment Program. RISLA sold to DOE loans with a principal balance of $141,534,497 and accrued interest of $3,046,013.

On October 1, 2010 R.I. Housing and Mortgage Finance Corporation (RIHMFC) instructed its trustees to redeem the Homeownership Opportunity Bonds in the amount of $24,785,000.

In November 2010, the Rhode Island Economic Development Corporation issued $75 million of taxable revenue bonds pursuant to the Job Creation Guaranty Program. The bond proceeds are loaned to 38 Studios, LLC, a company founded to develop video game products. The bonds are secured by a capital reserve fund. The Governor is required to request an appropriation from the General Assembly to restore the capital reserve fund in the event of a deficiency.

On November 4, 2010 the Rhode Island Housing & Mortgage Finance Corporation (RIHMFC) issued $50,000,000 of single family Home Funding Bonds. Also, on October 1, 2010 and December 1, 2010 RIHMFC redeemed $24,785,000 and $170,000, respectively, of outstanding bonds.

On December 16, 2010, the Rhode Island Student Loan Authority (RISLA) issued $25,570,000 in fixed rate bonds to fund its supplemental student loan program.

State of Rhode Island
and Providence Plantations

REQUIRED SUPPEMENTARY INFORMATION

June 30, 2010

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, 2010
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Revenues:				
General Revenues:				
Personal Income Tax	$ 963,200	$ 918,500	$ 898,113	$ (20,387)
General Business Taxes:				
Business Corporations	113,000	115,000	146,835	31,835
Public Utilities Gross Earnings	115,000	97,000	95,793	(1,207)
Financial Institutions	3,750	2,900	2,319	(581)
Insurance Companies	81,900	98,000	95,921	(2,079)
Bank Deposits	1,730	2,200	1,860	(340)
Health Care Provider Assessment	36,127	40,000	40,254	254
Sales and Use Taxes:				
Sales and Use	815,000	787,500	803,395	15,895
Motor Vehicle	50,400	49,000	48,285	(715)
Motor Fuel	920	1,000	969	(31)
Cigarettes	148,000	139,600	138,315	(1,285)
Alcohol	10,900	11,500	11,269	(231)
Other Taxes:				
Inheritance and Gift	29,400	28,000	29,057	1,057
Racing and Athletics	2,100	1,500	1,492	(8)
Realty Transfer Tax	7,200	6,900	6,994	94
Total Taxes *(1)*	2,378,627	2,298,600	2,320,871	22,271
Departmental Revenue	335,532	332,243	333,128	885
Total Taxes and Departmental Revenue	2,714,159	2,630,843	2,653,999	23,156
Other Sources:				
Gas Tax Transfer			24	24
Other Miscellaneous	9,000	34,908	12,467	(22,441)
Lottery	348,700	347,700	344,673	(3,027)
Unclaimed Property	5,000	5,600	5,867	267
Total Other Sources	362,700	388,208	363,031	(25,177)
Total General Revenues	3,076,859	3,019,051	3,017,030	(2,021)
Federal Revenues	2,253,534	2,468,101	2,275,606	(192,495)
Restricted Revenues	160,230	187,874	149,638	(38,236)
Other Revenues	66,068	67,765	67,628	(137)
Total Revenues *(2)*	5,556,691	5,742,791	5,509,902	(232,889)
Expenditures *(4):*				
General government	809,351	826,180	745,948	80,232
Human services	2,831,800	2,958,314	2,885,024	73,290
Education	1,338,832	1,318,542	1,259,271	59,271
Public safety	408,470	411,196	395,298	15,898
Natural resources	91,720	96,295	67,493	28,802
Total Expenditures *(2)*	5,480,173	5,610,527	5,353,034	$ 257,493
Transfer of Excess Budget Reserve to RI Capital Fund			38,778	
Total Expenditures	$ 5,480,173	$ 5,610,527	5,391,812	
Change in Fund Balance			118,090	
Fund balance - beginning			69,959	
Fund balance - ending			$ 188,049	

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, 2010
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Expenditures by Source:				
General Revenues	$ 3,000,341	$ 2,886,787	$ 2,863,575	$ 23,212
Federal Funds	2,253,534	2,468,101	2,276,732	191,369
Restricted Receipts	160,230	187,874	150,910	36,964
Other Funds	66,068	67,765	61,817	5,948
	$ 5,480,173	$ 5,610,527	$ 5,353,034	$ 257,493

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

Budgeted Surplus:

Total Revenue - Final Budget	$ 5,742,791	
Total Expenditures - Final Budget	5,610,527	
Final Budget - Projected Surplus (3)		$ 132,264
Final Budget and Actual - Results		
Total Revenues - Variance (Actual Revenue less than Budget)	$ (232,889)	
Total Expenditures - Variance (Actual Expenditures less than Budget)	257,493	
Surplus resulting from operations compared to final budget		$ 24,604
Total General Fund Surplus - Fiscal Year Ended June 30, 2010		$ 156,868
Less:Transfer of Excess Budget Reserve to RICAP Fund		(38,778)
Net Change in General Fund - Fund Balance		$ 118,090
Fund Balance, Beginning		69,959
Fund Balance, Ending		$ 188,049

Notes:

(1) Transfers from the Historical Tax Credit Special Revenue Fund reported as "Other Financing Sources" on the General Fund have been allocated to General Revenue Tax Categories on this schedule to align with the State's legally adopted budget format.

(2) Certain revenue and expenditure amounts classified as "Other Financing Sources (Uses)" have been reclassified within the budgetary comparison schedule to align with the State's legally adopted budgetary format.

(3) RI General Law section 35-3-20.1, titled "Limitation on state spending", mandates that expenditure appropriations shall not be greater than 97.6% of estimated general revenue for the fiscal year ending June 30, 2010.

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

General government	$ 168,048
Human services	606
Education	20,197
Public safety	438
Natural resources	66
	$ 189,355

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, 2010
(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	$ 140,800	$ 133,920	$ 137,266	$ 3,346
Departmental restricted revenue	1,500	1,000	719	(281)
Federal grants	381,348	308,303	242,443	(65,860)
Other revenues	4,913	1,321	3,559	2,238
Total revenues	528,561	444,544	383,987	(60,557)
Other financing sources:				
Operating transfers in			35,530	35,530
Total revenues and other financing sources	528,561	444,544	419,517	(25,027)
Expenditures:				
Central Management				
Gasoline Tax	1,906	1,184	688	496
Federal Funds	17,204	10,523	3,734	6,789
Total - Central Management	19,110	11,707	4,422	7,285
Management and Budget				
Gasoline Tax	1,186	1,357	354	1,003
Total - Management and Budget	1,186	1,357	354	1,003
Infrastructure - Engineering				
Gasoline Tax	56,396	51,568	51,186	382
State Infrastructure Bank	1,388	1,388		1,388
Land Sale Revenue	3,200	2,000	1,156	844
Highway Logo Program	100	100		100
Federal Funds	364,145	297,780	238,562	59,218
Restricted Receipts	1,500	1,000	757	243
Subtotal - Infrastructure - Engineering	426,729	353,836	291,661	62,175
State Match - FHWA			35,530	(35,530)
Total - Infrastructure - Engineering	426,729	353,836	327,191	26,645
Infrastructure - Maintenance				
Gasoline Tax	36,750	37,802	35,848	1,954
Outdoor Advertising	200	325		325
Radio System Upgrade		(2,532)		(2,532)
Nonland Surplus	25	40	(17)	57
Total - Infrastructure - Maintenance	36,975	35,635	35,831	(196)
Total Expenditures	484,000	402,535	367,798	34,737
Other financing uses:				
Transfers to other funds				
Gas tax			45,996	
USTF fee			2,102	
Other			27	
Total expenditures and other financing uses			415,923	
Net change in fund balance			3,594	
Fund balance - beginning			35,400	
Fund balance - ending			$ 38,994	

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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)
06/30/2009		$ 6,655,012	$ 11,383,207	$ 4,728,195	58.5%	$ 1,593,336	296.7%
06/30/2008	*	6,745,323	10,963,521	4,218,198	61.5%	1,573,398	268.1%
06/30/2007		6,231,410	11,083,014	4,851,604	56.2%	1,619,417	299.6%

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)
06/30/2009	$ 60,232	$ 75,480	$ 15,248	79.8%	$ 17,096	89.2%
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%

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)
06/30/2009		$ 36,839	$ 41,738	$ 4,899	88.3%	$ 6,843	71.6%
06/30/2008	*	34,670	38,116	3,445	91.0%	6,602	52.2%
06/30/2007		29,631	35,355	5,725	83.8%	6,452	88.7%

* Restated

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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%

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

The 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 schedule for the general fund is available on the State Controller's website, http://controller.admin.ri.gov/index.php.

Schedules of Funding Progress- Pensions

Changes affecting the June 30, 2009 actuarial valuation – The June 30, 2009 actuarial valuation for the Employees' Retirement System and the Judicial Retirement Benefit Trust reflect the enactment of Article 16 of Chapter 23 of the 2010 Public Laws which amended the laws governing benefits for state employees, teachers and judges not eligible to retire by June 12, 2010.

Changes affecting the June 30, 2008 actuarial valuation – The June 30, 2008 valuation of the Employees' Retirement System and the Judicial Benefit Trust reflects the enactment of H5983Aaa, Article 7, Substitute A to the laws governing benefits for state employees and teachers not eligible to retire by September 30, 2009 and judges after July 1, 2009.

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 judge and legislator plans as well as the benefits received upon attainment of Medicare eligibility and does not reflect a change in benefit provisions for those employees. 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.

Changes in actuarial assumptions included in the June 30, 2007 valuation include changes in demographic assumptions adopted in the June 30, 2006 valuations for the Employees' Retirement System, the State Police Retirement Benefits 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%.

Schedule of Expenditures of Federal Awards

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, 2010

Federal Grantor Program Title	CFDA Number		Total Expenditures
U.S. Department of Agriculture			
Plant and Animal Disease, Pest Control, and Animal Care	10.025	$	220,548
Avian Influenza Indemnity Program	10.029		22,488
Federal-State Marketing Improvement Program	10.156		31,035
Inspection Grading and Standardization	10.162		12,622
Market Protection and Promotion	10.163		264
Specialty Crop Block Grant Program	10.169		232,715
Very Low to Moderate Income Housing Loans (See Note 2)	10.410		3,234,429
Rural Housing Preservation Grants	10.433		21,037
State Mediation Grants	10.435		33,902
Food Distribution (See Note 2)	10.550		3,168,630
SNAP Cluster:			
Supplemental Nutrition Assistance Program (SNAP) (See Note 8)	10.551		225,310,144
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561		8,514,738
ARRA -State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561		487,006
Child Nutrition Cluster:			
School Breakfast Program	10.553		6,272,184
National School Lunch Program	10.555		25,097,046
Special Milk Program for Children	10.556		79,504
Summer Food Service Program for Children	10.559		819,031
Special Supplemental Nutrition Program for Women, Infants, and Children (See Note 4)	10.557		24,293,374
Child and Adult Care Food Program	10.558		6,787,525
State Administrative Expenses for Child Nutrition	10.560		881,109
Emergency Food Assistance Cluster:			
Emergency Food Assistance Program (Administrative Costs)	10.568		199,262
ARRA -Emergency Food Assistance Program (Administrative Costs)	10.568		90,459
Emergency Food Assistance Program (Food Commodities) (See Note 2)	10.569		2,199,286
WIC Farmers' Market Nutrition Program (FMNP)	10.572		149,429
Team Nutrition Grants	10.574		223,750
Senior Farmers Market Nutrition Program	10.576		34,955
ARRA-WIC Grants To States (WGS)	10.578		10,993
ARRA-Child Nutrition Discretionary Grants Limited Availability	10.579		267,212
Fresh Fruit and Vegetable Program	10.582		781,623
Cooperative Forestry Assistance	10.664		507,133
Forest Legacy Program	10.676		448,608
Emergency Watershed Protection Program	10.923		130,679
Total U.S. Department of Agriculture		$	310,562,720
U.S. Department of Commerce			
Personal Census Search	11.006	$	96
Economic Development - Support for Planning Organizations	11.302		110,810
Public Works and Economic Development Cluster:			
Economic Adjustment Assistance (See Note 2)	11.307		13,503,208
ARRA - Economic Adjustment Assistance (See Note 2)	11.307		1,155,988
Interjurisdictional Fisheries Act of 1986	11.407		108,163
Sea Grant Support	11.417		58,224
Coastal Zone Management Administration Awards	11.419		1,459,013
Coastal Zone Management Estuarine Research Reserves	11.420		1,629,567
Marine Fisheries Initiative	11.433		397,874
Habitat Conservation	11.463		276,855
ARRA - Habitat Conservation	11.463		244,893
Unallied Science Program	11.472		219,523
Atlantic Coastal Fisheries Cooperative Management Act	11.474		364,177
State Broadband Data and Development Grant Program	11.558		494,792
Total U.S. Department of Commerce		$	20,023,183

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	$	183,925
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113		257,019
Civil Defense - Architect/Engineer Faculty Development	12.300		112,652
National Guard Military Operations and Maintenance (O&M) Projects	12.401		8,782,217
ARRA - National Guard Military Operations and Maintenance (O&M) Projects	12.401		365,006
Total U.S. Department of Defense		$	9,700,819
U.S. Department of Housing and Urban Development			
Mortgage Insurance - Homes (See Note 2)	14.117	$	82,062,864
Home Equity Conversion Mortgages (See Note 2)	14.183		513,000
Qualified Participating Entities (QPE) Risk Sharing (See Note 2)	14.189		9,379,000
Section 8 Project-Based Cluster:			
Section 8 Housing Assistance Payments Program - Special Allocations	14.195		131,996,724
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856		649,523
CDBG - State-Administered Small Cities Program Cluster:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228		14,657,566
ARRA - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii – (Recovery Act Funded)	14.255		658,908
Emergency Shelter Grants Program	14.231		323,758
Supportive Housing Program	14.235		3,863,539
Shelter Plus Care	14.238		1,167,265
HOME Investment Partnerships Program	14.239		7,362,051
Housing Opportunities for Persons with AIDS	14.241		676,541
ARRA - Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	14.257		651,333
ARRA - Tax Credit Assistance Program (Recovery Act Funded)	14.258		4,787,926
Fair Housing Assistance Program - State and Local	14.401		213,864
Housing Voucher Cluster:			
Section 8 Housing Choice Vouchers	14.871		15,988,660
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		481,140
Total U.S. Department of Housing and Urban Development		$	275,433,662
U.S. Department of Interior			
Fish and Wildlife Cluster:			
Sport Fish Restoration Program	15.605	$	2,796,665
Wildlife Restoration	15.611		766,648
Cooperative Endangered Species Conservation Fund	15.615		86,520
Clean Vessel Act	15.616		14,703
Sportfishing and Boating Safety Act	15.622		25
State Wildlife Grants	15.634		710,244
Historic Preservation Fund Grants-In-Aid	15.904		535,976
Outdoor Recreation - Acquisition, Development and Planning	15.916		925,951
Save America's Treasures	15.929		53,524
Total U.S. Department of Interior		$	5,890,256

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Federal Grantor Program Title	CFDA Number		Total Expenditures
U.S. Department of Justice			
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202	$	125,143
Comprehensive Approaches to Sex Offender Management Discretionary Grant (CASOM)	16.203		30,233
Juvenile Accountability Block Grants	16.523		120,677
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540		603,393
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541		122,413
Missing Children's Assistance	16.543		138,327
Victims of Child Abuse	16.547		56,154
State Justice Statistics Program for Statistical Analysis Centers	16.550		49,515
National Criminal History Improvement Program (NCHIP)	16.554		125,666
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560		111,542
Crime Victim Assistance	16.575		1,714,209
Crime Victim Compensation	16.576		658,904
Edward Byrne Memorial Formula Grant Program	16.579		683,434
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		36,490
Drug Court Discretionary Grant Program	16.585		173,786
Violence Against Women Formula Grants	16.588		1,225,501
ARRA - Violence Against Women Formula Grants	16.588		311,664
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590		256,171
Residential Substance Abuse Treatment for State Prisoners	16.593		61,322
State Criminal Alien Assistance Program	16.606		852,426
Enforcing Underage Drinking Laws Program	16.727		128,304
Edward Byrne Memorial Justice Assistance Grant Program	16.738		659,281
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742		126,655
Anti-Gang Initiative	16.744		7
Congressionally Recommended Awards	16.753		(2,986)
ARRA - Recovery Act - Internet Crimes against Children Task Force Program (ICAC)	16.800		123,596
ARRA - Recovery Act - State Victim Assistance Formula Grant Program	16.801		75,782
ARRA - Recovery Act - State Victim Compensation Formula Grant Program	16.802		185,862
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803		922,118
Total U.S. Department of Justice		$	9,675,589
U.S. Department of Labor			
Labor Force Statistics	17.002	$	855,680
Compensation and Working Conditions	17.005		16,139
Registered Apprenticeship and Other Training	17.201		56,732
Employment Service Cluster:			
Employment Service	17.207		2,907,392
ARRA - Employment Service	17.207		826,893
Disabled Veterans' Outreach Program (DVOP)	17.801		196,658
Local Veterans' Employment Representative Program (LVER)	17.804		261,915
Unemployment Insurance (See Note 5)	17.225		503,990,455
ARRA - Unemployment Insurance (See Note 5)	17.225		282,622,769
Senior Community Service Employment Program	17.235		528,869
ARRA - Senior Community Service Employment Program	17.235		118,560
Trade Adjustment Assistance	17.245		3,969,350
Welfare-to-Work Grants to States and Localities	17.253		1,179
WIA Cluster:			
WIA Adult Program	17.258		2,745,107
ARRA - WIA Adult Program	17.258		1,153,974
WIA Youth Activities	17.259		4,241,620
ARRA - WIA Youth Activities	17.259		3,696,026
WIA Dislocated Workers	17.260		5,612,613
ARRA - WIA Dislocated Workers	17.260		2,694,051
WIA Pilots, Demonstrations, and Research Projects	17.261		(8)
Employment and Training Administration Evaluations	17.262		42,505
Work Incentive Grants	17.266		24,744
Consultation Agreements	17.504		430,517
Total U.S. Department of Labor		$	816,993,740

Federal Grantor Program Title	CFDA Number		Total Expenditures
U.S. Department of Transportation			
Airport Improvement Program	20.106	$	16,197,484
Highway Planning and Construction Cluster:			
Highway Planning and Construction	20.205		169,788,168
ARRA - Highway Planning and Construction	20.205		65,264,681
Motor Carrier Safety	20.217		150,724
National Motor Carrier Safety	20.218		887,005
Performance and Registration Information Systems Management	20.231		198,836
Commercial Driver's License Program Improvement Grant	20.232		300,116
Federal Transit Cluster:			
Federal Transit - Capital Investment Grants	20.500		12,712,981
Federal Transit - Formula Grants	20.507		31,111,389
Federal Transit Managerial Training Grants	20.503		1,685,763
Federal Transit - Metropolitan Planning Grants	20.505		244,089
Urban Mass Transportation Demonstration Grants	20.506		29,300
Formula Grants for Other Than Urbanized Areas	20.509		81,349
State Planning and Research	20.515		15,109
Transit Services Programs Cluster:			
Job Access-Reverse Commute Program	20.516		147,451
New Freedom Program	20.521		299,083
Clean Fuels	20.519		1,791,575
Highway Safety Cluster:			
State and Community Highway Safety	20.600		1,932,140
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601		535,659
Occupant Protection	20.602		147,694
Safety Belt Performance Grants	20.609		83,742
State Traffic Safety Information System Improvements Grants	20.610		403,690
Incentive Grant Program to Prohibit Racial Profiling	20.611		231,569
Incentive Grant Program to Increase Motorcyclist Safety	20.612		100,262
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608		582,869
National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants	20.614		164,091
Pipeline Safety	20.700		72,103
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		31,391
Total U.S. Department of Transportation		$	305,190,313
Equal Opportunity Employment Commission			
Employment Discrimination - Title VII of the Civil Rights Act of 1964	30.001	$	27,812
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002		92,364
Total Equal Opportunity Employment Commission		$	120,176
General Services Administration			
Donation of Federal Surplus Personal Property (See Note 2)	39.003	$	34,131
Total General Services Administration		$	34,131
National Foundation on the Arts and the Humanities			
Promotion of the Arts Grants to Organizations and Individuals	45.024	$	20,185
Promotion of the Arts - Partnership Agreements	45.025		825,606
ARRA - Promotion of the Arts - Partnership Agreements	45.025		291,500
Promotion of the Humanities Federal/State Partnership	45.129		2,894
Grants to States	45.310		919,540
National Leadership Grants	45.312		29,610
Total National Foundation on the Arts and the Humanities		$	2,089,335

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2010

Federal Grantor Program Title	CFDA Number		Total Expenditures
National Science Foundation			
Computer and Information Science and Engineering	47.070	$	9,122
Education and Human Resources	47.076		76,783
Office of Experimental Program to Stimulate Competitive Research	47.081		6,472
Total National Science Foundation		$	92,377
U.S. Department of Veterans Affairs			
Grants to States for Construction of State Home Facilities	64.005	$	466,473
Veterans Domiciliary Care	64.008		5,870,092
Veterans Housing-Guaranteed and Insured Loans (See Note 2)	64.114		497,417
All-Volunteer Force Educational Assistance	64.124		51,362
State Cemetery Grants	64.203		209,327
Total U.S. Department of Veterans Affairs		$	7,094,671
Environmental Protection Agency			
Air Pollution Control Program Support	66.001	$	749,312
State Indoor Radon Grants	66.032		301,089
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034		188,485
State Clean Diesel Grant Program	66.040		8,620
ARRA - State Clean Diesel Grant Program	66.040		47,945
State Public Water System Supervision	66.432		405,757
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	66.436		47,552
Water Quality Management Planning	66.454		84,187
ARRA - Water Quality Management Planning	66.454		36,713
National Estuary Program	66.456		125,172
Capitalization Grants for Clean Water State Revolving Funds	66.458		8,574,051
Capitalization Grants for Drinking Water State Revolving Funds	66.468		11,044,102
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471		8,347
Beach Monitoring and Notification Program Implementation Grants	66.472		216,306
Water Protection Grants to the States	66.474		27,979
Performance Partnership Grants	66.605		3,657,006
Surveys, Studies, Investigations and Special Purpose Grants	66.606		(3,552)
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701		223,196
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707		246,066
Multi-Media Capacity Building Grants for States and Tribes	66.709		10,686
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802		890,740
State and Tribal Underground Storage Tanks Program	66.804		58,665
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805		607,717
ARRA - Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805		255,884
Solid Waste Management Assistance Grants	66.808		66,301
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809		110,458
State and Tribal Response Program Grants	66.817		1,022,094
Brownfields Assessment and Cleanup Cooperative Agreements	66.818		494,062
ARRA - Brownfields Assessment and Cleanup Cooperative Agreements	66.818		25,544
Environmental Policy and State Innovation Grants	66.940		162,246
Total Environmental Protection Agency		$	29,692,730

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Federal Grantor Program Title	CFDA Number		Total Expenditures
U.S. Department of Energy			
State Energy Program	81.041	$	170,388
ARRA - State Energy Program	81.041		337,147
Weatherization Assistance for Low-Income Persons	81.042		1,547,556
ARRA - Weatherization Assistance for Low-Income Persons	81.042		3,830,207
University Nuclear Science and Reactor Support	81.114		10,189
Nuclear Energy Research, Development and Demonstration	81.121		120,003
ARRA - Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122		43,366
ARRA - Energy Efficient Appliance Rebate Program (EEARP)	81.127		916,879
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128		126,579
Total U.S. Department of Energy		$	7,102,314
U.S. Department of Education			
Adult Education - State Grant Program	84.002	$	2,056,935
Student Financial Assistance Cluster: (See Note 6)			
Federal Supplemental Educational Opportunity Grants	84.007		2,461,821
Federal Family Education Loans (See Note 2)	84.032		48,457,103
Federal Work-Study Program	84.033		1,816,389
ARRA - Federal Work-Study Program	84.033		170,988
Federal Perkins Loan Program - Federal Capital Contributions (See Note 2)	84.038		15,502,537
Federal Pell Grant Program	84.063		40,755,881
Federal Direct Student Loans (See Note 2)	84.268		101,554,731
Academic Competitiveness Grants	84.375		1,098,585
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010		50,829,170
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389		17,051,328
Title I Program for Neglected and Delinquent Children	84.013		662,021
Special Education Cluster:			
Special Education - Grants to States (IDEA Part B)	84.027		41,635,026
ARRA - Special Education - Grants to States (IDEA Part B), Recovery Act	84.391		20,150,999
Special Education - Preschool Grants (IDEA Preschool)	84.173		1,577,788
ARRA - Special Education - Preschool Grants (IDEA Preschool), Recovery Act	84.392		621,921
Federal Family Education Loans (Guaranty Agency) (See Note 2)	84.032		1,835,431,359
TRIO Cluster:			
TRIO-Student Support Services	84.042		692,715
TRIO-Talent Search	84.044		438,657
TRIO-Upward Bound	84.047		667,651
TRIO-Educational Opportunity Centers	84.066		767,593
Vocational Education - Basic Grants to States	84.048		5,519,590
Leveraging Educational Assistance Partnership	84.069		377,151
Vocational Rehabilitation Cluster:			
Rehabilitation Services -Vocational Rehabilitation Grants to States	84.126		12,437,020
ARRA - Rehabilitation Services -Vocational Rehabilitation Grants to States, Recovery Act	84.390		264,311
National Institute on Disability and Rehabilitation Research	84.133		46,262
Independent Living Cluster:			
Independent Living - State Grants	84.169		290,015
ARRA - Independent Living - State Grants, Recovery Act	84.398		241,516
Independent Living Services for Older Individuals Who Are Blind Cluster			
Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	84.177		11,781
Early Intervention Services (IDEA) Cluster:			
Special Education - Grants for Infants and Families	84.181		840,898
ARRA - Special Education - Grants for Infants and Families	84.393		358,682

Federal Grantor Program Title	CFDA Number	Total Expenditures
Safe and Drug-Free Schools and Communities - National Programs	84.184	445,972
Byrd Honors Scholarships	84.185	144,000
Safe and Drug-Free Schools and Communities - State Grants	84.186	1,527,847
Supported Employment Services for Individuals with Severe Disabilities	84.187	368,048
Education of Homeless Children and Youth Cluster:		
Education of Homeless Children and Youth	84.196	201,744
ARRA - Education of Homeless Children and Youth, Recovery Act	84.387	59,406
Even Start - State Educational Agencies	84.213	297,609
Fund for the Improvement of Education	84.215	404,131
Assistive Technology	84.224	385,177
Tech-Prep Education	84.243	28,013
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265	14,765
School to Work Opportunities	84.278	1,089
Twenty-First Century Community Learning Centers	84.287	6,088,138
State Grants for Innovative Programs	84.298	14,925
Educational Technology State Grants Cluster:		
Education Technology State Grants (Enhancing Education Through Technology Program)	84.318	1,476,132
ARRA - Education Technology State Grants, Recovery Act	84.386	392,350
Special Education - State Personnel Development	84.323	706,146
Research in Special Education	84.324	229,181
Special Education-Personnel Development to Improve Services and Results for Children with Disabilities	84.325	326,605
Special Education-Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	79,768
Advanced Placement Program	84.330	16,212
Grants to States for Incarcerated Youth Offenders	84.331	64,930
Comprehensive School Reform Demonstration	84.332	48,230
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	2,402,583
Teacher Quality Partnership Grants Cluster:		
Teacher Quality Partnership Grants	84.336	1,024,068
Reading First State Grants	84.357	927,847
English Language Acquisition Grants	84.365	1,664,265
Mathematics and Science Partnerships	84.366	1,044,560
Improving Teacher Quality State Grants	84.367	13,111,897
Grants for Enhanced Assessment Instruments	84.368	(2,063)
Grants for State Assessments and Related Activities	84.369	3,605,895
Statewide Data Systems Cluster:		
Statewide Data Systems	84.372	32,139
National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	488,500
School Improvement Grants Cluster:		
School Improvement Grants	84.377	1,110,222
College Access Challenge Grant Program	84.378	257,623
State Fiscal Stabilization Fund (SFSF) Cluster:		
ARRA - SFSF - Education State Grants, Recovery Act	84.394	44,182,425
ARRA - SFSF - Government Services, Recovery Act	84.397	9,712,212
ARRA - State Fiscal Stabilization Fund (SFSF) - Investing in Innovation (i3) Fund, Recovery Act	84.396	44,758
National Writing Project	84.928	69,099
Hurricane Education Recovery	84.938	8,380
Total U.S. Department of Education		$ 2,297,793,252

Federal Grantor Program Title	CFDA Number		Total Expenditures
Elections Assistance Commission			
Help America Vote Act Requirements Payments	90.401	$	507,102
Total Elections Assistance Commission		$	507,102
U.S. Department of Health and Human Services			
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006	$	186,969
Public Awareness Campaigns on Embryo Adoption	93.007		23,745
Special Programs for the Aging-Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041		24,824
Special Programs for the Aging-Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042		80,811
Special Programs for the Aging-Title III, Part D - Disease Prevention and Health Promotion Services	93.043		91,832
Aging Cluster:			
Special Programs for the Aging-Title III, Part B - Grants for Supportive Services and Senior Centers	93.044		2,606,940
Special Programs for the Aging-Title III, Part C - Nutrition Services	93.045		2,660,693
Nutrition Services Incentive Program	93.053		627,109
ARRA -Aging Home-Delivered Nutrition Services for States	93.705		160,000
ARRA - Aging Congregate Nutrition Services for States	93.707		325,000
Special Programs for the Aging-Title IV- and Title II - Discretionary Projects	93.048		341,527
Alzheimer's Disease Demonstration Grants to States	93.051		55,732
National Family Caregiver Support, Title III, Part E	93.052		801,645
Centers for Genomics and Public Health	93.063		13,726
Public Health Emergency Preparedness (See Note 2)	93.069		16,155,394
Medicare Enrollment Assistance Program	93.071		77,272
Lifespan Respite Care Program	93.072		6,290
Food and Drug Administration Research	93.103		101,564
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104		1,575,328
Health Education Assistance Loans	93.108		97,968
Maternal and Child Health Federal Consolidated Programs	93.110		483,457
Environmental Health	93.113		111,779
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		381,980
Emergency Medical Services for Children	93.127		95,497
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130		103,108
Injury Prevention and Control Research and State and Community Based Programs	93.136		368,646
Projects for Assistance in Transition from Homelessness (PATH)	93.150		299,705
Grants to States for Loan Repayment Program	93.165		116
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197		882,939
Family Planning - Services	93.217		1,518,602
Consolidated Knowledge Development and Application (KD&A) Program	93.230		3,788,241
Traumatic Brain Injury State Demonstration Grant Program	93.234		88,440
Grants for Dental Public Health Residency Training	93.236		73,263
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		1,300,948

Federal Grantor Program Title	CFDA Number	Total Expenditures
Universal Newborn Hearing Screening	93.251	100,024
Immunization Cluster		
Immunization Grants (See Note 2)	93.268	11,536,111
ARRA - Immunization Grants (See Note 2)	93.712	382,730
Substance Abuse and Mental Health Services-Access to Recovery	93.275	4,055,552
Drug Abuse National Research Service Awards for Research Training	93.278	244,174
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	7,891,484
Student Financial Assistance Cluster: (See Note 6)		
Health Professions Student Loans, Including Primary Care Loans / Loans for Disadvantaged Students (See Note 2)	93.342	1,811,192
Nursing Student Loans (See Note 2)	93.364	1,294,314
Cancer Detection and Diagnosis Research	93.394	64,715
Promoting Safe and Stable Families	93.556	1,361,354
TANF Cluster:		
Temporary Assistance for Needy Families	93.558	71,987,478
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families - State Programs	93.714	433,099
Child Support Enforcement	93.563	7,934,819
ARRA - Child Support Enforcement	93.563	105,136
Refugee and Entrant Assistance - State Administered Programs	93.566	522,933
Low-Income Home Energy Assistance	93.568	32,161,052
CSBG Cluster:		
Community Services Block Grant	93.569	3,902,728
ARRA - Community Services Block Grant	93.710	3,375,048
CCDF Cluster:		
Child Care and Development Block Grant	93.575	13,099,166
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	11,573,023
ARRA - Child Care and Development Block Grant	93.713	4,616,697
Refugee and Entrant Assistance - Discretionary Grants	93.576	48,881
State Court Improvement Program	93.586	276,993
Grants to States for Access and Visitation Programs	93.597	102,572
Chafee Education and Training Vouchers Program (ETV)	93.599	367,776
Head Start	93.600	121,861
Adoption Incentive Payments	93.603	208,000
Voting Access for Individuals with Disabilities - Grants to States	93.617	39,515
Developmental Disabilities Basic Support and Advocacy Grants	93.630	19,298
Developmental Disabilities Projects of National Significance	93.631	51,181
University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632	537,063
Children's Justice Grants to States	93.643	186,612
Child Welfare Services - State Grants	93.645	1,288,489
Foster Care - Title IV-E	93.658	13,763,787
ARRA - Foster Care - Title IV-E	93.658	731,224
Adoption Assistance	93.659	7,859,952
ARRA - Adoption Assistance	93.659	706,746
Social Services Block Grant	93.667	13,811,474
Child Abuse and Neglect State Grants	93.669	888,186
Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671	729,868

Federal Grantor Program Title	CFDA Number	Total Expenditures
Chafee Foster Care Independence Program	93.674	970,538
ARRA - Preventing Healthcare-Associated Infections	93.717	26,319
ARRA - Prevention and Wellness-State, Territories and Pacific Islands	93.723	17,482
ARRA - Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement	93.724	24,394
ARRA - Prevention and Wellness - Communities Putting Prevention to Work: Chronic Disease Self-Management Program	93.725	1,023
Children's Health Insurance Program	93.767	24,659,657
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	769,741
State Survey and Certification of Health Care Providers and Suppliers	93.777	2,489,631
Medical Assistance Program (See Note 4)	93.778	1,076,238,763
ARRA - Medical Assistance Program	93.778	206,171,123
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	947,768
Alternate Non-Emergency Service Providers or Networks	93.790	860,084
Medicaid Transformation Grants	93.793	257,947
Child Health and Human Development Extramural Research	93.865	93,164
ARRA - Child Health and Human Development Extramural Research	93.865	29,266
National Bioterrorism Hospital Preparedness Program	93.889	3,128,114
Grants to States for Operation of Offices of Rural Health	93.913	187,863
HIV Care Formula Grants	93.917	6,867,406
Special Projects of National Significance	93.928	47,702
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	292,069
HIV Prevention Activities - Health Department Based	93.940	1,533,576
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	222,771
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946	138,220
Occupational Health and Safety Surveillance	93.957	15
Block Grants for Community Mental Health Services	93.958	1,367,319
Block Grants for Prevention and Treatment of Substance Abuse	93.959	6,206,181
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	369,025
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	(4,347)
Preventive Health and Health Services Block Grant	93.991	639,955
Maternal and Child Health Services Block Grant to the States	93.994	1,260,957
Total U.S. Department of Health and Human Services		$ 1,591,517,123

Federal Grantor Program Title	CFDA Number		Total Expenditures
Corporation for National and Community Service			
Learn and Serve America - School and Community Based Programs	94.004	$	85,216
Foster Grandparent/Senior Companion Cluster:			
Senior Companion Program	94.016		402,526
Total Corporation for National and Community Service		$	487,742
Social Security Administration			
Disability Insurance/SSI Cluster:			
Social Security - Disability Insurance	96.001	$	7,406,292
Social Security - Research and Demonstration	96.007		108,493
Total Social Security Administration		$	7,514,785
U.S. Department of Homeland Security			
State and Local Homeland Security Training Program	97.005	$	601
Urban Areas Security Initiative	97.008		125,751
Boating Safety Financial Assistance	97.012		975,312
Community Assistance Program - State Support Services Element (CAP-SSSE)	97.023		85,962
Flood Mitigation Assistance	97.029		480
Disaster Unemployment Assistance	97.034		653
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		1,461,875
National Dam Safety Program	97.041		40,239
Emergency Management Performance Grants	97.042		2,206,937
State Fire Training Systems Grants	97.043		17,945
Cooperating Technical Partners	97.045		41,097
Pre-Disaster Mitigation	97.047		724
Emergency Operations Centers	97.052		24,963
Homeland Security Cluster: (See Note 7)			
Citizen Corps	97.053		(88)
Homeland Security Grant Program	97.067		9,024,617
Interoperable Communications Equipment	97.055		321,398
Port Security Grant Program	97.056		103,512
Homeland Security Advanced Research Projects Agency	97.065		15,171
Map Modernization Management Support	97.070		21,364
National Explosives Detection Canine Team Program	97.072		189,250
Rail and Transit Security Grant Program	97.075		363,111
Buffer Zone Protection Program (BZPP)	97.078		96,538
Real ID Program	97.089		220,291
Law Enforcement Officer Reimbursement Agreement Program	97.090		193,092
ARRA - Port Security Grant Program	97.116		133,866
Total U.S. Department of Homeland Security		$	15,664,661

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Federal Grantor Program Title	CFDA Number	Total Expenditures
Research and Development Cluster:		
U.S. Department of Agriculture		
Plant and Animal Disease, Pest Control, and Animal Care	10.025	$ 28,594
Grants for Agricultural Research, Special Research Grants	10.200	559,880
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203	2,331,499
Grants for Agricultural Research - Competitive Research Grants	10.206	756,392
Food and Agricultural Sciences National Needs Graduate Fellowship Grants	10.210	78,001
Sustainable Agriculture Research and Education	10.215	140,254
Integrated Programs	10.303	1,564,663
Homeland Security-Agricultural	10.304	29,143
International Science and Education Grants	10.305	54,465
Agriculture and Food Research Initiative (AFRI)	10.310	69,217
Crop Insurance Education in Targeted States	10.458	187,244
Cooperative Extension Service	10.500	409,720
Soil and Water Conservation	10.902	138,005
Soil Survey	10.903	25,791
Environmental Quality Incentives Program	10.912	71,186
Other Research and Development	N/A	69,723
U.S. Department of Commerce		
Economic Development-Support for Planning Organizations	11.302	49,482
ARRA - Economic Adjustment Assistance	11.307	6,947
Sea Grant Support	11.417	2,293,955
Coastal Zone Management Administration Awards	11.419	159,806
Coastal Zone Management Estuarine Research Reserves	11.420	47,482
Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	11.427	128,279
Climate and Atmospheric Research	11.431	511,591
Office of Oceanic and Atmospheric Research (OAR) Joint and Cooperative Institutes	11.432	124,828
Marine Fisheries Initiative	11.433	34,197
Pacific Coast Salmon Recovery Pacific Salmon Treaty Program	11.438	138,028
Regional Fishery Management Councils	11.441	1,251
Cooperative Science and Education Program	11.455	73,644
Weather and Air Quality Research	11.459	8,115
Special Oceanic and Atmospheric Projects	11.460	1,555,237
Habitat Conservation	11.463	11,276
Meteorologic and Hydrologic Modernization Development	11.467	130,596
Unallied Science Program	11.472	889,721
Coastal Services Center	11.473	195,207
Center for Sponsored Coastal Ocean Research - Coastal Ocean Program	11.478	800,882
Other Research and Development	N/A	111,196
U.S. Department of Defense		
Civil Defense - Architect/Engineer Faculty Development	12.300	4,506,086
Military Medical Research and Development	12.420	82,898
Basic Scientific Research	12.431	269,582
Air Force Defense Research Sciences Program	12.800	559,322
ARRA - Air Force Defense Research Sciences Program	12.800	8,729
Other Research and Development	N/A	213,600
U.S. Department of Interior		
Fish, Wildlife, and Parks Programs on Indian Lands	15.039	5,860
Fish, Wildlife and Plant Conservation Resource Management	15.231	34,494
Alaska Coastal Marine Institute	15.421	26,328
Coastal Program	15.630	14,487
Assistance to State Water Resources Research Institutes	15.805	93,237
U.S. Geological Survey - Research and Data Collection	15.808	320,106
Other Research and Development	N/A	417,868

Federal Grantor Program Title	CFDA Number	Total Expenditures
U.S. Department of Justice		
National Institute of Justice W.E.B. DuBois Fellowship Program	16.566	276,944
ARRA - Public Safety Partnership and Community Policing Grants	16.710	112,531
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	28,734
Other Research and Development	N/A	176,828
U.S. Department of Labor		
WIA Pilots, Demonstrations, and Research Projects	17.261	32,423
U.S. Department of State		
Professional and Cultural Exchange Programs - Citizen Exchanges	19.415	207,782
U.S. Department of Transportation		
Federal-Aid Highways-Emergency Relief	20.200	69,081
Highway Planning and Construction	20.205	93,925
Highway Training and Education	20.215	4,343
University Transportation Centers Program	20.701	293,026
University Transportation Centers	20.760	354,724
Other Research and Development	N/A	35,360
National Aeronautics and Space Administration		
Aerospace Education Services Program	43.001	28,700
Technology Transfer	43.002	343,165
Other Research and Development	N/A	200,226
National Foundation on the Arts and the Humanities		
Promotion of the Humanities-Division of Preservation and Access	45.149	14,791
National Science Foundation		
Engineering Grants	47.041	940,696
Mathematical and Physical Sciences	47.049	274,195
Geosciences	47.050	8,539,345
ARRA - Geosciences	47.050	324,129
Computer and Information Science and Engineering	47.070	291,556
Biological Sciences	47.074	515,198
Social, Behavioral, and Economic Sciences	47.075	114,154
Education and Human Resources	47.076	4,472,535
Polar Programs	47.078	368,266
International Science and Engineering (OISE)	47.079	452,155
ARRA - Trans-NSF Recovery Act Research Support	47.082	932,956
Other Research and Development	N/A	185,696
ARRA -Other Research and Development	N/A	178,594
Department of Veterans Affairs		
Veterans Rehabilitation-Alcohol and Drug Dependence	64.019	12,147
Environmental Protection Agency		
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	66.436	880
National Estuary Program	66.456	296,173
Science to Achieve Results (STAR) Research Program	66.509	94,581
Surveys, Studies, Investigations and Special Purpose Grants within the Office of Research and Development	66.510	45,023
Surveys, Studies, Investigations and Special Purpose Grants	66.606	17,325
Training and Fellowships for the Environmental Protection Agency	66.607	228
Pollution Prevention Grants Program	66.708	22,498
Environmental Education Grants	66.951	60
Other Research and Development	N/A	11,877
U. S. Nuclear Regulatory Commission		
U. S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006	98,539

Federal Grantor Program Title	CFDA Number	Total Expenditures
U.S. Department of Energy		
ARRA - State Energy Program	81.041	55,400
ARRA - Office of Science Financial Assistance Program	81.049	358,875
Renewable Energy Research and Development	81.087	413,431
Defense Nuclear Nonproliferation Research	81.113	185,470
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	846,149
National Nuclear Security Administration (NNSA) Minority Serving Institutions (MSI) Program	81.123	991
Other Research and Development	N/A	200,644
U.S. Department of Education		
Undergraduate International Studies and Foreign Language Programs	84.016	133,879
Higher Education Institutional Aid	84.031	488,500
Magnet Schools Assistance	84.165	8,231
Safe and Drug-Free Schools and Communities National Programs	84.184	44,011
Education Research, Development and Dissemination	84.305	27,349
Education Technology State Grants	84.318	120,238
Teacher Quality Enhancement Grants	84.336	802,771
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	24,000
U.S. Department of Health and Human Services		
Innovations in Applied Public Health Research	93.061	57,467
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107	107,281
Environmental Health	93.113	977,147
Biometry and Risk Estimation-Health Risks from Environmental Exposures	93.115	125,476
Grants to Increase Organ Donations	93.134	132,067
NIEHS Superfund Hazardous Substances Basic Research and Education	93.143	40,389
Research on Healthcare Costs, Quality and Outcomes	93.226	176,986
National Center on Sleep Disorders Research	93.233	133,288
Alcohol Research Programs	93.273	183,930
Drug Abuse and Addiction Research Programs	93.279	2,779,563
Advanced Nursing Education Traineeships	93.358	56,281
Nursing Research	93.361	843,963
National Center for Research Resources	93.389	3,119,547
Cancer Cause and Prevention Research	93.393	406,386
Cancer Detection and Diagnosis Research	93.394	1,000,987
Cancer Biology Research	93.396	413,635
Developmental Disabilities Basic Support and Advocacy Grants	93.630	465,374
Trans - NIH Recovery Act Research Support	93.701	732,260
ARRA -Trans - NIH Recovery Act Research Support	93.701	83,290
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	804,022
Cardiovascular Diseases Research	93.837	213,831
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	46,259
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	63,154
Allergy, Immunology and Transplantation Research	93.855	1,888,849
Microbiology and Infectious Diseases Research	93.856	22,615
Biomedical Research and Research Training	93.859	166,432
Child Health and Human Development Extramural Research	93.865	25,505
Aging Research	93.866	140,245
Health Care and Other Facilities	93.887	62,973
Geriatric Education Centers	93.969	425,456
Other Research and Development	N/A	17,179

Federal Grantor Program Title	CFDA Number		Total Expenditures
Corporation for National and Community Service			
AmeriCorps	94.006		13,851
U.S. Department of Homeland Security			
Hazard Mitigation Grant	97.039		45,157
Centers for Homeland Security	97.061		1,804,198
Homeland Security Advanced Research Projects Agency	97.065		31,449
Homeland Security Grant Program	97.067		734
Competitive Training Grants	97.068		254,957
Agency for International Development			
USAID Foreign Assistance for Programs Overseas	98.001		3,841,601
Other Agency for International Development Awards	N/A		848,526
Total Research and Development Cluster		$	67,061,732
Other Expenditures of Federal Awards	N/A	$	(100,209)
Total Expenditures of Federal Awards (See Note 2)		$	5,780,142,204

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. As a result, total expenditures of federal awards presented for some federal funding agencies do not include expenditures for R&D programs.

Programs funded by the American Recovery and Reinvestment Act of 2009 (ARRA) have been separately identified in the accompanying schedule using the prefix ARRA in the program title. In some instances, unique CFDA numbers were created for ARRA funded programs. When a unique CFDA number was not created, the same CFDA number is repeated with the ARRA prefix included in the program description to identify the portion of the program funded by ARRA.

Cash assistance is presented using the same basis of accounting as that used in reporting the expenditures (or expenses) of the related funds and component units in the State's basic financial statements (see Note 1 to the basic financial statements – Summary of Significant Accounting Policies – D. Measurement Focus Basis of Accounting and Financial Statement Presentation).

Non-monetary assistance is also included in the schedule consistent with OMB Circular A-133 requirements. Non-monetary assistance included in the schedule is listed by federal program in Note 2 to this schedule.

The State's schedule for fiscal 2010 includes all non-monetary assistance and also includes all such amounts in determining major programs as defined by OMB Circular A-133. In previous years, non-monetary assistance in the form of certain federal loan guarantees was excluded from the schedule and the major program threshold calculation if inclusion of the program(s) ("large loan program") adversely affected the number of programs that would otherwise be audited as major programs. In previous years, the Federal Family Education Loans (FFEL) (Guaranty Agency) program was excluded for this reason. In 2010, OMB clarified this requirement (in the 2010 compliance supplement) to define a "large" loan program as one that is at least four times as large as the largest non-loan program.

Consistent with this clarification, all non-monetary assistance is included in the State's schedule and the major program threshold calculation. Total expenditures of federal awards reported in the schedule for fiscal 2010 increased compared to fiscal 2009. Additionally, there was a corresponding increase in the major program threshold compared to fiscal 2009.

NOTE 2. NON-MONETARY ASSISTANCE

Expenditures of federal awards include non-monetary assistance in the form of loans, loan guarantees, and insurance, as well as donated vaccines, food commodities, and property. The following table details all non-monetary assistance included in the schedule of expenditures of federal awards.

CFDA Number	Loan, Loan Guarantee and Insurance Programs	Expenditures of Federal Awards Year Ended June 30, 2010	Non-monetary Expenditures June 30, 2010
11.307	Economic Adjustment Assistance	$ 14,659,196	$ 14,659,196
10.410	Very Low to Moderate Income Housing Loans	3,234,429	3,234,429
14.117	Mortgage Insurance – Homes	82,062,864	82,062,864
14.183	Home Equity Conversion Mortgages	513,000	513,000
14.189	Qualified Participating Entities (QPE) Risk Sharing	9,379,000	9,379,000
64.114	Veterans Housing Guaranteed and Insured Loans	497,417	497,417
84.032	Federal Family Education Loans	48,457,103	-
84.032	Federal Family Education Loans (Guaranty Agency)	1,835,431,359	1,831,555,820
84.038	Federal Perkins Loan Program – Federal Capital Contributions	15,502,537	15,502,537
84.268	Federal Direct Student Loans	101,554,731	-
93.342	Health Professions Student Loans, Including Primary Care Loans/ Loans for Disadvantaged Students	1,811,192	1,811,192
93.364	Nursing Student Loans	1,294,314	1,294,314
	Other Non-Monetary Assistance		
10.550	Food Distribution	3,168,630	3,168,630
10.569	Emergency Food Assistance Program (Food Commodities)	2,199,286	2,199,286
39.003	Donation of Federal Surplus Personal Property	34,131	34,131
93.069	Public Health Emergency Preparedness	16,155,394	5,556,925
93.268	Immunization Grants (Vaccines)	11,536,111	9,828,173
93.712	ARRA – Immunization Grants	382,730	304,799
	Total Non-Cash Assistance		$1,981,601,713

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

- Food Distribution (CFDA 10.550) and Emergency Food Assistance Program (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, and 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 originated or purchased 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) Risk Sharing (CFDA 14.189); and Veterans Housing Guaranteed and Insured Loans (CFDA 64.114).

NOTE 2. NON-MONETARY ASSISTANCE (continued)

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

- Federal Family Education Loans (Guaranty Agency) - (CFDA 84.032) – reported at the balance of loans outstanding plus administrative cost allowances.

- 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 Contributions (CFDA 84.038), Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students (CFDA 93.342) and Nursing Student Loans (CFDA 93.364) - reported at the balance of loans outstanding at June 30, 2010.

- Public Health Emergency Preparedness (CFDA 93.069), Immunization Grants (Vaccines) (CFDA 93.268) and ARRA – Immunization Grants (CFDA 93.712) – include the value of vaccines received at the contracted price (amount paid by the federal Centers for Disease Control to the manufacturer) and cash assistance for administrative costs.

NOTE 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 $7.4 million. Of this amount, $6.8 million relates to the Research and Development Cluster of which all is unidentified as to the pass-through entity. The remaining amount, $602,122, 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 2010:

Program	CFDA Number	Rebate Amount
Medical Assistance Program	93.778	$ 16,387,379
Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	10.557	$ 5,116,331

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 ($10.6 million) earned during fiscal year 2010. WIC program expenditures include amounts funded by rebates earned as well as direct federal assistance.

NOTE 5. UNEMPLOYMENT INSURANCE EXPENDITURES

Expenditures of federal awards for Unemployment Insurance (CFDA 17.225) represent $327.4 million funded from the State's account in the federal Unemployment Trust Fund, $155.2 million loaned to the Trust Fund, $21.4 million funded by federal grants, and $282.6 million in ARRA funds for program administration and benefits.

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 $214.9 million.

NOTE 7. HOMELAND SECURITY CLUSTER

The OMB A-133 Compliance Supplement (June 2010) 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 97.053 and 97.067) have been considered part of the cluster for Type A program determination and audit testing purposes.

NOTE 8. BENEFITS UNDER THE SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP)

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for approximately 15 percent of the USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2009.

Auditor's Reports

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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 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, 2010, which collectively comprise the State's basic financial statements and have issued our report thereon dated December 30, 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 3% of the revenues of the aggregate remaining fund information;

- the Convention Center Authority, a major fund, which also represents 63% 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and responses, we and the other auditors identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: Findings 2010-1, 2010-2, 2010-5, 2010-6, 2010-9, 2010-15, 2010-17, 2010-18, 2010-20, 2010-22, 2010-23, 2010-24, 2010-32, 2010-35, 2010-36, 2010-37, and 2010-38.

A significant deficiency is a deficiency, or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting: Findings 2010-3, 2010-4, 2010-7, 2010-8, 2010-10, 2010-11, 2010-12, 2010-13, 2010-14, 2010-16, 2010-19, 2010-21, 2010-25, 2010-26, 2010-27, 2010-28, 2010-29, 2010-30, 2010-33, and 2010-34.

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as Finding 2010-31.

We also noted certain matters, communicated separately and described as Management Comments, that we consider to be less significant findings than those considered to be significant deficiencies, yet, in our opinion still warrant communication and the attention of the State's management.

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

December 30, 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*
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- *ACCOUNTABILITY*

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. 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 37% of the reporting entity's total major federal program expenditures of federal awards in fiscal year 2010. 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.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion. Our audit does not provide a legal determination of the State's compliance with those requirements.

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We were unable to obtain sufficient documentation supporting the compliance of the State with the Children's Health Insurance Program (CFDA 93.767) and Medicaid Cluster (CFDA 93.775, 93.777, and 93.778) regarding the special tests and provisions - provider eligibility requirement, and the suspension and debarment requirement (as more fully described in Finding 2010-73), nor were we able to satisfy ourselves as to the State's compliance with these requirements by other auditing procedures.

As described in Finding 2010-52 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 Cluster (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 2010-61 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 system security review that is applicable to its Temporary Assistance to Needy Families Cluster (CFDA 93.558 and 93.714), CCDF Cluster (CFDA 93.575, 93.596, and 93.713), 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 2010-62 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, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the State's compliance with the requirements of the Children's Health Insurance Program (CFDA 93.767) and Medicaid Cluster (CFDA 93.775, 93.777, and 93.778) regarding special tests and provisions - provider eligibility and suspension and debarment, and except for the noncompliance described in the preceding three paragraphs, the State complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. 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 2010-56, 2010-81, 2010-82, and 2010-89.

Internal Control Over Compliance

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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 37% of the reporting entity's total major federal program expenditures of federal awards in fiscal year 2010. 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-51, 2010-52, 2010-61, 2010-62, 2010-67, 2010-71, 2010-75, 2010-76, 2010-77, 2010-78, 2010-79, 2010-80, 2010-83, 2010-85, and 2010-86 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-39, 2010-40, 2010-41, 2010-42, 2010-43, 2010-44, 2010-45, 2010-46, 2010-47, 2010-48, 2010-49, 2010-50, 2010-53, 2010-54, 2010-55, 2010-57, 2010-58, 2010-59, 2010-60, 2010-63, 2010-64, 2010-65, 2010-66, 2010-68, 2010-69, 2010-70, 2010-72, 2010-74, 2010-84, 2010-87, 2010-88, 2010-90, and 2010-91 to be significant deficiencies.

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

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

March 28, 2011

Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs

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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
Bond Capital	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 an instance of noncompliance, which was material to the basic financial statements, and is required to be reported in accordance with *Government Auditing Standards.*

Federal Awards

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

5) The independent auditor's report on compliance for major programs expressed an 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
TANF Cluster:	
Temporary Assistance to Needy Families	93.558
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families – State Programs	93.714
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
ARRA - Child Care and Development Block Grant	93.713
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

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
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
Airport Improvement Program	20.106
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, Part A Cluster	
Title I Grants to Local Educational Agencies	84.010
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389
Special Education Cluster:	
Special Education – Grants to States (IDEA Part B)	84.027
ARRA - Special Education – Grants to States (IDEA Part B), Recovery Act	84.391
Special Education – Preschool Grants (IDEA Preschool)	84.173
ARRA - Special Education – Preschool Grants (IDEA Preschool), Recovery Act	84.392
Federal Family Education Loans (Guaranty Agency)	84.032
State Fiscal Stabilization Fund (SFSF) Cluster:	
ARRA - SFSF - Education State Grants, Recovery Act	84.394
ARRA - SFSF - Government Services, Recovery Act	84.397
TANF Cluster:	
Temporary Assistance for Needy Families	93.558
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families – State Programs	93.714
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
ARRA - Child Care and Development Block Grant	93.713
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 $17,340,426.

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

Finding 2010-1

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.

- *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

2010-1 Complete installation of remaining modules necessary to achieve a comprehensive fully-integrated accounting system.

Finding 2010-2

ACCOUNTING CONTROLS – SEGREGATION OF DUTIES WITHIN FUNCTIONS PERFORMED BY THE OFFICE OF THE GENERAL TREASURER

Appropriate controls over cash receipts and disbursements require segregation of duties. Specifically, the authorization and recording of transactions should be performed by individuals totally separate from those with responsibility for the actual movement of cash and subsequent reconciliation of bank and book balances. Over time, responsibility for what should be separate functions has become less distinct, largely due to the incomplete implementation of the RIFANS accounting system (which is more fully described in Finding 2010-1). This results in weakened controls over the State's cash receipts and disbursements.

System limitations have necessitated that the Office of the General Treasurer be provided certain RIFANS system access that is inconsistent with appropriate segregation of duties. The Office of the General Treasurer's system access allows certain employees to initiate and approve accounting transactions while also having responsibility for performing account reconciliations, and initiating transfers from State accounts. Such access was deemed necessary to meet stringent timelines for required movement of cash or to ensure that transactions generated by a myriad of subsidiary systems were recorded timely within the accounting system.

Recording of Payments made from Subsidiary Accounting Systems

Treasury posts expenditures to RIFANS for certain payments (Medicaid provider payments, Unemployment Insurance and TDI 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 effective control procedures. As noted above, Treasury should 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 restore segregation of duties while ensuring that the cash is moved on a timely basis as required. Moving the recording function for these transactions from the General Treasurer's office is one possible solution.

RECOMMENDATION

2010-2 Improve controls over cash receipts and disbursements by better segregating certain duties currently performed by the Office of the General Treasurer.

Finding 2010-3

PAYROLL ACCOUNTING SYSTEM – SYSTEMS DOCUMENTATION AND MONITORING

The State's payroll information system, for fiscal 2010, calculated payroll expenditures for 14,000 employees totaling more than $878 million. This system has been programmed for a multitude of distinct contract provisions outlined in agreements with approximately 100 separate bargaining units of the State as well as administration of payroll related benefit plans and required withholdings.

For years, the State has relied on the institutional knowledge of key employees to maintain the operations of the payroll system and has focused less on ensuring that the systems documentation was formalized in a manner consistent with strong internal control. Complete and comprehensive documentation and understanding of the State's payroll system is a critical tool in the State's ability to monitor and assess data inputs utilized within the calculations performed by the system. In addition to allowing for better review and analysis of data inputs utilized by the State payroll system, formalized system documentation would be important in the event of employee turnover or when the State upgrades or replaces its legacy payroll system with newer technology.

Audit procedures relating to the State's calculation of employee payroll have noted instances, in recent years, where improper coding and/or system programming has not accurately determined proper withholdings from employee payroll. Although the State remedied these problems upon identification, these instances suggest that the State needs to implement improved documentation and monitoring of its payroll system processing to identify and correct errors. Implementing monitoring procedures that ensure that such errors are detected and corrected in a timely manner is an essential part of internal control over payroll processing.

RECOMMENDATIONS

2010-3a Improve formalized documentation of the State's payroll system.

2010-3b Implement monitoring procedures over the State's payroll system designed to identify and correct any payroll processing errors in a timely manner.

Finding 2010-4

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. DoIT has been unable to complete this evaluation due to a lack of personnel resources. The State must complete 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

2010-4a Complete an initial assessment of compliance with recently promulgated systems security standards for the State's mission critical systems.

2010-4b 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.

2010-4c Require systems security certification procedures to be performed by DoIT prior to any significantly modified application systems becoming operational.

2010-4d Consider additional information system security personnel resources to assist in the daily information systems security operational and monitoring procedures.

Finding 2010-5

CONTROLS OVER THE PREPARATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

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 are adjusted at year-end to reflect activity accumulated on off-line spreadsheets or subsidiary systems (e.g., DBC Debt Manager System). This current process lacks control, is manually intensive, provides only limited financial reporting information during the fiscal year, and is prone to error.

We noted a significant number of misstatements that required adjustment within the government-wide financial statements. Most misstatements were caused by staff utilizing incorrect formulas, prior year financial data, or incorrect amounts in the computations supporting the government-wide accounting entries. Controls over the preparation of the government-wide financial statements would be improved by supervisory review of the government-wide accounting entries including the underlying support and computations. The State should also consider whether more automated processes can be utilized in the preparation of the government-wide financial statements.

RECOMMENDATIONS

2010-5a Improve controls over the preparation of the government-wide financial statements by implementing a supervisory review of government-wide accounting entries and supporting documentation.

2010-5b Consider whether more automated processes can be utilized within the preparation of the government-wide financial statements.

Finding 2010-6

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 totaled $2.5 billion for fiscal 2010.

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. During our audit, we noted $7 million in federal expenditures that were erroneously recorded in RIFANS. This error, if uncorrected, would have caused federal expenditures in two federal programs to be misstated in the State's Schedule of Expenditures of Federal Awards. This error would have been detected in a timely manner if the above described reconciliations were being performed.

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.

- For fiscal 2010, the Office of Accounts and Control required departments and agencies to complete an automated Federal Grants Information Schedule (FGIS) that was developed as a standardized RIFANS report. The goal of this revised FGIS process was to provide agencies with the required revenue and expenditure information from the State accounting system to efficiently reconcile expenditures reported on federal reports. Our results found that few departments actually completed the schedule and required reconciliation. In addition, the Office of Accounts and Control did not validate the accuracy of information for departments that attempted completion of the schedule. 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.

- In fiscal 2010, the Office of Accounts and Control established natural accounts to be used specifically to record prior period adjustments; however, departments have rarely used these codes to record prior period activity for federal grants. 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.

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

2010-6a 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.

2010-6b Ensure that variances identified on the FGIS are fully resolved prior to the preparation of draft financial statements.

2010-6c Enforce accounting procedures that distinctly identify adjustments to prior period federal activity in the State's accounting system.

2010-6d 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 2010-7

RIFANS LOGICAL ACCESS CONTROLS

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

We found that activities of individuals with system administrator roles were recorded but not reviewed. These individuals have access to all critical areas in RIFANS and their activities are not required to be approved by another user. Additions, modifications, and deletions of critical data initiated by system administrators must be reviewed by authorized personnel.

The Division of Information Technology (DoIT) has formalized policies and procedures to secure logical access over the RIFANS accounting system. These policies require the activities of privileged users (system administrators) to be logged by the system and reviewed for propriety by assigned personnel.

RECOMMENDATION

2010-7 Review activities of privileged users (system administrators) on a scheduled basis to ensure that additions, modifications, and deletions initiated by them are appropriate.

Finding 2010-8

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 nearly ten years ago.

RECOMMENDATION

2010-8 Complete conversion of subsidiary accounting systems using the legacy account structure to the new RIFANS account structure.

Finding 2010-9

ACCOUNTING AND PHYSICAL CONTROL OVER CAPITAL ASSETS

During fiscal 2010, we continued to note control weaknesses which collectively impact the State’s financial reporting of capital assets. While the State has improved its recording of capital assets in recent years, RIFANS' current system limitations has made it difficult to effectively eliminate these control deficiencies.

Accounting for Capital Projects

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 project-related capital additions.

Capital assets totaling in excess of $5.7 million, most of which were building improvement projects in the implementation or construction phase at June 30, 2010, 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.

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. During fiscal 2010, the State performed physical inventories of three large State agencies. The results of those inventories, however, were not completed and reflected in the State's accounting records at June 30, 2010. Although improved in fiscal 2010, a significant number of State agencies have still 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. Other additional refinements in the inventory process should also be considered to ensure that physical inventory results are reflected more timely in the State's accounting records.

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.

Impairment of Capital Assets

Governmental Accounting Standards require that capital assets be evaluated for impairment when events or changes in circumstances suggest that the service utility of a capital asset may have significantly and unexpectedly declined. These standards also require adjustment of the carrying value of capital assets that meet certain impairment criteria. The Office of Accounts and Control requested information regarding the impairment of capital assets from all State agencies as part of its annual fiscal closing procedures. For fiscal 2010, all responding agencies reported no knowledge of capital asset impairments.

Our audit procedures included inquiry of State officials responsible for the management of the State's properties and infrastructure to evaluate the impact of capital asset impairment on amounts reported in the State's financial statements. Our inquiry resulted in the accumulation of a listing of State buildings no longer in use due to physical deterioration. Although the carrying value of these properties was not material to the State's financial statements, the inability of the State's process to identify these instances of impairment suggest that more effective processes are needed to ensure compliance with these accounting standards. The State should implement guidance and reporting processes to ensure the proper financial reporting consideration of capital asset impairments.

RECOMMENDATIONS

2010-9a Develop procedures to improve the tracking of capital projects within RIFANS.

2010-9b 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.

2010-9c Improve accounting controls to ensure the identification of federal funds utilized to purchase or construct capital assets.

2010-9d Implement procedures to ensure that all capital lease activity is identified and recorded in accordance with GAAP in the State's financial statements.

2010-9e Implement guidance and reporting processes that properly consider capital asset impairment within the State's financial reporting.

Finding 2010-10

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 improved 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

2010-10 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 2010-11

INFORMATION TECHNOLOGY (IT) SYSTEMS - PROGRAM CHANGE CONTROLS

Procedural Issues

Program change management controls are a critical IT control component to maintain 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 changes in operation.

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 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.

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 should design and develop formal procedural guidance manuals detailing specific requirements for program change control. Standard, uniform practices and procedures need to be developed to control the process of requesting, analyzing, approving, developing, tracking, implementing, and reviewing all application program changes. Published reference manuals, specific to this area of control, are available from various nationally recognized IT professional organizations. Once developed, these DoIT guidance manuals would need to be reviewed and periodically updated and readily available to all DoIT personnel.

Program Change Control – Current Operational Issues

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 offer processes designed to utilize newer, more stringent controls over the application's 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.

During fiscal 2010, we found that the ClearQuest package was still working to expectations but our previously reported concerns regarding the use of ClearCase had not been addressed. 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 should 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. Further, DoIT should implement a formal program change control process for its mainframe applications.

RECOMMENDATIONS

2010-11a DoIT needs to design, develop, formalize and implement procedural guidance manuals detailing specific requirements for program change control.

2010-11b 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.

Finding 2010-12

FUNDS ON DEPOSIT WITH FISCAL AGENT

Funds on Deposit with Fiscal Agent on the Statement of Net Assets – Governmental Activities totaled more than $250 million at June 30, 2010. These assets result from the issuance of certain debt (Grant Anticipation Revenue Vehicle (GARVEE) Bonds, 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, (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 were 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.

- 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 the trustee has 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

2010-12a 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.

2010-12b Clarify State responsibility for oversight and monitoring of investments held by fiscal agents resulting from the issuance of debt.

Finding 2010-13

ADMINISTRATION OF THE STATE'S DEPOSIT COLLATERALIZATION PROGRAM

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. The State's collateralization policy was further formalized through adoption by the State Investment Commission in 2010.

The Office of the General Treasurer made significant improvements in its administration and monitoring of the collateralization program during fiscal 2010; however, further improvement is needed to enhance security of the State's deposits and to provide the information needed for financial statement disclosure. The following areas should be enhanced:

- Effective monitoring of each institution's compliance with the collateralization policy requires identification of the bank balance at each financial institution subject to the State's policy. Some institutions have provided a comprehensive list of accounts for which collateral is pledged and access to daily balances while others have not.

- Some institutions have interpreted the policy to require collateralization of only "collected balances" in an account rather than the entire bank balance. The State's policy should be specific to avoid inconsistency or lack of compliance.

- The applicability of the policy to accounts that are not in the custody of the General Treasurer should be clarified. There are a number of accounts (e.g., various Court accounts) that are not in the custody of the General Treasurer. Generally, the financial institutions are grouping accounts subject to the State's collateralization policy based on the federal identification number listed for the account and not by official custodian. The Office of the General Treasurer has been working with the Judicial branch to resolve these issues.

- At June 30, 2010, not all collateral was held by an independent custodian in the State's name and in some instances security agreements had not been executed to perfect the State's interest in the collateral.

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

2010-13a Enhance the deposit collateralization monitoring process to ensure compliance with the State Investment Commission's collateralization requirement.

2010-13b Modify the collateralization policy adopted by the State Investment Commission as required to clarify various implementation issues.

Finding 2010-14

TRANSMISSION OF CASH DISBURSEMENT DATA FILES AND WIRE TRANSFERS

Certain cash disbursements are made via ACH transactions where the State transmits a data file containing payee information to a financial institution for electronic transfer to the payee's designated bank account. Other large State disbursements are made via wire transfer of funds by the Office of the General Treasurer. Controls over these disbursement types should be enhanced as described below.

Temporary Disability Insurance (TDI) Program ACH Disbursements

Three data files representing TDI program disbursements are transmitted by the Department of Labor and Training (DLT) to a financial institution (direct deposit data, positive pay data and refunds positive pay data). We found that the data files are transmitted in an open text format rather than encrypted. The major risk in transmitting sensitive data in an open text format is that if the data were to be received or intercepted by anyone other the intended recipient, this data is easily read by any computer system. We also noted that the files are transmitted from a personal computer rather than directly from the mainframe computer system. This increases the risk of potential interception and corruption since the same computer is used for other internet access.

DLT's IT personnel indicated that they are aware of this situation and are planning to resolve this weakness by implementing the needed software and operational changes.

RECOMMENDATION

2010-14a Secure the TDI data files that are currently being transmitted in an unsecure format by implementing encryption and originating the transmission from a dedicated secure PC or directly from the mainframe computer system.

Wire Transfers - Office of the General Treasurer

The Office of the General Treasurer is responsible for daily wire transfer of funds to external parties (vendors and investment purchases) and between various State accounts. The dollar amount of these wire transactions is significant. The wire transfers are effected through web-based applications of the various financial institutions holding State funds. In this environment, controls are enhanced when the personal computers which are used to initiate the web-based wire transfers are used solely for these transactions with no other internet or other use permitted. This reduces the risk of unintentional access to critical data that could compromise the controls over the wire transfer process. Personal computers dedicated solely for wire transfer transactions are not used by the General Treasurer employees who are responsible for initiating wire transfers.

RECOMMENDATION

2010-14b Dedicate secure personal computers for the initiation and transfer of wire transfer information via web-based applications of the State's various financial institutions.

Finding 2010-15

DEPARTMENT OF REVENUE – CONTROLS OVER ELECTRONIC FUNDS TRANSFER (EFT) OF TAXES

The majority of the taxes (based on dollars) are received electronically. Funds are deposited automatically in the State's bank accounts and electronic files are transmitted to the Division of Taxation (Taxation) by the State's banks that contain abbreviated tax payment data (taxpayer identification number, payment amount, tax type, tax period). These electronic files are in an open text format that allows, rather than restricts, manipulation of data prior to recording in Taxation's computer systems.

Near the close of fiscal 2006, Taxation, in coordination with the Division of Information Technology (DoIT), implemented an automated system that can log 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.

For example, this effort revised the EFT process to the extent that the tasks of downloading, processing, and uploading payment detail files were placed under the control of the automated system that monitors and records the movement and processing of these payment files. However, not all files processed by Taxation's systems are controlled or logged by this automated system.

A select group of Taxation personnel are assigned responsibility for downloading electronic files, reconciling the detailed electronic information to the amount recorded in the State's bank accounts, creating manual adjustments, and ensuring that the information is uploaded properly to the Taxation mainframe computer systems. Taxation has taken steps to segregate duties regarding the processing of these files; however, certain individuals still have access that allows them to perform multiple functions.

All electronic files that contain tax payment data and are processed by Taxation's systems should be encrypted at all times (during transmission and at rest) and fully controlled by the automated logging system prior to entering the systems. These electronic files should be in a file format that is ready for uploading to Taxation's systems without the need for manual intervention.

Additionally, DoIT personnel need to develop a monitoring and reporting process for the automated logging system to identify and report any operational problems that occur. No formal reporting system has been developed to audit/review the changes made to the data files. Such a system should be used to ensure that all transactional changes were required, authorized, and properly applied.

All of the electronic files described above contain taxpayer specific data transmitted from a number of sources and in various formats. To ensure that the proper level of data protection is in place, Taxation working with DoIT, needs to perform a "data classification" review for the data contained within these files. DoIT has polices requiring that all State data being captured, maintained and reported upon by any agency or department is to be "data categorized" based upon three levels of availability and four levels of confidentiality (DoIT policy *# 05-02 – Data Categorization).* If the data is considered confidential or sensitive, then the data must be protected by an acceptable method of data encryption.

RECOMMENDATIONS

2010-15a Control all electronic files that contain tax payment by the automated logging system from the time of receipt through upload to the taxation mainframe systems to ensure data integrity.

2010-15b Develop monitoring and reporting procedures for the automated logging system control process over data files. These procedures should identify and report any problems within the system's daily production cycle to ensure the control process remains operational.

2010-15c Develop a formal reporting system to audit/review changes made to the EFT data files to ensure that all changes were required, authorized, and properly applied.

2010-15d Perform a data categorization review consistent with DoIT Policy *# 05-02 Data Categorization,* to ensure the proper level of data protection (e.g. encryption) is in place.

Finding 2010-16

DEPARTMENT OF REVENUE – PERSONAL INCOME TAX ADMINISTRATION

W-3 Reconciliations

Employers are required to file an annual W-3 reconciliation between the withholding payments due compared to the actual amounts paid to the Division of Taxation. Some employers file paper W-3 reconciliation returns, but in most instances the reconciliation is calculated electronically by Taxation's computer system from the W-2 files submitted by employers and the record of employer withholding deposits.

There has been a significant backlog in posting/processing W-3 reconciliation returns. W-3 reconciliations for tax year 2009 were due February 28, 2010. During fiscal 2010, W-3 paper returns for tax years 2000 through 2009 were posted to the Taxation mainframe system. However, as of June 30, 2010, the system-generated W-3 reconciliations for tax years 2008 and 2009 had not yet been posted. During fiscal 2010, the Division posted W-3 system generated returns for 2006 and 2007. The backlog in posting W-3 reconciliation returns delays identifying overpayments and underpayments of employer withholding taxes.

RECOMMENDATION

2010-16a Process W-3 reconciliations more timely to identify any underpayment of employer withholding taxes.

Management Review of Overpayment Carryforwards

The Division of Taxation's "Management Refund Report" is used to highlight high-dollar tax refunds requiring review prior to payment and to select other refunds for review. When a taxpayer elects to apply the refund to next year's tax liability rather than request a refund, the carry-forward is not subject to the same review procedures. Overpayment carry-forwards should be subject to the same management review procedures as returns requesting immediate refund of overpayments.

RECOMMENDATION

2010-16b Include refund carry-forward returns within the management refund review control procedures.

Tax Returns Remaining on the Error Register

Personal income tax returns that cannot be processed completely (due to data entry errors or taxpayer error) are placed on an "error register" pending investigation. We noted a significant backlog of returns on the error register that are pending resolution. As of June 30, 2010 there were 40,816 returns dating from 1990 thru 2010. Approximately, 20,000 returns include requests for refunds totaling more than $19 million.

The impact of the large number of returns on the error register includes the inability to offset current taxes owed against prior refunds that remain unpaid and the failure to bill taxpayers for amounts that may be owed.

RECOMMENDATION

2010-16c Investigate and resolve returns on the error register in a timely and efficient manner. Apply refund offsets and bill additional taxes receivable where indicated.

Withholding Tax Filing Frequency

Taxpayers are required to remit personal income tax withholding payments on a frequency as determined by past dollar amounts paid. Larger taxpayers are required to remit more frequently. The Division of Taxation has not run specific reports (WT9074 and WT9075) since March 2009 to update taxpayer information and ensure that each taxpayer is filing at the required interval. Some taxpayers may not be filing as frequently as required thereby impacting the timing and availability of tax receipts to the State.

RECOMMENDATION

2010-16d Review and update taxpayer information to ensure taxpayers are remitting tax withholdings on the required frequency.

Finding 2010-17

DEPARTMENT OF REVENUE – CONTROLS OVER THE RECORDING OF TAXES 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 $90 million in ARC transactions were posted to the personal income tax system in fiscal 2010. There were nine individual ARC transactions over $1 million each, totaling $14.8 million. While it would be impractical for a supervisor to review each ARC posted to the system due to the number of ARC transactions processed, 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

2010-17a Establish a threshold for supervisory review of accounts receivable corrections of personal income tax accounts.

2010-17b Improve data entry controls over ARC transactions.

Finding 2010-18

DEPARTMENT OF REVENUE – CONTROLS OVER TAX REVENUE RECOGNITION

Controls over tax revenue recognition should be strengthened by improving procedures for fiscal year-end cutoff 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 correctly or timely and payments were applied to the wrong tax year or wrong account. While Taxation is attentive to cutoff 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 $6.1 million, with a related allowance of $5 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 $1 million was proposed (but not booked) to increase tax refunds payable and decrease tax revenue. 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

2010-18a 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.

2010-18b 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 2010-19

DEPARTMENT OF REVENUE - 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 2010, 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 2010.

Notices are generated from the data warehouse, which operates independently of the Division of Taxation's various mainframe 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. It is Taxation's representation that the 60-day waiting period reflects the nature of a notice as being 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 2010, 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 1st would all be recognized as revenue/receivables in the fiscal year ending June 30 – no amounts would be recognized for those sent after May 1st regardless of the underlying time-period related to the tax balance or the validity of the claim against the taxpayer. 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. During fiscal 2010, the Division of Taxation included the billings in suspense at June 30, 2010 in the accounts receivable balance by booking a manual adjustment to the financial statements.

- New transaction codes detailing the original data warehouse notice total, tax amount, interest, and penalties were added to the mainframe to identify tax balances that resulted from analysis within the data warehouse (these codes are only effective for mainframe transactions processed after 8/14/2009). However, there are no codes that identify corrections or adjustments made to data warehouse notices. Consequently, correction or adjustment to tax amounts originating from the data warehouse cannot be readily identified within Taxation's systems. Being able to segregate these amounts is necessary due to the inherently different collection characteristics of theses notices versus a known tax balances 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 2010, determination of the allowance for uncollectible taxes receivable did not reflect the unique characteristics of these balances.

Due to the age and inflexibility of certain mainframe 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 Control's policies and that an appropriate allowance for uncollectible amounts is established which reflects the unique nature of these receivable balances. Further, the Taxation mainframe systems should be enhanced to be consistent with the posting of accounts receivable balances to the financial statements. Elimination of the 60-day waiting period will result in Taxation's compliance with their established accounts receivable control policies.

RECOMMENDATIONS

2010-19a Identify corrected and adjusted tax amounts for transactions emanating from Taxation's data warehouse within the tax systems with unique codes to allow separate identification for analysis and collection purposes.

2010-19b Establish an allowance for uncollectible taxes receivable, which reflects the unique collection characteristics of the data warehouse notices/billings.

2010-19c Recognize all data warehouse generated receivables within Taxation's systems at the time of the notice creation, i.e. eliminate the 60-day waiting period.

Finding 2010-20

DEPARTMENT OF REVENUE – PERSONAL INCOME TAX – CONFIDENTIAL COMMUNICATION

A finding concerning the administration of the personal income tax system was communicated confidentially due to the potential impact on taxpayer compliance.

Finding 2010-21

CONTROLS OVER THE IDENTIFICATION AND RECORDING OF YEAR-END PAYABLES

The State has implemented statewide fiscal closing procedures designed to allow the State's accounting system to accurately report accounts receivable and payable balances at year-end. These procedures require agencies to record all transactions (deposits and payment documents) relating to a fiscal year by a specified closing date. In addition, agencies must submit payment documents with an "effective date" equal to the fiscal year-end date in order for that transaction to be accrued as a liability at year-end. Agencies also have the option of reporting receivables and payables directly to the Office of Accounts and Control using certain standard forms and procedures. Failure to use the correct "effective date" or to submit transactions or required forms by the designated closing date will result in transactions not being properly recorded (accrued) in the correct fiscal year. The Office of Accounts and Control also performs a review of expenditure transactions greater than $250,000 recorded in the beginning of the next fiscal year to identify any transactions that should have been accrued in the previous fiscal year.

We conducted audit procedures to identify unrecorded revenues and expenditures to evaluate whether these transactions were reported in the appropriate fiscal period. Despite the above detailed control procedures performed by the State, we identified unrecorded liabilities (individually greater than $250,000) in the General Fund and capital projects funds approximating $1.5 million and $2.5 million, respectively. In addition, our audit procedures noted approximately $1 million in accounts receivables that required accrual in fiscal 2010. Audit adjustments were subsequently recorded to reflect these transactions within the State's financial statements. Controls should be improved to ensure that significant accounting transactions are accurately accrued at year-end.

RECOMMENDATION

2010-21 Evaluate and improve controls to identify and record accrual transactions at year-end.

Finding 2010-22

FINANCIAL REPORTING – INTERMODAL SURFACE TRANSPORTATION 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.

The RIDOT FMS is an integrated multi-module system intended to meet RIDOT's entire 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. However, the project-level data 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 provide the information needed for financial reporting.

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 short-term and longer-term goals to ensure reliable information is available to support timely financial reporting.

RECOMMENDATION

2010-22 Re-evaluate the continued operation of two separate accounting systems to support financial reporting for the IST and GARVEE funds. Establish short and long-term goals to ensure reliable information is available to support timely financial reporting.

Finding 2010-23

INTERMODAL SURFACE TRANSPORTATION AND GARVEE FUNDS - 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, a capital projects 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 $176 million at June 30, 2010.

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 2010 draft financial statements required material adjustment due to weaknesses in controls over financial reporting.

Accounts payable and amounts due from the federal government – Controls over the reporting of accounts payable and amounts due from the federal government can be improved to ensure all material amounts are included in the financial statements. These financial statement line items required numerous adjustments. Additionally, RIDOT's process to record the legal claims and settlements can be improved to better identify those amounts that are fund liabilities based on amounts to be liquidated within the next year.

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. Review of this fund balance revealed unrecorded amounts due from the Bond Fund requiring adjustment by Accounts and Control after the draft financial statements were presented for audit.

- Fund balance within the IST fund includes federal revenue as a reserved component of fund balance to reflect limitations on their use for FHWA approved transportation projects. Review of this fund balance activity revealed unrecorded federal receivables requiring adjustment by RIDOT after the draft financial statements were presented for audit. Additionally, the department was unable to explain changes in net assets caused by federal funding sources 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. Amounts reserved for future debt service include a required 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. GARVEE fund balance components required audit adjustment to properly reflect balances reserved and unreserved at June 30, 2010.

Reconciliation between the GARVEE Trustee, RIDOT FMS and RIFANS

GARVEE project disbursements originate 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). RIDOT's reconciliation process can be further improved to include reconciliation by transaction type to ensure the financial statements accurately reflect all trustee activity.

RECOMMENDATIONS

2010-23a Strengthen control procedures over financial reporting to ensure accurate identification of accounts payable, accounts receivable and reservations of fund balance.

2010-23b Analyze the change in fund balance by funding source to ensure the results are consistent with the programs being administered through the IST Fund.

2010-23c Expand the reconciliation between the trustee and the State accounting system to encompass transactions at the account level to ensure the financial statements accurately reflect all trustee activity.

Finding 2010-24

TRANSPORTATION INFRASTRUCTURE REPORTING

Amounts reported as capitalized infrastructure are derived from project-level data contained in the RIDOT Financial Management System (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 required data manipulation increases the risk of error.

RIDOT's process to accumulate infrastructure capital outlays utilizes actual construction expenditures but includes estimated amounts for design costs. The current methodology is to identify large construction projects and apply actual design costs incurred related to those projects. Remaining design costs are allocated during the fiscal year to all other construction projects based on the project costs incurred during the year. This methodology 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.

Certain misstatements relating to the State's reporting of infrastructure were noted during fiscal 2010. The most significant misstatements related to the State's failure to recognize the completion of infrastructure projects totaling $76.3 million from its reported construction in progress. The State also misstated infrastructure currently under construction by $3.9 million (net) when it reclassified these amounts to infrastructure and began depreciating the assets prior to the project being placed in service.

Identifying and recording infrastructure disposals also continues to be a significant weakness in RIDOT's financial reporting for infrastructure assets. The department has not disposed of any infrastructure assets which included approximately 30 years of infrastructure investment by the State at June 30, 2010. RIDOT needs to develop policies and procedures to begin identifying and recording infrastructure asset disposals to ensure that the State's investment in infrastructure assets is fairly recorded in all material respects in future years.

RECOMMENDATIONS

2010-24a Improve controls over the recording of infrastructure investment and disposal in the State's financial statements.

2010-24b Improve the methodology to determine whether infrastructure assets are placed in service to ensure projects identified as substantially complete are properly categorized as infrastructure.

2010-24c Accumulate and link actual design and construction costs related to an individual project. Identify and record project costs to be included as infrastructure from design through project completion.

Finding 2010-25

RIDOT - DISASTER RECOVERY AND CONTINGENCY PLAN

There is no formally documented or periodically tested disaster recovery and contingency plan specific to the two major applications used by RIDOT for its financial management operations - the Project Management Portal (PMP) and RIDOT Financial Management System (FMS).

Both of these systems have periodic backups performed and restore procedures in the event of a localized system failure. However, these systems and all other RIDOT application systems and operations have not been included in the DoIT enterprise disaster recovery and contingency plan/testing. Maintaining sufficient backups of system data addresses only part of the disaster recovery equation. RIDOT management indicated that they are in the process of formally addressing their disaster recovery policies and procedures to be more aligned with accepted best business practices.

An appropriate disaster recovery/contingency plan should focus on: (1) the timely recovery of mission critical systems and data and (2) the continuation of business functions and services until the recovery is complete. As DoIT ultimately has authority over RIDOT Systems and has published security policies state that all State IT systems require contingency plans *(Policy 10-05: Management Controls, §5*, RIDOT should coordinate with DoIT for assistance in developing a disaster recovery/contingency plan. Upon development, the disaster recovery/contingency plan must be tested and reviewed on a periodic basis (yearly) and updated whenever a major change occurs to ensure its continued adequacy and viability.

RECOMMENDATION

2010-25 Develop and implement a formal written disaster recovery/contingency plan for all of its systems (including the PMP and FMS). Upon approval, the plan must be periodically tested and reviewed in accordance with DoIT published policies to ensure its continued adequacy and viability.

Finding 2010-26

RIDOT – CONTROLS OVER DATA MODIFICATION

Manual intervention is needed to continue the processing of construction financial data within RIDOT's Construction Management System ((CMS). For example, during the transfer of CMS data files from the PMP to the FMS, some data elements within the file are manually modified prior to being posted to the FMS. While the need for the data modifications were sufficiently explained, any time system data is modified manually or opportunities exist for modification represents a threat to data reliability. Appropriate controls should be incorporated into the system to ensure the accuracy of processed data.

File modifications should be automated (to the extent that technology allows), eliminating the potential for manual errors. If after reviewing the entire file transfer process, management determines that manual modifications are still warranted, an automated log of all changes made should be maintained and periodically reviewed by appropriate supervisory personnel (not the individual making the change) to ensure that only authorized changes have been made.

RECOMMENDATION

2010-26 Review the PMP to FMS file transfer process to determine the feasibility of fully automating all instances of manual data modifications. If deemed necessary, logs of all manual data modifications data must be saved and periodically reviewed by RIDOT management to ensure the accuracy of the changes.

Finding 2010-27

RIDOT - DEVELOPER ROLE – SEGREGATION OF DUTIES AND CHANGE MANAGEMENT

We noted a lack of segregation of duties regarding the "Developer" role and its ability to both develop and promote PMP source code changes into production. In addition, we found that there are no automated IT-based controls in place to detect unapproved PMP code changes made by staff who have been assigned the "Developer" role.

The PMP Technical group has granted the developer role to four individuals; three developers and one lead programmer manage and coordinate all development work on source code. All source code version changes are logged within SourceSafe version control software. Typically, code development is initiated in the development environment and subsequently advanced to the test environment where the code is tested and evaluated by the entire PMP Technical group, both individually and as a team. The process of promoting the code to production always involves the lead programmer – regardless of which team member is actually promoting the code. RIDOT management stated that a quality assurance process such as this ensures that production code releases are adequately reviewed.

Although Active Directory groups have been created to limit access to the test/production environments and SourceSafe was implemented to track code changes, the developer role has been granted administrator super user access rights that allows full access to all PMP resources. Therefore, all four developers have sufficient access rights allowing them to develop and promote their own code into production – regardless of lead programmer involvement. To further add to the concern, SourceSafe log reviews are not performed on a regular basis and there are no automated IT-based controls in place to prevent PMP code changes that are not reviewed by the lead programmer from being implemented. This increases the risk that system and data integrity could be compromised.

The application change management process is critical and requires appropriate controls in order to maintain the accuracy and integrity of the system and its data. Best business practices regarding the segregation of duties limits application developers to code development and/or changes and do not allow for access to live data or for the promotion of changes to the production environment. In granting system access, RIDOT management should apply the principles of segregation of duties and least privilege. Additionally, best business practices maintain that audit trail logs (SourceSafe logs) should be reviewed on a periodic basis and performed by an individual who has not made code changes. In the absence of such practices, a segregation of duties risk occurs and there is also an increased risk to system and data integrity. DoIT provides policy and guidance regarding audit trails and logs that including individual accountability, mitigating segregation of duties risks, reconstructing events, intrusion detection and problem identification *(Policy 10-07: Technical Controls, §1.3.4).* DoIT provides policy and guidance on minimum implementation requirements concerning the staffing of positions that interact with all IT system resources, the administration of system users and special considerations regarding contractors and other non-agency individuals granted access to agency system resources *(Policy 10-06: Operational Controls, §1).*

RECOMMENDATIONS

2010-27a Evaluate all groups, roles, and granted permissions defined within its application system access control structure in accordance with DoIT IT security policies and industry accepted best practice standards to ensure that granted access is commensurate with official duties, job functions, and industry accepted security standards. Further, RIDOT management should employ IT-based controls to ensure that all PMP source code changes are reviewed and approved prior to promotion into the production environment.

2010-27b Establish a formal plan to periodically review Microsoft SourceSafe audit trail logs in accordance with DoIT policies to ensure that only authorized system changes/modifications are implemented and that system and data integrity are maintained.

Finding 2010-28

EMPLOYMENT SECURITY FUND - PROGRAM CHANGE CONTROL PROCESS WITHIN THE DEPARTMENT OF LABOR AND TRAINING

Program change management controls are intended to mitigate known risks associated with making changes to large, complex IT applications. The Department of Labor and Training (DLT), has a number of large automated applications operating on the department's internal computer systems. In Fiscal 2010, the Unemployment Benefit system required an extraordinary number of program changes prompted by the federal program requirements and the significant increase in UI claimants.

Program change management controls generally utilize a mix of automated and manual procedural controls. The application change management process established within DLT is a manual process that primarily utilizes e-mails, memorandum and paper based forms in documenting and controlling the program change process. There is no automated control system that could be queried to offer pertinent information regarding changes made to the application. An automated system could improve controls over the change management process by providing:

- change request initiation, documentation, authorization, and acceptance status;
- tracking of change request status and authorizations;
- approvals required for change package;
- program check-in / check-out information;

- release management information;
- program documentation;
- program change history;
- audit trails / standard audit reports;
- emergency change process; and
- review and acceptance of test results

DLT's lack of an automated system to control, track and report upon all application program changes made by the DLT programming staff is a control weakness in financial reporting for the Employment Security Fund. DLT should request assistance from DoIT in performing a search for an automated solution that meets both industry standard "best practices" and, satisfies the program change control requirements specific to DLT's current operation.

RECOMMENDATION

2010-28 Implement an automated program change management process over DLT computer applications. Coordinate and request needed assistance in implementing an automated solution that meets DoIT policies and procedures and industry standards.

Finding 2010-29

DEPARTMENT OF LABOR AND TRAINING COMPUTER APPLICATIONS - DISASTER RECOVERY PLAN

The DLT Data Center houses the computers hosting a variety of applications mostly related to the Unemployment Insurance and the Temporary Disability Insurance programs. In fiscal 2010, benefit payments processed through these computer systems totaled $930 million.

All of the data that is being captured and maintained by these systems is backed up on a scheduled basis with copies being securely maintained on and off site. If a problem arose within one of these automated applications or a minor equipment failure, existing DLT recovery procedures would be used to resolve the problem. However, there is no formal, comprehensive disaster recovery plan designed specifically for DLT IT operations in the event the DLT data center was rendered inoperable.

The State has contracted with SunGard Availability Services for backup and recovery services which covers selected applications hosted at the State's data center; however, the DLT applications have not been included in this recovery plan or periodic testing.

RECOMMENDATION

2010-29 Implement a formal comprehensive disaster recovery plan for the DLT applications hosted at the DLT Data Center. Explore, in conjunction with DoIT, the possibility of including DLT systems within the State's existing DOA/DoIT Master Disaster Recovery Plan.

Finding 2010-30

RHODE ISLAND LOTTERY - INFORMATION SYSTEMS SECURITY POLICIES AND PROCEDURES – MONITORING AND ASSESSMENT

The Lottery has comprehensive information system security policies designed to safeguard the information systems utilized within its operations. Due to the highly computerized nature of the Lottery's operations, these policies are key to ensuring the integrity of the Lottery's information systems. The Lottery ensures compliance with these policies through monitoring procedures performed by information technology (IT) security personnel as well as contracted IT security professionals who assist with evaluating compliance by the Lottery's gaming systems contractor and licensees involved in the operation of video lottery games (licensees).

The Lottery contracted with an IT security consultant during fiscal 2010 to conduct a comprehensive assessment of the significant information systems utilized within the Lottery's operations. The scope of this review involved evaluating compliance of all significant information systems (whether operated by the Lottery, its contractors, or other licensees involved in the operation of Lottery games) with the Lottery's comprehensive information system security policies and industry accepted security standards.

The majority of the Lottery's information systems policies and procedures were found to be in place and operating effectively by the consultant; however, instances of noncompliance with these policies were observed and reported by the contracted IT security professionals. Due to the significance of certain instances of reported noncompliance, the Lottery must ensure that these deficiencies are corrected to enhance controls over the gaming system environment and over financial reporting. Additionally, the Lottery should assess its overall monitoring efforts to ensure comprehensive coverage of all critical IT security components. As necessary, the scope and frequency of scheduled monitoring procedures should be modified to ensure timely identification of noncompliance with mandated IT security policies.

To ensure continuous compliance with its mandated policies and procedures over all information systems utilized within Lottery operations, the Lottery should:

- Conduct a more formalized risk assessment process on an annual basis (with updates performed as prompted by significant system modifications) to better identify critical IT risk areas. A formalized risk assessment process will identify risks more timely and assist the Lottery in utilizing its internal and external monitoring resources.

- Mandate that all contractors and licensees involved in the operation of lottery games have an Information Security Administrator function with responsibility for ensuring their entity's compliance with the Lottery's information system security policies.

- Contract annually, based upon risk assessment outcomes, for a comprehensive review of all significant system components involved in the operation of the Lottery's games.

These recommendations will enhance the Lottery's existing monitoring efforts to ensure compliance with its information systems security policies.

RECOMMENDATIONS

2010-30a Address IT security deficiencies reported by the Lottery's information systems security contractor.

2010-30b Conduct more formalized risk assessment processes on an annual basis with updates as needed for significant system modifications to better identify critical IT risk areas and utilize resources (both internal and external) to mitigate these risks.

2010-30c Mandate that all contractors and licensees involved in the operation of lottery games have an Information Security Administrator function with responsibility for ensuring their entity's compliance with the Lottery's information system security policies.

2010-30d Contract on an annual basis for a comprehensive security review of all significant information systems involved in the operation of the Lottery's games.

Finding 2010-31

CONVENTION CENTER AUTHORITY – FUNDING OF THE OPERATING RESERVE AND DEBT SERVICE COMPONENTS OF ITS RESTRICTIVE COVENANTS

During the fiscal year ended June 30, 2010, the Convention Center Authority was unable to fund the Operating Reserve and Debt Service Reserve components of its restrictive covenants pursuant to the bond indentures.

Finding 2010-32

EMPLOYEES' RETIREMENT SYSTEM - IMPROVE CONTROLS OVER THE RELIABILITY OF CONTRIBUTIONS RECEIVABLE FOR FINANCIAL STATEMENT PURPOSES

Contributions from both employees and employers are recognized as revenue (additions) based on employer payroll activity – contributions are considered receivable when wages are paid to the employee. For financial reporting purposes, contributions receivable at June 30 are derived from (1) the ANCHOR wage and contribution system based on actual contributions data submitted, without cash remittance to the system prior to the end of the fiscal year, and (2) an analysis performed to calculate contributions receivable based upon actual contribution data received after the end of the fiscal year relating to payroll periods prior to the end of the fiscal year.

The year-end analysis of contributions receivable can be improved to provide a higher level of assurance that the contributions receivable balances are accurately recorded. Our audit procedures in prior years found several instances where one or more of the contributions receivable balances were misstated.

Our 2010 audit found another instance where one of the receivable balances (and related revenue balance) was misstated – both were understated by $6.5 million. Specifically, the System typically performs an analysis at year-end to calculate employee and employer contributions accruals for the teacher units within the ERS fund. The 2010 analysis resulted in an appropriate accrual related to the employer portion of this receivable. ERSRI did not, however, accrue the receivable due from the employee share (because of an oversight).

The System should adopt certain control procedures that would help to prevent or detect misstatements in the contributions receivable balances. This should include a written policy describing standard close-out procedures. This policy should require specific analytical procedures that would aid in determining whether or not the receivables balances are complete in all material respects (in fact, this is how we discovered that the balance was understated by $6.5 million in 2010).

RECOMMENDATION

2010-32 Implement control procedures over the manual processes used to calculate contributions receivable at fiscal year end for financial reporting purposes.

Finding 2010-33

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY – WIRE TRANSFER AUTHORIZATIONS AND BANK RECONCILIATIONS

Currently, the CFO/Controller has the authority to initiate, process, and record in the general ledger a wire transfer from the Authority's operating cash accounts. A person independent of the CFO/Controller does not review and authorize the wire transfer transaction before it is executed by the bank. Also, the CFO/Controller prepares the Authority's bank reconciliations; however, a person independent of the CFO/Controller does not review and approve the bank reconciliations.

RECOMMENDATION

2010-33 We understand that the Authority's Board of Directors and Executive Director review monthly financial reports prepared by the CFO/Controller. However, to strengthen existing internal control over financial reporting we recommend that the Authority:

- Implement a process with its banks to require that the bank call one of several authorized representatives, other than the CFO/Controller, (for example, the Executive Director, Chairperson of the Board of Directors) to verify and authorize the wire transfer request initiated by the CFO/Controller before the wire transfer is executed.

- Assign the function of preparing the month-end reconciliation of each bank and investment account, and comparing the reconciled bank and investment account balances to the respective balances reported in the general ledger to a person independent of the CFO/Controller.

Finding 2010-34

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY – AUDIT ADJUSTMENTS

During our audit, we proposed and management reviewed, approved, and accepted audit adjustments including, among others, an adjustment to record capitalized interest related to interest expense incurred on a bond obligation issued to fund construction costs.

RECOMMENDATION

2010-34 When events occur or transactions are executed that are different in nature from the Authority's normal transaction processing, we recommend that the Authority determine whether there are any accounting principles generally accepted in the United States that are required to be implemented to record the substance of such events or transactions.

Finding 2010-35

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, detect and correct misstatements in the financial statements on a timely basis.

The financial reports prepared by the Central Falls School District for the year ended June 30, 2010 had misstatements that resulted in the proposal of several audit adjustments. The misstatements resulted from the inadequate reconciliation and review of the financial statement accounts throughout the year and 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 financial statements.

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

RECOMMENDATION

2010-35 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 the financial reports should be submitted to the Superintendent and the Board of Trustees.

Finding 2010-36

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, 2010, the list was prepared after year-end and was incomplete and several audit adjustments were proposed to correct the list of capital assets and depreciation expense. 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

2010-36 We strongly recommend that the School District implement policies and procedures and utilize the Unifund capital asset accounting system to account for the addition and deletion of capital assets and related depreciation expense, 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 2010-37

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

As described in Finding 2010-61 (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 the Medicaid Management Information System (MMIS), to administer HHS federal programs. Benefit payments disbursed from these two systems during fiscal 2010 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.

Finding 2010-38

FISCAL AGENT OVERSIGHT – MEDICAL ASSISTANCE PROGRAM

As described in Finding 2010-71 (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.

Table of Findings by Federal Program

Program Title	CFDA	Applicable Findings
Supplemental Nutrition Assistance Program (SNAP) Cluster:		
Supplemental Nutrition Assistance Program (SNAP)	10.551	10-41
State Administrative Matching Grants for SNAP Program	10.561	10-39, 10-40, 10-42
Child Nutrition Cluster:		
School Breakfast Program	10.553	10-39
National School Lunch Program	10.555	10-39
Special Milk Program for Children	10.556	10-39
Summer Food Service Program for Children	10.559	10-39
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	10-39, 10-40
Public Works and Economic Development Cluster:		
Economic Adjustment Assistance	11.307	None
Mortgage Insurance – Homes	14.117	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	10-39, 10-40, 10-43, 10-44, 10-45
WIA Cluster:		
WIA Adult Program	17.258	10-39, 10-46, 10-47, 10-48, 10-49
WIA Youth Activities	17.259	10-39, 10-46, 10-47, 10-48, 10-49
WIA Dislocated Workers	17.260	10-39, 10-46, 10-47, 10-48, 10-49
Airport Improvement Program	20.106	None
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	10-39, 10-40, 10-50, 10-51, 10-52, 10-53, 10-54, 10-55
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

Program Title	CFDA	Applicable Findings
Student Financial Assistance Cluster, continued:		
Academic Competitiveness Grants	84.375	None
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	None
Nursing Student Loans	93.364	None
Title I, Part A Cluster		
Title I Grants to Local Educational Agencies	84.010	10-39, 10-56
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	10-39, 10-56
Special Education Cluster:		
Special Education – Grants to States (IDEA Part B)	84.027	10-39
ARRA - Special Education – Grants to States (IDEA Part B), Recovery Act	84.391	10-39
Special Education – Preschool Grants (IDEA Preschool)	84.173	10-39
ARRA - Special Education – Preschool Grants (IDEA Preschool), Recovery Act	84.392	10-39
Federal Family Education Loans (Guaranty Agency)	84.032	None
State Fiscal Stabilization Fund (SFSF) Cluster:		
ARRA - SFSF - Education State Grants, Recovery Act	84.394	10-39
ARRA - SFSF - Government Services, Recovery Act	84.397	10-39
TANF Cluster:		
Temporary Assistance for Needy Families	93.558	10-39, 10-41, 10-57, 10-58, 10-60, 10-61
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families – State Programs	93.714	10-39, 10-41, 10-57, 10-58, 10-59, 10-60, 10-61
Low-Income Home Energy Assistance	93.568	10-39, 10-62, 10-63, 10-64, 10-65, 10-66, 10-67
CCDF Cluster:		
Child Care and Development Block Grant	93.575	10-39, 10-41, 10-57, 10-61
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	10-39, 10-41, 10-57, 10-61, 10-68, 10-69
ARRA - Child Care and Development Block Grant	93.713	10-39, 10-41, 10-57, 10-61
Children’s Health Insurance Program	93.767	10-39, 10-41, 10-60, 10-61, 10-70, 10-71, 10-72, 10-73
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	10-39
State Survey and Certification of Health Care Providers and Suppliers	93.777	10-39
Medical Assistance Program	93.778	10-39, 10-41, 10-60, 10-61, 10-71, 10-72, 10-73, 10-74, 10-75, 10-76, 10-77, 10-78, 10-79, 10-80, 10-81, 10-82, 10-83, 10-84, 10-85, 10-86, 10-87, 10-88, 10-89, 10-90
Research and Development Cluster	93.701	10-91

Finding 2010-39

VARIOUS PROGRAMS – refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

CASH MANAGEMENT

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.

In fiscal 2010, controls were enhanced to ensure compliance with federal cash management requirements. Late in fiscal 2010, a new Cash Resources report was developed to assist departments in drawing cash for federal programs thereby improving controls over compliance. The report effectively isolates cash disbursements by CFDA number, deriving data directly from the accounting system and incorporates the appropriate draw technique. Additionally, draw techniques specified in the Treasury/State Agreement (TSA) have subsequently been modified in the fiscal year 2011 TSA to streamline program draw techniques and more accurately reflect actual program disbursement patterns.

Each department is responsible for drawing federal funds for the programs it manages. Due to the implementation of the Cash Resources report in the last quarter of the state fiscal year, centralized control and monitoring processes to ensure that federal funds were drawn in accordance with the specific requirements of the Treasury/State agreement were not in place for the entire fiscal year. Not all departments used the Cash Resources report upon implementation; however, use of the report increased subsequently. We reported material noncompliance with cash management requirements for one major program, LIHEAP - CFDA 93.568.

The State should reinforce the departments' use of the Cash Resources report when drawing federal funds to ensure compliance with federal Cash Management Improvement Act provisions. Monitoring to ensure (1) departments' use of the Cash Resources report and (2) overall compliance with cash management provisions should continue. Modification of the draw techniques specified in the TSA may be needed for certain benefit-type programs.

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 State's accounting system (RIFANS) 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

2010-39a Reinforce use of the State's Cash Resources report to ensure compliance with CMIA and TSA requirements and continue to monitor overall statewide compliance with cash management provisions. Review, and modify as necessary, the basis for requesting federal funds (i.e., funding techniques) for applicable federal assistance programs.

2010-39b Investigate automating all draws of federal funds through an 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 federal assistance programs 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 27 funding techniques for programs in the agreement. All but one of the funding techniques included in the Treasury/State agreement were interest-neutral. Consequently, no interest liability will be incurred for transfers of funds made in accordance with agreed upon interest-neutral techniques specified in the agreement. An interest liability may accrue when a program does not follow the prescribed interest-neutral technique.

In calculating the fiscal 2010 interest liability, actual compliance with the interest-neutral funding technique for a program subject to the TSA was not always considered. In three instances, an interest liability was not reported despite non-adherence with the prescribed interest-neutral technique. In another instance, an interest liability was incorrectly included when the program had in fact followed an interest-neutral technique.

Documentation of adherence to the interest-neutral funding techniques should be enhanced to support the inclusion or exclusion of the program from the interest calculation of the CMIA Annual Report.

Questioned Costs: None

RECOMMENDATION

2010-39c Consider and document actual compliance with the funding techniques specified in the Treasury/State agreement when calculating the interest liability included in the CMIA Annual Report.

Finding 2010-40

VARIOUS PROGRAMS – refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

MANAGEMENT OF EQUIPMENT ACQUIRED WITH FEDERAL FUNDS

As described in Finding 2010-9 (Section II – Financial Statement Findings), accounting and physical control over 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 2010-41

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) CLUSTER:
Supplemental Nutrition Assistance Program (SNAP) – CFDA 10.551
TANF CLUSTER:
Temporary Assistance for Needy Families – CFDA 93.558
ARRA- Emergency Contingency Fund for Temporary Assistance for Needy Families - State Programs – CFDA 93.714
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
ARRA - Child Care and Development Block Grant – CFDA 93.713
CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
MEDICAID CLUSTER:
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

2010-41a 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.

2010-41b Develop policies and procedures detailing appropriate investigation of issues identified by the department's monitoring procedures.

Finding 2010-42

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) CLUSTER:
State Administrative Matching Grants for the SNAP - CFDA 10.561
Administered by: Department of Human Services (DHS)

IN-KIND MATCH

DHS has two separate contracts with the University of Rhode Island to provide nutrition education and outreach services. The Financial Status Report (SF 269) for the federal fiscal year ended September 30, 2009 reported non-federal matching expenditures totaling $729,483 (in-kind match) for nutrition education and $508,261 (in-kind match $418,568 and state expenditures $89,693) for outreach services. The contracts state that the in-kind matching expenditures were to be provided, principally, by third party entities which had partnered with the University and, to a lesser extent, by the University.

Although the types of in-kind matching expenditures identified in the contract budgets appear allowable, DHS did not have documentation for in-kind matching expenditures *actually* provided by the

University and third party entities totaling $631,483 for nutrition education services and $418,568 for outreach services.

DHS should develop controls to ensure that these contract costs are properly documented to support amounts reported to the federal government.

Questioned Costs: None

RECOMMENDATIONS

2010-42a Develop control procedures to ensure that adequate supporting documentation is maintained for in-kind matching expenditures reported in the SNAP Federal Financial Status Report.

2010-42b Obtain documentation of in-kind matching expenditures actually provided by the State University and third party entities for the federal fiscal year 2009 SNAP Federal Financial Status Report.

Finding 2010-43

UNEMPLOYMENT INSURANCE – CFDA 17.225
Administered by: Department of Labor and Training (DLT)

BAM UNIT CASE FILE TESTING

The Benefits Accuracy Measurement (BAM) Unit serves as a quality control program for Unemployment Insurance (UI) benefits. Each week, the Unit randomly selects claims for audit to determine if they comply with UI eligibility and benefit provisions. Reviewers complete an investigation summary, which includes questions on whether the claimant is registered with RI Job Service in accordance with RI General Law 28-44-12. Evidence of registration should be included in the case file. The investigation summary is the source of information used to compile the annual report including the State's error rate. Registration with RI Job Service should be verified during the Benefit Accuracy Measurement (BAM) Unit review of claims.

Six clients may or may not have been registered with RI Job Service at the time of their UI claim. We were told that three of these clients were not required to be registered because they were residents of Massachusetts; however, the Investigation Summary for these clients indicated that they were required to be and were, in fact, registered. Two client registrations could not be documented and one registration was not in effect at the time the client was selected for testing. If a claimant was required to be registered but was not, the claim for that selected week could be deemed an overpayment. This would affect results reported in the annual report of BAM review results.

The RI Job Service was migrating from one computer system (AOSOS) to another, (GEOSOL) during the summer of 2009. Claims selected for review during this time contained notes in the case files that said that registration could not be confirmed, but since it was required at the time the claim was filed, they should be considered registered. No effort was made later to go back and confirm registration, since the unit has a deadline of 90 days to complete most claim reviews.

Questioned Costs: None

RECOMMENDATION

2010-43 Properly complete the investigation summary to reflect whether or not the client (claimant) is required to be registered with RI Job Service. Maintain evidence of registration in the claim review file.

Finding 2010-44

UNEMPLOYMENT INSURANCE – CFDA 17.225
Administered by: Department of Labor and Training (DLT)

REPORTING – ETA 2208A (UI-3)

The ETA 2208A (UI-3) Quarterly UI Contingency Report provides information to ETA on the number of quarterly staff years worked and paid and the number of year-to-date staff years paid for various UI program categories. Information reported in Section A of the ETA 2208A report is from time distribution reports generated by RIDLT's internal financial accounting and reporting system (FARS).

We reviewed the 2208A (UI-3) reports and found control deficiencies that indicate appropriate controls were not in place to ensure that the reports were complete and accurate. We noted the following:

- The reported number of positions worked for the quarter ended December 31, 2009 was the same as that reported for the quarter ended September 30, 2009 – the amounts were not updated.
- For the quarters ended September 30, 2009, December 31, 2009 and March 31, 2010, the reported staff years paid and the year-to-date staff years paid did not include personnel working in the EUC-State unit.

These errors could have been detected by review of the report information and comparison to supporting documentation prior to submission of the report to the federal government.

Questioned Costs: None

RECOMMENDATIONS

2010-44a Perform and document supervisory review of the ETA 2208A (UI-3) report prior to submission to the federal government.

2010-44b Correct and resubmit the ETA 2208A (UI-3) Quarterly UI Contingency Reports for the quarters ended September 30, 2009, December 31, 2009, and March 31, 2010.

Finding 2010-45

UNEMPLOYMENT INSURANCE – CFDA 17.225
Administered by: Department of Labor and Training (DLT)

REPORTING

Controls over federal reporting need to be enhanced to ensure accurate and consistent reporting of financial and program information to the federal Department of Labor. Reporting is complicated by the number of reports and the number of accounting systems or databases used to accumulate the required data. Controls over reported financial information could be enhanced by timely reconciliation to the State's RIFANS accounting system from which program expenditures are disbursed.

Quarterly Determinations, Allowance Activities and
Employability Services Under the Trade Act (ETA 563)

The ETA 563 details data by each petition approved by the USDOL. Data reported include the number of recipients, number of first payments, number of weeks paid and amount paid. The report also includes training expenses paid for eligible recipients. Some of this information is also reported on other reports, such as the 9130 (Financial Status) reports for training and benefit expenditures. Benefit expenditures are considered part of the Unemployment Insurance program, training expenditures are part of the Trade Adjustment Assistance Program.

The source for training expenditures reported on the 563 is a series of spreadsheets. The training amount reported in the 563 is not compared to the amount reported on the 9130. When we compared the amount reported on the September 30, 2009 563 to RIFANS, we noted a difference of $54,528. This could be attributed to timing of the expenditures, but without regular reconciliation, the variance could not be determined. Benefit expenditures for this quarter were also not reconciled to information from the accounting system.

Questioned Costs: None

RECOMMENDATION

2010–45a Review reports prior to submission to ensure data agrees to supporting information systems.

Trade Act Participant Report

The Revised Trade Act Participant Report (TAPR) includes employment and wage information of recipients of assistance to the US Department of Labor (USDOL). This quarterly report is prepared from client information data maintained within DLT's Adult and Dislocated Worker Unit (ADWU). The report replaced the 563 report as of the quarter ended December 31, 2009.

We noted clerical errors in both the individual participant database and the composition of the quarterly TAPR data files that were submitted to the USDOL during the fiscal year. The report prepared for the quarter ended June 30, 2010 incorrectly indicated that there were no participants in the program. Federal guidance for the revised TAPR report (TEGL06-09) specifically states that "reports entered for quarterly accrued expenditures …should equal the amount of accrued expenditures reported by the state for the relevant quarterly submission on the ETA 9130 Fiscal report for TAA training". No comparison was performed before the TAPR was submitted, as the two reports are completed by personnel in different divisions within the department. Reporting could be improved with increased communication between the divisions in the department.

Questioned Costs: None

RECOMMENDATION

2010–45b Coordinate reporting efforts across divisions to ensure consistent reporting. Reconcile the TAPR to the 9130 report.

Trade Act Participant Report – Petition Numbers

In order to be eligible for Trade Adjustment Assistance services, an employee must have been dislocated from an employer adversely affected by foreign trade. The employer seeks certification from the Department of Labor and if the petition is approved, employees are eligible for benefits. The appropriate petition number should be recorded for each recipient included in the TAPR.

We examined the petition numbers on two quarterly TAPR reports and selected a sample of numbers to test for accuracy. We found that four petition numbers contained on the reports were incorrect. Two of these were clearly incorrect as they were outside of the known range of approved petition numbers. Petition numbers are routinely carried forward from one report to the next without verification.

Questioned Costs: None

RECOMMENDATION

2010–45c Verify petition numbers reported on the TAPR report prior to submission.

Finding 2010-46

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

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 77 accounts and 35 ledgers active during the year. Ledgers are established for each funding source and 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. Supporting documentation includes activity for closed and open grants and fund ledgers.

Reports are prepared on two levels. The State Workforce Investment Office (SWIO) prepares reports detailing activity at the state level. The Workforce Partnership of Greater Rhode Island (WPGRI) is a separate division within DLT that administers programs at the local level. The local report is submitted to the SWIO, where it is combined with the report of the other local agency, Workforce Solutions of Providence and Cranston, for one submission to the Department of Labor.

One of the quarterly reports prepared at the local level (WPGRI) contained an error in the amount of expenditures reported. The error occurred when a change was made to one of the amounts included in supporting documentation. This change was carried forward, therefore subsequent quarters were also underreported.

Financial reports include both expenditures and receipts, which should be matched with the proper local and statewide activity. On two occasions, the amount of funds received for local activities was reported as the amount received for statewide activities.

Establishing fund ledgers in amounts equal to grant awards will simplify reporting, making errors like those reported above less likely.

Questioned Costs: None

RECOMMENDATIONS

2010-46a Establish authorized balances within FARS ledgers consistent with grant award documentation.

2010-46b Report amounts drawn for local and state activities appropriately.

Finding 2010-47

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)

ELIGIBILITY

The Workforce Investment Act Cluster provides youth and adult education services, prepares and coordinates comprehensive employment plans, and provides job and career counseling during program participation and after job placement. We selected 40 adult files and 9 youth files for eligibility testing from the June 30, 2010 database of WIA participants maintained by the State Workforce Investment Office. Cases are administered at the local level by the Workforce Partnership of Greater Rhode Island (WPGRI) offices. We noted the following file exceptions in our review:

	Exceptions noted
Participant case files could not be located	2
Letter of authorization for individual training accounts (ITA's) for Occupational Skills Training was not in the participant folder.	7
Errors were noted on the "Workforce Investment Act Program Eligibility and Verification" (PE&V) forms, which are required to be maintained in all Adult and Dislocated Workers (DW) case files:	
o properly executed PE&V form could not be located in the participant folders	4
o the PE&V form was in the folder, but it was not completed by the WIA case counselors	3
o the PE&V form improperly indicated that the recipient was eligible for both Adult and Dislocated Worker services	2
o evidence of why the recipient qualified for Adult services was missing	1
o the recipient was in the database as an Adult and DW, but her file indicated she was eligible for DW services only	1
A participant who should have been discontinued per a case worker's notes was continued for an additional 2 months with no explanation.	1
The Network RI Customer Application was not properly completed and retained in the files.	1

A review performed by the US Department of Labor during fiscal 2009 noted similar findings. Controls should be enhanced to ensure program eligibility requirements are followed and documented consistently.

Questioned Costs: None

RECOMMENDATION

2010-47a Provide additional training to staff regarding the objectives of the program and required documentation. Enhance supervisory review over the eligibility process including specific review of the forms used to assess eligibility and support outcomes.

Electronic Eligibility System

In order to facilitate required federal reporting of WIA client information and outcomes, the State uses the GEOSOL system. We obtained the data from the system for the clients selected in our eligibility case file testing as described previously. We compared the case file data to the information in the system and found that application dates and exit dates were not in agreement for 6% of adult and dislocated worker clients and 22% for youth clients. The information in the database should agree to the paper files being maintained. Inconsistent data could result in outcomes being improperly reported.

Questioned Costs: None

RECOMMENDATION

2010-47b Ensure that GEOSOL system data is consistent with case file documentation.

Finding 2010-48

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)

ARRA ACTIVITY ACCOUNT NUMBERS

The American Recovery and Reinvestment Act (ARRA) requires that recipients of funding must "agree to maintain records that identify adequately the source and application of ARRA awards"; and "provide identification of ARRA awards in their Schedule of Expenditures of Federal Awards (SEFA) and Data Collection Form (SF-SAC)" (2 CFR section 176.210).

The State established an account numbering convention that would allow identification of all ARRA funded programs. We identified 21 accounts used for the WIA cluster that were funded by ARRA but were not appropriately coded as "ARRA accounts" within the State's accounting system. Expenditures in these accounts totaled over $87,000 for fiscal 2010. The Department should enhance controls over the establishment of new accounts to ensure that ARRA funded programs are appropriately identified and ensure the State's Schedule of Expenditures of Federal Awards is fairly presented.

Questioned Costs: None

RECOMMENDATION

2010-48 Ensure ARRA funding is appropriately identified in the State's accounting system. Follow the established numbering convention for creating accounts funded with ARRA dollars.

Finding 2010-49

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)

SUBRECIPEINT MONITORING

A pass-through entity is responsible for monitoring of its subrecipients. Monitoring activities such as site visits are intended to provide assurance that awards are being administered properly. The State Workforce Investment Office (SWIO) has not communicated the results of its monitoring of the fiscal activities of its subrecipient for Program Year 2009, which is state fiscal year 2010. Monitoring results and related recommendations must be communicated to the subrecipient so that improvements can be made when necessary. We were informed that monitoring is being performed, but due to staffing limitations, reports have not been prepared.

Questioned Costs: None

RECOMMENDATION

2010-49 Communicate the results of subrecipient monitoring activities to the subrecipient in a timely manner.

Finding 2010-50

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER:
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 24 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 required interval. Our audit disclosed the following:

- 5 (21%) of the 24 projects tested had at least one labor compliance checklist missing, and
- 10 (34%) of 29 labor compliance checklists were missing.

Section 5.5(3)(ii)(A) of Title 29 of the Code of Federal Regulation requires verification that the contractors and subcontractors submit weekly certified payrolls. For the 24 active construction contracts tested as part of our sample, RIDOT did not have 81 contractor or subcontractor certified payrolls on file. RIDOT should strengthen controls to ensure contractor submission of certified payroll documentation is timely and complete.

Questioned Costs: None

RECOMMENDATION

2010-50 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 2010-51

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER:
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 controls 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 49 items from 24 fiscal 2010 projects, to determine whether RIDOT completed the required materials testing as specified in each project's materials test book. We noted exceptions for 20 (83%) of the 24 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 19 contractor Certificates of Compliance (at the construction field office). Eighteen Certificates of Compliance were subsequently obtained by RIDOT's Construction Office.

- In three instances, documentation of materials test results were not on file at either the project field office or RIDOT's materials laboratory. Due to the lack of materials test results, the amount paid for these materials was questioned.

RIDOT should improve its quality assurance program with respect to materials testing consistent with federal regulations and guidelines.

Questioned Costs: $22,834

RECOMMENDATIONS

2010-51a Improve the RIDOT quality assurance program for materials testing consistent with federal regulations and guidelines.

2010-51b Ensure all required certificates of compliance have been received and recorded in the materials test book prior to contractor payment for the materials.

2010-51c Improve documentation for tests completed to comply with the FHWA approved *Master Schedule for Sampling, Testing and Certification of Materials.*

2010-51d Require all test results be documented in the materials test book prior to vendor payment for the related materials.

2010-51e Require staff to report any errors in the materials test book to the appropriate RIDOT personnel for correction.

Finding 2010-52

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER:
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 2010, RIDOT passed through approximately $53 million of Highway Planning and Construction funds to subrecipients (mostly local municipalities - $3.4 million, and the Rhode Island Airport Corporation - $48.6 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 needs to identify projects within its financial management system that meet subrecipient criteria. Once identified as a subrecipient relationship, 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

2010-52a Establish written policies and procedures for subrecipient monitoring and establish a schedule of on-going projects for review and document the monitoring performed.

2010-52b Identify all federal awards passed through to subrecipients by project.

2010-52c Ensure subrecipients have had required single audits performed and review the audit reports on a timely basis including issuing management decisions within required timeframes.

2010-52d Provide required information to subrecipients in contracts such as CFDA number and title, federal agency and applicable compliance requirements including identification of ARRA funding.

2010-52e Evaluate the impact of subrecipient activities on RIDOT's ability to comply with applicable federal regulations.

Finding 2010-53

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER:
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 2010 were $65.3 million.

RIDOT uses its financial management 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 Financial Management System (FMS).

Questioned Costs: None

RECOMMENDATION

2010-53 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 2010-54

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER:
Highway Planning and Construction – CFDA 20.205
Administered by: Rhode Island Department of Transportation (RIDOT)

ALLOWABLE COSTS/COST PRINCIPLES

The Rhode Island Department of Transportation (RIDOT) did not have adequate policies or procedures in place during the fiscal year to ensure police detail charges by municipalities were reasonable. Expenditures for police details paid by RIDOT in fiscal 2010 were approximately $4.2 million. OMB Circular A-87 states "to be allowable under federal awards, costs must meet several general criteria to include being necessary and reasonable for proper and efficient performance and administration of federal awards". Further, reasonable costs are defined as "a cost in its nature and amount that would not exceed that which would be incurred by a prudent person under the circumstances".

RIDOT has insufficient documentation to support the reasonableness of police detail costs (e.g., officer detail rate of pay, administrative fees, vehicle fees). RIDOT has not entered into memorandums of understanding or contracts with any municipality to support the basis for charges being submitted. We were informed that the department must pay the contracted hourly rated between the police officer and municipality but RIDOT does not maintain any copies of police contracts for verification purposes.

We identified questioned costs totaling $37,433 (ARRA HPC projects - $27,834, HPC projects totaling $1,669 and GARVEE projects $7,930) for police detail costs charged to projects within our expenditure test sample.

Questioned Costs: $37,433

RECOMMENDATION

2010-54 Establish policies and procedures for payment of police details and enter into memorandums of understanding with the municipalities to establish uniform and reasonable charges.

Finding 2010-55

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER:
Highway Planning and Construction – CFDA 20.205
Administered by: Rhode Island Department of Transportation (RIDOT)

FEDERAL MATCHING REQUIREMENT

We determined that the required State match was not met on a timely basis for a project included in our sample of project expenditures tested for compliance. The federal authorization for this project indicated FHWA would fund 80% of the project and the State the remaining 20%. The Department of Environmental Management (DEM) entered into a cooperative agreement with RIDOT to fund and pay the match for the project. RIDOT paid the vendor the federal (80%) share of project costs; however, there was no coordination to ensure DEM paid the remaining 20% state required matching share. The State match portion was not paid to the vendor until three months later, after the close of the fiscal year, and was prompted by our audit inquiry.

RIDOT does not have a process in place to ensure matching funds are made when another State department is providing the match. As the FHWA grant recipient, RIDOT must ensure compliance with matching requirements. One vendor payment should be made for 100% of the contractor's invoice that is then allocated to the respective funding sources (federal and state) within the State's accounting system.

Questioned Costs: None

RECOMMENDATION

2010-55 Ensure federal matching requirements are met for all HPC funded project expenditures. When matching funds are being provided by another state department or agency, process payment simultaneously from the multiple funding sources.

Finding 2010-56

TITLE I, PART A CLUSTER:
Title I Grants to Local Educational Agencies – CFDA 84.010
ARRA - Title I Grants to Local Educational Agencies, Recovery Act – CFDA 84.389
Administered by: Central Falls School District (CFSD)

ALLOWABLE COSTS/COST PRINCIPLES

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.

Although the School District has implemented system that requires periodic certifications for employees that work solely on a single federal award or cost objective, and personnel activity reports or equivalent documentation for those employees who work on multiple activities or cost objectives, one employee who worked on multiple activities and was charged to the Title I grant did not prepare personnel activity reports during the year. The employee was unaware that this was a requirement and has since completed all required personnel activity reports.

Questioned Costs: None

RECOMMENDATION

2010-56 We recommend that the School District review the current procedures for monitoring compliance with the time and effort reporting requirements to ensure that all employees that are charged to federal programs are completing the required documentation.

Finding 2010-57

TANF CLUSTER:
Temporary Assistance for Needy Families – CFDA 93.558
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families - State Programs – CFDA 93.714
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
ARRA - Child Care and Development Block Grant - CFDA 93.713
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. Department personnel from the RI Works Office accept applications and approve payments for RI Works cash assistance and child care 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 child care services to determine whether the proper eligibility determinations were made, and whether payments were calculated in accordance with program requirements, including obtaining any required documentation and performing required verifications. We noted the following issues concerning the RI Works Program and Child Care Programs eligibility determination process:

- Fifteen instances where the required hard copy documentation (e.g. application, income documentation, resource documentation, physician's verification, etc.) could not be located or the hard copy documentation did not agree to INRHODES information.

- Two instances where application questions concerning certain federal prohibitions were not answered by the applicant.

- One instance where a re-certification was done three months late.

- Four 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 when they are transferred.

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

<u>RECOMMENDATIONS</u>

2010-57a Further 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, performing timely re-certifications and determining and enforcing compliance with work participation requirements.

2010-57b Include child care cases in the sample case review process.

2010-57c 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 $37,695 for FFY 2009 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: $37,695 (CCDF Cluster)

RECOMMENDATIONS

2010-57d Develop control procedures to prevent ineligible child care costs from being charged to the program.

2010-57e Adjust the federal report accordingly for the amount inappropriately claimed.

Finding 2010-58

TANF CLUSTER:
Temporary Assistance for Needy Families – CFDA 93.558
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families - State Programs – CFDA 93.714
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 and referenced to support amounts claimed. Further, documentation to support both the ACF-196 and ACF-204 reports, particularly in the case of MOE claimed expenditures, should reference qualifying regulations or other federal guidance for such expenditures.

Specific deficiencies noted during our review of these reports for federal fiscal year (FFY) 2009 are summarized below:

- DHS reported approximately $11 million relating to Emergency Assistance (EA) direct benefits paid by the Department of Children, Youth and Families (DCYF). DHS was unable to provide us with adequate documentation to demonstrate that these clients met TANF income and family composition eligibility requirements.

  Additionally, DCYF informed us that a portion of these costs was actually incurred prior to the TANF period of availability for FFY 2009. DCYF was unable to provide documentation identifying the amount DHS reported that was incurred prior to FFY 2009, which is outside the TANF period of availability.

  A small portion of these EA costs may have been made on behalf of a child up to the age of 21. TANF regulations (Title 42 USC 619) and the State Plan require that eligible costs be made to a family with a minor child (or less than 19 years old if a full-time student in a secondary school or the equivalent of vocational or technical training).

- For Federal Fiscal Year (FFY) 2009 DHS claimed approximately $2 million in child care services paid by the Department of Children, Youth and Families (DCYF) as part of the total child care MOE costs. DHS was unable to provide us with adequate documentation to demonstrate that the DCYF child care recipients met applicable child care program eligibility requirements which include: a maximum child age, income thresholds and family household composition.

- DCYF residential service expenditures of $17.2 million were reported by DHS for FFY 2009. DHS was unable to provide us with adequate documentation to demonstrate that these clients met TANF income and family composition eligibility requirements, including the temporary absence criteria contained in the TANF state plan since these children reside outside the home. DHS informed us that they only claimed children with re-unification plans: however, they could not document how this criteria complied with the temporary absence provisions outlined in the state plan (absence from the home totaling no more than 180 days). We understand that a revision to the plan allowing re-unification plans as a good cause exemption is being submitted to the federal government for approval.

  A small portion of these costs may have been made on behalf of a child up to the age of 21. TANF regulations (Title 42 USC 619) and the State Plan require that eligible costs be made to a family with a minor child (or less than 19 years old if a full-time student in a secondary school or the equivalent of vocational or technical training.

- Housing assistance of approximately $3.8 million was reported by DHS as MOE. This was based on a memo from the Rhode Island Office of Housing and Community Development (OHCD) stating that approximately $700,000 represented payments by the RI Office of Housing and Community Development to a shelter. DHS could not document (1) if these costs were recorded in the state accounting system or (2) that the costs had not been reimbursed under another federal program or reported as State match/ MOE under another program.

  Additionally, approximately $3.1 million of Housing Assistance MOE represented Neighborhood Opportunities Program and Building Homes (Rhode Island Bond Fund) expenditures. No supporting documentation was provided to support these amounts. Subsequent to submitting the federal reports, the Rhode Island Housing and Mortgage Finance Corporation (RIHMFC) provided DHS with a bond fund expenditure summary dated June 22, 2010 indicating only approximately $1 million was spent for the Neighborhood Opportunities

Program in FFY 2009 from bonds issued through 2009. This is approximately $2.1 million less than amounts reported by DHS based on OHCD information. DHS has not resolved this discrepancy. RIHMFC also included capital development costs of $72,361.

DHS could not provide documentation to adequately demonstrate how these expenditures under either calculation were made to recipients meeting TANF income and family composition eligibility requirements.

- We noted a lack of supporting documentation or 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 was understated by 1,983 for the TANF portion and overstated by 3,127 for the DHS Child Care portion.
  - The average monthly number of families served was undocumented for the Child Care Assistance Program.
  - DHS reported 10,805 families served for the Governor's Workforce Board but could not provide supporting documentation.
  - We were unable to obtain supporting documentation to evidence how the reported 1,069 number of families served was calculated for residential services.
  - DHS claimed 335 families served for the Housing Assistance for Low Income Families program but was unable to provide adequate supporting documentation for the amount reported and other information provided is inconsistent.

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

2010-58a 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 is supported by appropriate data and calculations.

2010-58b Adopt policies and procedures, including interagency agreements where necessary, to ensure that direct or maintenance of effort program expenditures incurred by other departments or agencies are adequately supported to meet TANF program guidelines. Obtain and review applicable supporting documentation in the preparation of the TANF ACF-204 and ACF-196 federal reports.

Finding 2010-59

TANF CLUSTER:
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families - State Programs – CFDA 93.714
Administered by: Department of Human Services (DHS)

TANF EMERGENCY FUND REQUEST FORM

The Department's control procedures require further strengthening to ensure the reliability of data reported on the OFA -100 (TANF Emergency Fund Request Form – *OMB No. 0970-0366*). This report is submitted to the Administration for Children and Families, U.S. Department of Health and Human Services and contains information on the TANF ARRA Emergency Contingency Fund program.

Data needed to prepare these reports is accumulated from a variety of sources including other departments and agencies of state government, as well as, third party non-profit agencies (community action programs or CAPS). Base year CAP expenditures reported for FFY 2007 totaled approximately $1.3 million and another $1.4 million for FFY 2008 base year CAP expenditures. Actual CAP expenditures reported for FFY 2010 totaled $1.7 million. The base years and FFY 2010 expenditures were only supported by emails received from the CAP agencies.

In general, DHS needs to further improve its documentation of data reported for the third party non-profit agencies and ensure that relevant source documentation is consistently obtained and referenced to support amounts reported.

Questioned Costs: None

RECOMMENDATIONS

2010-59a Enhance control procedures over the preparation of the OFA-100 reports to ensure that the information is accurate and is supported by appropriate source data and calculations.

2010-59b Obtain the necessary source documentation and compare it to reported amounts. If required, adjust the OFA-100 reported amounts and re-submit to the federal government.

Finding 2010-60

TANF CLUSTER:
Temporary Assistance for Needy Families – CFDA 93.558
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families – State Programs – CFDA 93.714
STATE CHILDREN'S INSURANCE PROGRAM – CFDA 93.767
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Department of Human Services (DHS)

INCOME ELIGIBILITY AND VERIFICATION SYSTEM

The Department of Human Services participates in the Income Eligibility and Verification System (IEVS) as required by Section 1137 of the Social Security Act as amended. Through this system, DHS coordinates data exchanges with other federally assisted benefit programs and utilizes the income and benefit information to determine individuals' eligibility for assistance and the amount of assistance.

The Department of Human Services conducts data interfaces with the Internal Revenue Service, the Social Security Administration and the Department of Labor and Training (the State Wage Information Collection Agency) to verify information about recipients of federally assisted programs, including the Temporary Assistance for Needy Families (TANF) Program. Federal regulation (45 CFR 205.56) requires that the State agency review and compare the information obtained from data exchanges against information contained in recipients' case records to determine whether it affects the recipients' eligibility or the amount of assistance. The Department's INRHODES computer system receives the information from the data exchanges and automatically includes the data in the applicable case record. Caseworkers are then electronically prompted about the receipt of new data and are required to investigate and resolve any discrepancies.

The objective of our testing approach was to assess whether the Department was considering the information resulting from the required IEVS data matches in determining eligibility for TANF and the amounts of benefits. Specifically, we understand that case workers are prompted electronically through the Department's INRHODES computer system when new 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 2010 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 2010. We compared this file to another file containing all TANF benefit payments made during state fiscal years 2009 and 2010. 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, fourteen of these discrepancies may impact eligibility or the household's benefits.

- Two (2) 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.

- One (1) case in which the discrepancy was "cleared" by the caseworker by electronically entering an action code (e.g., no discrepancy exists) and documentation was found in the electronic case records to support the action by the DHS worker; however, the Department could not provide any written federal guidance or regulations supporting the propriety of the DHS policy (1022.10.20) which in effect allows a grace period in determining benefit overpayments and was used to clear these discrepancies. The application of this DHS policy resulted in the determination not to record the interface income in the appropriate case record period, which would have yielded an overpayment and initiated collection action. 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.

We also noted an instance of a potential programming deficiency. In one case, a family member's wages were inappropriately recorded in the INRHODES "wage" panel for the wrong quarter that was not applicable to the period of the interface wages. The appropriate wage panel for the quarter that included the period of the interface wages erroneously indicated no interface wages. As the wages were recorded in the wrong quarter a caseworker might not realize that there was appropriate interface wages to be reviewed.

Additionally, we were unable to determine if the IEVS database was complete for the state fiscal year 2010 as information provided by the Department indicated that relatively few interface records were received from the Department of Labor and Training (DLT) for two of the four quarters during state fiscal year 2010. The Department contends that this was a planned change to obtain the majority of the interfaces on a semi-annual rather than quarterly basis. However, DHS did not provide any evidence to indicate the interface data was complete by demonstrating that interfaces for each month were in fact included in the interface data received from DLT.

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 and agreed that the potential programming issue and completeness of the interface data received requires further research.

<u>Questioned Costs</u>: None

<u>RECOMMENDATIONS</u>

2010-60a 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.

2010-60b Maintain documentation supporting the resolution of data match discrepancies and initiate modifications when discrepancies impact eligibility and/or amount of benefits.

2010-60c Revisit the propriety and application of DHS policy (1022.10.20) and determine if it is supported by federal guidance or regulation.

2010-60d Determine the nature of the wage record error and make necessary changes to prevent this type of error in the future.

2010-60e Enhance controls to ensure and document that interface data received is complete and includes all periods during the year.

Finding 2010-61

TANF CLUSTER:
Temporary Assistance for Needy Families – CFDA 93.558
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families - State Programs – CFDA 93.714
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
ARRA - Child Care and Development Block Grant - CFDA 93.713
CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
MEDICAID CLUSTER:
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 2010 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 the Supplemental Nutrition Assistance Program.

During fiscal year 2010, DHS did not materially comply with the ADP Risk Analysis and System Security review requirements for the MMIS and INRHODES. Although we found that the contractors that operate the MMIS and INRHODES systems have formalized system security policies and procedures, federal requirements mandate that DHS should have an understanding of these policies and procedures and an evaluation of their operating effectiveness. During fiscal year 2010, DHS and its fiscal agent had planned a Type II "SAS 70" examination of the fiscal agent's IT security policies and procedures over the MMIS, however, a flood of the fiscal agent's data center in the spring of 2010 caused that review to be postponed.

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.

A Type II "SAS 70" examination designed to evaluate the required ADP security requirements outlined above for the MMIS was performed during December 2010 with the goal of fully complying with the ADP risk analysis and system security review requirements for fiscal 2011. DHS still needs to formalize a plan to address these requirements for the INRHODES system in fiscal 2011.

<u>Questioned Costs</u>: None

<u>RECOMMENDATIONS</u>

2010-61a 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.

2010-61b 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.

2010-61c Coordinate information system security monitoring 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 2010-62

LOW-INCOME HOME ENERGY ASSISTANCE – 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 $32 million in State fiscal year 2010, represent the majority of program expenditures. The draw technique established in the 2010 Treasury-State agreement for Grant Payments to Non Profits is Actual Clearance, ZBA – ACH. 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.

The 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.

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. The State has developed a specific report (Cash Resources Report) to facilitate and ensure compliance by program personnel in drawing federal funds. The Office of Energy Resources should consistently use this report information when drawing federal funds.

Questioned Costs: None

RECOMMENDATION

2010-62 Comply with the Treasury-State agreement in drawing federal funds for the LIHEAP program. Utilize the Cash Resources Report information to determine the amount and timing of draws of federal funds.

Finding 2010-63

LOW-INCOME HOME ENERGY ASSISTANCE – 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 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 the period of availability requirements need to improve. Accounts have been established within the State's accounting system to segregate expenditures and obligations by specific federal grant award; however, we noted that prior year funds were commingled within accounts established for the federal fiscal year 2009 grant awards.

To monitor compliance with period of availability requirements, the OER uses expenditure, drawdown, and encumbrance data arrayed by specific grant award; however, no formal documentation is prepared to demonstrate compliance with period of availability requirements. Program personnel contend that they are aware of the requirements and know they are in compliance based on observation of the information shown in documentation of expenditures, drawdowns, and encumbrances. While the OER likely complied with period of availability requirements, sufficient documentation was not maintained to support compliance.

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

2010-63a Maintain documentation to support the calculation of funds expended and obligated by grant award.

2010-63b Complete implementation of procedures to track expenditures by federal fiscal year grant award within the State accounting system.

Finding 2010-64

LOW-INCOME HOME ENERGY ASSISTANCE – 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.) and program personnel maintains off-line spreadsheets allocating payments to subrecipients into the appropriate category.

While the OER has made improvements to monitor the earmarking requirements, their analysis is not sufficient to determine compliance with the earmarking requirement during the federal fiscal year. Program personnel contend that they are aware of the earmarking requirements and the amount of funds spent by category. 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

2010-64 Improve procedures and documentation to ensure compliance with the LIHEAP earmarking requirements.

Finding 2010-65

LOW-INCOME HOME ENERGY ASSISTANCE – CFDA 93.568
Administered by: Department of Administration – Office of Energy Resources (OER)

ADMINISTRATIVE COSTS – PAYROLL CHARGES

Administrative functions relative to LIHEAP are performed by both the OER the State's Central Business Office. We noted the following regarding administrative costs charged to the program:

Office of Energy Resources (OER):

- Personnel costs charged to LIHEAP during July 2009 to December 2009 (the first two quarters of the fiscal year) were based on estimated percentages and were not supported by actual timesheets. We found significant differences between the timesheets and actual payroll charges to the program for the first six months of the fiscal year. No adjustment was made to reconcile estimated amounts charged to the amounts indicated on the time sheets.

- There were several administrative employees' payroll allocated to LIHEAP; however, their timesheets were not specific to the program worked (e.g., LIHEAP). These amounts were questioned due to lack of supporting documentation.

- Total questioned costs related to the OER amounts to $37,662.

Central Business Office (CBO):

- While timesheets were maintained throughout the fiscal year, there were discrepancies from actual payroll charges compared to the timesheets maintained by CBO personnel. No adjustment was made to reconcile estimated amounts charged to the amounts indicated on the timesheets.

- Total questioned costs related to the CBO amounts to $12,498.

As of January 2010, the OER took steps to improve its documentation of personnel costs allocated to LIHEAP. The OER should continue to improve upon established controls and recordkeeping procedures to ensure that payroll allocations to LIHEAP are adequately supported and compliant with federal requirements.

Questioned Costs: $50,160

RECOMMENDATION

2010-65 Allocate employee salary and fringe benefit costs to LIHEAP based upon personnel activity reports or equivalent documentation.

Finding 2010-66

LOW-INCOME HOME ENERGY ASSISTANCE – 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, emergency contingency grant, and leveraging grant in accordance with LIHEAP Action Transmittal (AT) 2010-01. We noted the following regarding preparation of the SF-269A report:

- The OER reports funds not obligated on the SF-269A report for the purpose of demonstrating compliance with the period of availability requirement. As discussed in Audit Finding 2010-B, we could not verify the amounts reported as expended or obligated at September 30, 2009 for the FFY 2009 LIHEAP grant award due to insufficient supporting documentation.

- The unobligated balance of federal funds is incorrectly stated on the SF-269A. Data used in the report caused Line 10.i, "Unobligated balance of federal funds," to be understated by $952,239. This difference arose due to imprecise and/or inaccurate data sources being utilized to prepare the SF-269A reports.

- According to LIHEAP AT 2010-01, the SF-269A report should also be completed when a State is issued leveraging incentive funds. The State did receive leveraging funds but the SF-269A was not submitted during the period under audit.

Questioned Costs: None

RECOMMENDATIONS

2010-66a Complete a revised final SF-269A financial report for block grant funds in accordance with the requirements outlined in the LIHEAP Action Transmittal No. LIHEAP-AT-2010-01, dated 10/8/09.

2010-66b Complete a SF-269A financial report for leveraging funds in accordance with the requirements outlined in the LIHEAP Action Transmittal No. LIHEAP-AT-2010-01, dated 10/8/09.

Carryover and Reallotment Report

Grantees must submit a report no later than 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% of the amount payable for a fiscal year may be held for obligation in the succeeding fiscal year.

The OER's procedures to demonstrate compliance with the objectives of the Carryover and Reallotment report need to be improved. The supporting documentation provided contained only a breakdown of expenditures and did not provide detail of obligated and unobligated amounts. Due to the lack of controls, the data sources used to prepare the Carryover and Reallotment Report were ineffective.

We previously recommended (FY2009 finding 2009-65) that the OER submit a revised Carryover and Reallotment Report for federal fiscal year 2008; however, the report was not resubmitted during the period under audit.

Questioned Costs: None

RECOMMENDATIONS

2010-66c Ensure that the Carryover and Reallotment Report is consistent with supporting documentation and the State's accounting system.

2010-66d Submit a revised Carryover and Reallotment Report for the 2008 grant awards as required.

2010-66e Strengthen controls over the preparation of the Carryover and Reallotment Report to ensure accurate detail is submitted.

LIHEAP Household Report

The State is required to submit a Household Report indicating the number and income levels of households that apply for LIHEAP funding. The report should also include the number of households assisted in which one or more members of the household were at least 60 years old, were disabled, and were children (42 USC 8264). The weatherization section of the LIHEAP Household Report reported an estimated rather than actual number of households assisted. The *CAPTAIN* system, which maintains all information related to LIHEAP, does not provide detail on the number of households that receive weatherization assistance. The Administration for Children and Families (ACF) accepted the FFY 2009 report containing estimates; however, the OER needs to strengthen procedures to accumulate required data needed to prepare the Household Report and to ensure accurate reporting.

Questioned Costs: None

RECOMMENDATION

2010-66f Enhance the *CAPTAIN* system for the purpose of generating the data necessary to complete the LIHEAP Household Report accurately.

Finding 2010-67

LOW-INCOME HOME ENERGY ASSISTANCE – CFDA 93.568
Administered by: Department of Administration – Office of Energy Resources (OER)

PROGRAM VENDOR PAYMENTS BY SUBRECIPIENTS

The Low-Income Home Energy Assistance Program (LIHEAP) provides direct services through subrecipient community action program (CAP) agencies. These subrecipients determine eligibility for heating assistance and also disburse program funds to vendors (e.g., utilities and oil companies). We observed, based on monitoring performed of subrecipients by the State Office of Energy Resources, that the subrecipient CAP agencies were disbursing funds to energy vendors in advance based on the award amount to a family. Payments to energy vendors were not made upon submission of invoices for actual oil deliveries made or utility billings. The subrecipient CAP agencies did not require vendors to provide invoices for actual energy services provided. The State Office of Energy Resources did perform onsite monitoring of vendors for evidence of actual services provided.

This process lacks adequate control to ensure that program funds have been used for the intended purpose and that federal funds are not held by vendors for extended periods prior to payment for actual energy services to clients. Federal regulations applicable to the LIHEAP program (45 CFR 96.30) state that "fiscal control and accounting procedures must be sufficient to (b) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant". Program personnel indicated that the amount of funds held by vendors in advance of service delivery should be minimal due to the allowability of a portion of the award for unpaid energy bills and high energy costs relative to family award amounts. However, subsequent to June 30, 2010, one energy vendor returned approximately $700,000 of program funds that had not been used.

The Office of Energy Resources should amend its contracts with subrecipient CAP agencies to require that program funds only be disbursed on behalf of eligible clients based upon vendor submission of invoices for energy services provided.

Questioned Costs: None

RECOMMENDATION

2010-67 Amend contracts with subrecipient CAP agencies to require that program funds only be disbursed on behalf of eligible clients based upon vendor submission of invoices for energy services provided.

Finding 2010-68

CCDF CLUSTER:
Child Care Mandatory and Matching Funds of the Child Care and Development Fund – CFDA 93.596
Administered by: Department of Human Services (DHS)

MAINTENANCE OF EFFORT (MOE)

The Department does not have adequate controls to ensure that it maintains adequate documentation for all amounts claimed to meet the minimum threshold required for maintenance of effort under the child care program. For Federal Fiscal Year (FFY) 2009, DHS claimed approximately $2 million in child care services paid by the Department of Children, Youth and Families (DCYF). This was part of the total ($5.3 million) of child care MOE costs DHS used to meet the federally required minimum MOE for the child care program. DHS was unable to provide adequate documentation to demonstrate that the DCYF child care recipients met applicable child care program eligibility requirements which include: a maximum child age, income thresholds and family household composition.

The Department should develop controls to ensure that proper documentation is maintained to demonstrate compliance with the specific eligibility requirements for all child care client services claimed.

Questioned Costs: None

RECOMMENDATIONS

2010-68a Develop control procedures to ensure that compliance with specific eligibility requirements is maintained relating to all child care services claimed as Maintenance of Effort.

2010-68b Properly document eligibility compliance for DCYF child care services claimed for FFY 2009.

Finding 2010-69

CCDF CLUSTER:
Child Care Mandatory and Matching Funds of the Child Care and Development Fund – CFDA 93.596
Administered by: Department of Human Services (DHS)

CASH MANAGEMENT – MATCHING OF FEDERAL FUNDS (FMAP)

Federal regulations (31 CFR section 205.15 (d)) provide that a state incurs interest liabilities if it draws federal funds in advance and/or in excess of the required proportion of agreed upon levels of State contributions in programs utilizing mandatory matching of federal funds with State funds. Accordingly, the drawdown of federal cash should not exceed the federally funded portion of the State's Matching Funds, taking into account the State's matching requirements. For any period, the amount of federal funds drawn down should not exceed the FMAP percent of the total expenditures for that period.

DHS does not have controls in place to ensure that the amount of federal funds drawn do not exceed the FMAP percent of the total expenditures for the applicable period. There were instances during the fiscal year where draw amounts exceeded the FMAP. DHS should develop and implement controls to ensure that draws of federal cash do not exceed the required federal percentage.

Questioned Costs: None

RECOMMENDATION

2010–69 Develop and implement control procedures to ensure that federal cash draws do not exceed the required federal matching percentage (FMAP).

Finding 2010-70

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 2010 approximated $37 million (federal share - $25 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

2010-70 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 2010-71

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
MEDICAID CLUSTER:
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 recommended in prior audits 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 2010, 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 2010-61 relating to DHS's overall IT security over the MMIS 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 totaling $2 billion in fiscal 2010. 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.

A Type II "SAS 70" examination of the MMIS was subsequently performed during December 2010.

<u>Questioned Costs</u>: None

<u>RECOMMENDATIONS</u>

2010-71a Obtain an annual Type II "SAS 70" examination performed by independent certified public accountants of the fiscal agent's internal control policies and procedures.

2010-71b 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 2010-72

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
MEDICAID CLUSTER:
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 2010, RIFANS does not include the same level of Medicaid service detail that is available in the MMIS. This requires DHS financial management to perform significant manual computations to derive 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, BHDDH, DCYF) based on 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 2010, Medicaid administrative expenditures reported on Form CMS-64 totaled $45,670,644 (federal share) while expenditures reported in the State's accounting system totaled $47,428,883. 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 the 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 and for the State fiscal year as a whole, 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 reports and the new SF-425 reports. In relation to all federal reports prepared by DHS, requiring management review prior to filing the reports would significantly improve controls over federal reporting.

Questioned Costs: None

RECOMMENDATIONS

2010-72a Align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS.

2010-72b Completely reconcile administrative expenditures reported on the CMS-64 with those reported in the State's accounting system.

2010-72c Report cumulative disbursements accurately on the PMS-272 (and new SF-425 reports) based on actual expenditures in accordance with report guidelines.

2010-72d Improve tracking of Medicaid and SCHIP expenditures reported on the PMS-272 reports (and new SF-425 reports) to better document the collective reporting of program and administrative expenditures by grant period.

2010-72e Improve controls over federal reporting by consistently reporting expenditure amounts that have been recorded in the State's accounting system.

2010-72f Require management review of all federal reports prior to filing.

Finding 2010-73

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Department of Human Services (DHS)

PROVIDER ELIGIBILITY AND SUSPENSION AND DEBARMENT – SCOPE LIMITATION

Federal regulations relating to provider eligibility and suspension and debarment require that all providers, as a condition of enrollment in the Medicaid Program, complete and provide certain documentation which includes certifications regarding suspension and debarment, provider applications, 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 and suspension and debarment.

On March 30, 2010, a flood occurred in Warwick, Rhode Island causing significant damage to the fiscal agent's headquarters. As a result of the flood, all provider eligibility files were damaged beyond recovery. Due to this event, we were unable to perform the necessary audit procedures to evaluate the State's compliance with program requirements relating to Provider Eligibility and Suspension and Debarment as they relate to medical providers participating in the Medical Assistance program. Specifically, we were unable to determine the State's compliance with federal regulations, 2 CFR section 180.300 (suspension and debarment certifications) and 42 CFR section 431.107 (required provider agreements and evidence of provider licensure).

Questioned Costs: None

RECOMMENDATION

2010-73 Reconstruct provider files to meet federal requirements for Provider Eligibility and Suspension and Debarment.

Finding 2010-74

MEDICAID CLUSTER:
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. For example, these services include homemaker, nursing services, meal preparation, residential support, and respite care services. Fiscal 2010 expenditures for home and community based services totaled in excess of $350 million.

We utilized data mining procedures to identify 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

2010-74 Strengthen system processing controls over home and community based medical and support services to enhance overall program integrity for this claim group.

Finding 2010-75

MEDICAID CLUSTER:
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 Behavioral Health, Developmental Disabilities, and Hospitals (BHDDH), Elderly Affairs (DEA), Health (DOH), and Children, Youth, and Families (DCYF). Smaller agencies such as the Office of Health and Human Services and the Rhode Island School for the Deaf also charge expenditures to the Medicaid program. Medicaid administrative and benefit expenditures administered by other State agencies during fiscal year 2010 exceeded $500 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 2010:

- Several agencies had not complied with the interagency agreement requirement to have benefit and claiming reviews conducted to assure DHS that Medicaid claims were allowable.

- As more fully described in Finding 2010-76, we noted weaknesses in controls over certain payments made by BHDDH to providers of services to adults with developmental disabilities.

- As more fully described in Finding 2010-77, 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 ($1.5 million), outreach and tracking services provided in conjunction with the department's Aftercare program ($2.9 million), and day treatment program services ($1 million).

- BHDDH was unable to provide documentation to substantiate the assignment of certain Title XIX respite expenditures and certain PASSAR (Pre-admission Screening and Annual Resident Review) expenditures to the Medicaid program. (federal questioned costs = $115,657)

- As more fully described in Finding 2010-78, the majority of Costs Not Otherwise Matchable (CNOM) claiming conducted by other State agencies during fiscal 2010 were processed external to any of the eligibility and centralized claims processing controls of the MMIS and INRHODES systems and were not well controlled or documented.

- A significant amount of BHDDH 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 BHDDH and DCYF claiming would be enhanced by having service providers bill the MMIS for individual service units (on an encounter basis).

- Medicaid expenditures charged by the Rhode Island School for the Deaf were based upon a percentage allocation that had been established many years ago and that could not be substantiated or traced to current qualified program participants. (federal questioned costs = $70,728)

- Certain contracted Supported Living Arrangement (SLA) providers (not providing services through one of the BHDDH's developmental disability provider agencies) were not required to provide monthly attendance records as a condition of payment. These providers are paid through the State accounting system. Controls over these payments could be improved by processing these payments through the MMIS.

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 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 enforced especially until more of the above claims 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: $186,385

RECOMMENDATIONS

2010-75a 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.

2010-75b Restructure the current reimbursement models for Medicaid eligible services authorized by BHDDH and DCYF by specifically defining Medicaid eligible services and related reimbursement rates into individual units of service.

2010-75c Process all benefit claims for Medicaid eligible individuals through the MMIS to ensure proper controls over these Medicaid payments.

Finding 2010-76

MEDICAID CLUSTER:
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 Behavioral Health, Developmental Disabilities, and Hospitals (BHDDH) 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 agencies to developmentally disabled individuals exceeded $200 million in fiscal 2010.

Pursuant to an interagency agreement, BHDDH has authority for oversight of service providers to adults with developmental disabilities and establishment of appropriate reimbursement rates. BHDDH is responsible for licensing these providers and for administering the provisions of the State's 1915(c) waiver (which is 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.

BHDDH 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 BHDDH. 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). BHDDH 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.

- Instances were noted where providers were reimbursed through both payment processes for program services (residential supports, day program services, other reimbursements, etc.). The monthly reimbursement in these instances was commonly greater than $10,000 and in some instances, was observed to be in excess of $30,000. By comparison, the State reimburses most nursing providers approximately $5,000 to $6,000 per month for all-inclusive nursing facility care.

- There are no systemic controls that would prevent provider agencies from billing and receiving payments for full monthly payment authorizations when individuals were not present for a significant portion of the month. Most examples represented cases where individuals were hospitalized for a significant period during the month yet the provider billed for their entire monthly payment authorization for services without reduction for services not provided.

- Direct reimbursements for fire code upgrades at privately-operated facilities totaling $635,016 (federal share) were made during fiscal 2010. 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. BHDDH also directly reimbursed providers, for part of the year, 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 - $635,016)

- We also noted other instances where providers were reimbursed for the following services not considered to be allowable under the State's waiver:

    - Reimbursements for the costs of workers compensation insurance incurred by providers -- reimbursement to the provider of $24,669 was included in the sample of provider authorizations reviewed. (federal questioned costs = $15,768)

    - 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 = $959).

- The State's 1915 (c) waiver specifically prohibits room and board costs from being reimbursed through Medicaid. BHDDH utilizes financial schedules provided by the providers to evaluate costs incurred by these providers in relation to the Medicaid reimbursements received. These schedules are not audited and BHDDH does not conduct any procedures to evaluate the accuracy of these provider filings. Our review of these filings noted that most schedules allocated costs of the residence facility (i.e., repairs and maintenance, depreciation, utilities, supplies, etc.) to the residential support programs being reimbursed by Medicaid, a practice that appeared contrary to the waiver requirements prohibiting the use of Medicaid funding for costs associated with room and board. BHDDH'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.

<u>Provider Licensing – Privately-operated Agencies Providing Services for Adults with Developmental Disabilities</u>

Privately-operated agencies providing contracted placements for adults with developmental disabilities constitute a large provider group reimbursed through the Medicaid program. The Department of Health has licensing authority for most providers reimbursed through Medicaid; however, the BHDDH is responsible for licensing providers of services to developmentally disabled adults.

We reviewed BHDDH's licensing procedures and requirements and documentation of provider licensure. While all providers are required to meet Medicaid eligibility requirements, controls should be improved to effectively monitor compliance for this provider group. Specifically, the department does not require providers to identify the licensed professionals providing treatment to Medicaid eligible individuals. Further, documentation of current provider licensure was lacking in some instances.

We noted that several providers licensed by BHDDH 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. BHDDH 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.

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: $651,743

RECOMMENDATIONS

2010-76a Implement system modifications to allow full adjudication of claims for services provided to adults with developmental disabilities through the MMIS.

2010-76b 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.

2010-76c 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.

2010-76d Ensure that all providers meet licensing and federal health and safety requirements for providing services within the Medical Assistance Program.

Finding 2010-77

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Department of Human Services (DHS)

MEDICAID CLAIMS FOR CHILDREN PLACED IN THE STATE'S CUSTODY

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 2010, contracted residential placements in excess of $40 million were billed from DCYF's RICHIST system to the MMIS.

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.

DCYF utilized a time-study methodology in fiscal 2010 to determine the percentage of contracted placement per diem rates that should be allocated for Medicaid activities. The allocation percentages applied to the fiscal 2010 provider payments were based on time-study results derived during fiscal 2008. DCYF contracted with a consultant in fiscal 2008 to perform the 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 the percentage of contracted placement amounts charged to Medicaid.

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.

Our review of a sample of monthly contracted placement reimbursements through Medicaid included requests for documentation of treatment plans, assessment and diagnosis surveys, clinician licensure, and provider activity notes. Our review of this documentation noted the following:

- Most providers were including some level of documented weekly individual or group counseling. For the cases reviewed, the amount of documented medical assessment and rehabilitation services performed during the month, in most instances, if performed within local education agencies or by individual clinicians, would probably be reimbursed by Medicaid in an amount between $200 and $500 each month. DCYF's current methodology charges Medicaid on average between $2,000 and $4,000 per month for approximately 50% of the cost of the contracted placements.

- In several instances, we were unable to determine from the documentation of services provided, whether the service was provided or supervised by a licensed clinician, a requirement for reimbursement under Medicaid.

- In several cases reviewed, the children were also receiving medical services external to their placements which were covered under the child's Medicaid managed care coverage. The fact that children in the State's custody can receive services that can be billed through RICHIST for certain placement services, managed care coverage for certain in-plan services, and the MMIS for other out-of-plan services creates a significant control weakness over the claims processing of medical services for this population. Duplicate billings for the same services could occur within these separate processes and not be detected by the current controls within the Medicaid program.

- The individual time study results for the department's various contracted placement arrangements varied substantially, suggesting that, although required, not all providers were conducting the required level of medical assessment and rehabilitation services mandated by the underlying contracts with DCYF.

- In several instances, the contract documentation of the rate being charged through the RICHIST system could not be provided by DCYF.

The inconsistencies in the documentation that was provided suggest that further reinforcement of medical service and provider documentation requirements may be warranted. If DCYF continues its current process of billing through RICHIST, consideration should be given to a more automated system to report and track children's medical services. Providers could use the system to manage children's treatment plans, document services provided, and maintain provider clinician information to identify the professional providing the services. This system could be used to directly bill to Medical Assistance similar to the manner in which local education agencies bill Medicaid or could be used to accumulate the data necessary to update time study results more frequently.

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 need 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: Unknown

RECOMMENDATIONS

2010-77a Develop a plan that would facilitate payment for Medicaid eligible services conducted within DCYF contracted placements through the MMIS.

2010-77b Develop allowable medical services with defined service units and appropriate reimbursement rates available for DCYF provider groups to bill directly to the MMIS.

2010-77c 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 2010-78

MEDICAID CLUSTER:
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 $32.9 million (federal share - $17.3 million) in CNOM for services provided to certain identified at-risk populations during fiscal 2010. 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 $12.3 million (federal share - $6,446,878) in expenditures claimed. In some instances, CNOM claiming was based on departmental estimates or provider contract amounts and subsequent procedures to identify specific eligible claiming had not been completed at the time of our audit.

Approximately $14.5 million in CNOM claiming was paid through the State's MMIS in fiscal 2010. The majority of the MMIS CNOM claim activity was found to be consistent with the claim characteristics (i.e., medical service provided, age of recipient, recipient medical condition, etc.) described for the corresponding CNOM populations, however the underlying support for required income and asset limitations, when applicable, was not maintained within the State's INRHODES system. In most instances, evaluation of income and asset limitations was delegated to the service provider agencies. DHS's CNOM control procedures require State agencies responsible for the administration of these CNOM programs to validate eligibility determinations made by provider agencies. The validation of CNOM populations paid through the MMIS had not been performed as of the time of our audit, thus a complete evaluation of the allowability of this claiming could not be performed.

DCYF's CNOM claiming activity, which totaled $6.1 million, is paid external to the MMIS. Documentation of the Department's 2010 internal CNOM expenditure claiming review was provided at the completion of our audit. DCYF's review found that estimated CNOM expenditures charged in fiscal 2010 exceeded actual eligible CNOM claiming by $96,926 (federal share). Due to delays in providing this documentation, we were unable to validate DCYF's results as part of our fiscal 2010 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 designed to validate the representations made by the individuals that are ultimately claimed to Medicaid. Decentralizing the Medicaid eligibility determination process throughout the program weakens overall controls over eligibility 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 2010, standards and practices adopted by DHS were not in place and operating effectively 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 2010 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: $6,543,804

RECOMMENDATIONS

2010-78a Subject all CNOM claiming to the claims processing and eligibility control processes (MMIS and INRHODES systems) in place over all Medicaid program expenditures.

2010-78b Ensure that adopted standards and practices, including claiming reviews, are completed for all CNOM expenditures claimed during fiscal 2010 and credit the federal government for any amounts claimed in error.

2010-78c Ensure that all future CNOM claiming processes are fully operational prior to claiming expenditure populations to the Medicaid Program.

Finding 2010-79

MEDICAID CLUSTER:
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 were able to review 22 of the 25 case files (program application and supporting documentation) requested from our test sample of 25 individuals. DHS was unable to locate 3 of the 25 case files selected in our sample. We evaluated the completeness and accuracy of the information obtained from these individuals at the time of their eligibility determination in effect for fiscal 2010. 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	Number of exceptions noted
Location of eligibility file	3
Initial program application	5
Application for program recertification	8
Documentation of household financial resources (bank accounts, vehicles, property, etc.)	11
Documentation of household employment (i.e., paystubs, W-2 forms, etc.)	4
Documentation of citizenship	3
Documentation of applicant's immigration status, when applicable	3
Documentation supporting applicant health insurance coverage	5
Documentation of pregnancy, when applicable	3
Documentation regarding the absent parent, when applicable	5
Agreement of INRHODES data to case file	9

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

2010-79 Improve controls over required eligibility documentation obtained during the Medical Assistance application process. Utilize electronic scanning of eligibility file documentation to facilitate location and retention of file information.

Finding 2010-80

MEDICAID CLUSTER:
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 431.812 requires that the agency perform both active and negative case reviews in accordance with terms defined in the regulations. Active cases are comprised of individuals that participate in the Medicaid program. Negative cases include those individuals that were denied, suspended, or terminated from the Medicaid program. Due to acute staffing shortages, the agency had not completed any active or negative case reviews since the end of calendar year 2009 resulting in noncompliance for a significant portion of our fiscal year audit.

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% of all cases selected in the MEQC sample within 150 days of the review month. DHS could not comply with this requirement because the studies had not been completed in a timely manner as discussed in the previous paragraph. DHS was unable to provide us with Certification of Medicaid Eligibility Quality Control Payment Error Rate submissions to CMS for any periods following March 2009.

Of the 164 cases that could be finalized between July 2009 and October 2009, 32 or 19.5% had to be dropped from the test sample because the Medicaid recipients would not cooperate with the MEQC unit's review. In previous audits, we have questioned how the large number of non-cooperative cases impacts the statistical validity of the MEQC sample results communicated to CMS and whether exclusion of the non-cooperatives cases from the error rate calculation is consistent with federal requirements. DHS has been 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

2010-80a Address staffing deficiencies in the MEQC unit so that the agency can meet its federal monitoring and reporting responsibilities.

2010-80b Re-evaluate MEQC policies and procedures to ensure compliance with federal regulations and/or guidelines for conducting MEQC reviews.

2010-80c Revisit the continuing eligibility of recipients who fail to cooperate during MEQC reviews.

Finding 2010-81

MEDICAID CLUSTER:
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.

The auditee disagrees with this finding and its views are outlined in the accompanying corrective action plan (Section E of this report – refer to corresponding finding number).

Questioned Costs: Not determinable/unknown

RECOMMENDATION

2010-81 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 2010-82

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Department of Human Services (DHS)

PROGRAM OVERPAYMENTS

Federal regulation 42 CFR 433.312 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. Recent changes in federal regulations allow States one-year to credit the federal grantor for provider overpayments identified after March 23, 2010.

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.

The MMIS generates a monthly variance report that identifies the differences between the two systems. DHS reviews the report and is responsible for making the appropriate corrections to ensure the accuracy and reliability of the two systems. Variances ranging between approximately 700 and 1,700 variances occurred each month during fiscal 2010. 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 (64 cases during fiscal 2010), 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. More advanced reporting capabilities may assist in identifying and resolving those variances deemed most critical to recipient eligibility. 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.

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 2010, RIte Share expenditures approximated $47 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 $1.3 million (approximate federal share - $830,960) relating to payments made to individuals whose employer health insurance coverage had terminated. 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 its monitoring of the employment and sustained health insurance coverage requirements of the RIte Share 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 2010, most hospitals had submitted their cost reports for the fiscal years ended in 2008 and prior; however, staff reductions in recent years have limited DHS's ability to remain current in determining final settlements with hospitals.

At June 30, 2010, finalized settlements for three hospitals determined that they were overpaid by $9.5 million and that the balances due on these specific settlements had been outstanding for more than 60 days. In accordance with federal regulations, DHS should credit the federal grantor for the federal share ($6,072,400) on these identified settlement balances. DHS believes that future settlements, once finalized, will significantly offset the balances currently owed and has agreed to conduct a net settlement with these hospital providers once all settlements have been finalized.

The overpayments referred to above were identified prior to March 23, 2010 and are subject to the 60-day recovery period.

Questioned Costs: $6,903,360

RECOMMENDATIONS

2010-82a Determine, on a timely basis, the amount of claims paid on behalf of ineligible individuals and reimburse the federal government for its share.

2010-82b Reimburse the federal government for program overpayments within 60 days of discovery.

Finding 2010-83

MEDICAID CLUSTER:
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 2010, DHS made DSH payments totaling $122 million (federal share - $64 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.

Section 1923 (j) (2) of the Act requires 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 various DSH related information.

CMS issued guidelines in December 2008 regarding DSH reporting and auditing requirements for States. Audits for Medicaid State plan rate years 2005 and 2006 are due first. CMS’s guidelines also require States to prospectively adjust DSH payments beginning with Medicaid State plan rate year 2011 based on audit results for rate years 2005 through 2010 – a requirement that DHS will be unable to comply with until the audits for these years can be completed. CMS has indicated that States will not be found out of compliance with the DSH reporting and auditing requirements for the initial 2005 and 2006 Medicaid State plan rate years until December 31, 2010. DHS has contracted with an audit firm to conduct the required audits in fiscal 2011 to comply with CMS’s DSH reporting and auditing requirements.

Questioned Costs: None

RECOMMENDATION

2010-83 Improve controls over Medicaid DSH payments by implementing CMS's "DSH Audit and Reporting Protocol" guidelines for complying with the federal requirements of section 1923 of the Social Security Act.

Finding 2010-84

MEDICAID CLUSTER:
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 quarterly DUR activity reports noted four (4) quarter cumulative provider response rates ranging from a high of 35% to a low of 32% for the respective quarters for the federal fiscal year ended September 30, 2009. Providers identified as exhibiting questionable pharmacy prescribing and dispensing patterns failed to respond to the majority of the PharmRisk inquiries made by the DUR Board. 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

2010-84 Develop procedures to ensure the monitoring and enforcement of findings by the State's appointed DUR Board.

Finding 2010-85

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Department of Human Services (DHS)

MANAGED CARE CONTRACT SETTLEMENTS

Medicaid benefit expenditures exceeded $1.9 billion in fiscal 2010 of which more than $600 million (32%) 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.

In addition, HMOs are required to submit their detailed medical expenditures in prescribed format to the State periodically throughout the contract period. This data, referred to as "encounter data", is provided to the State's fiscal agent where it undergoes very limited editing by the MMIS's encounter data subsystem. Subsequently, the State's managed care consultant, as part of the risk share settlement process, utilizes the encounter data to determine the amount of expenditures incurred by the HMOs during the contract period.

During fiscal year 2010, DHS implemented more formalized settlement documentation. This documentation essentially consisted of a comparison between the amount of capitation paid to each HMO with the amount of actual claims payment activity incurred by the provider adjusted for various factors that also needed to be considered within the final contract period settlement. We reviewed a risk share settlement of $3.4 million paid by DHS to one of its HMO providers and noted the following deficiencies in DHS's oversight and controls over HMO contract settlements:

- The MMIS encounter data subsystem has limited capability to reprocess or validate claims data submitted by the HMOs. This results in a lack of control over the validity of the data provided by the HMOs that is central to the risk share settlement process.

- The risk share settlement process involves a number of adjustments that, in most instances, add to the expenditure base for the HMO. That expenditure base amount is compared to the amount of capitation paid during the contract period to determine if the HMO is owed additional amounts or whether the HMO has received excess reimbursement under the contract. The source of most of these adjustments is data or information reported by the HMO. While DHS indicated that some level of review of these adjustments was performed by their managed care contractor, documentation was not available.

- Documentation of significant "stop loss" payments did not include sufficient detail regarding DHS's evaluation of the underlying claim data submitted by the HMOs.

- DHS's processes to evaluate reported recoveries made by HMOs are inadequate to ensure that the State received credit for all amounts recovered.

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. Finally, DHS should include requirements to enhance the capabilities of the MMIS encounter data subsystem within its planned procurement of the MMIS fiscal agent contract.

Questioned Costs: None

RECOMMENDATIONS

2010-85a 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.

2010-85b Consider enhancing the MMIS's ability to fully adjudicate HMO encounter data to provide a more complete determination of the medical expenditures incurred during managed care contract periods. Include requirements to enhance the capabilities of the MMIS encounter data subsystem within the planned procurement of the MMIS fiscal agent contract.

Finding 2010-86

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Department of Human Services (DHS)

MEDICAL ASSISTANCE PROGRAM ADMINISTRATION – PERSONNEL RESOURCES

The Department of Human Services (DHS) is responsible for the administration and oversight of the State's Medical Assistance program. The administration and oversight of Medicaid is dependent on DHS having sufficient personnel resources to discharge this responsibility. We noted control deficiencies in the following areas that are, at least in part, caused by a deficiency in the required personnel resources needed to effectively administer and monitor these aspects of the program:

- Nursing Home Rate Setting – DHS has substantially reduced its performance of field audits and is significantly behind in conducting the required desk audits to ensure timely adjustment of nursing home per diem rates.

- Medicaid Eligibility Quality Control (MEQC) – As indicated in Finding 2010-80, DHS's ability to conduct timely MEQC reviews diminished significantly during fiscal 2010.

- Hospital Settlements – DHS has been unable to review and finalize hospital settlements in recent years even though hospital providers have submitted required cost reports in a timely manner.

- Eligibility Determinations – Program managers have reported that the decline in the number of eligibility technicians within the program and the addition of a significant number of new hires have strained this vital program function. The personnel deficiency cited in this area could be a direct cause of the eligibility determination documentation deficiencies cited in Finding 2010-79.

- Contracted Program Functions – Over the years, reductions in personnel have resulted in DHS delegating additional areas of program administration to its contracted consultants. This delegation, however, does not relieve DHS's program oversight and monitoring responsibilities in these areas. Such oversight and monitoring responsibilities require a dedication of personnel resources currently deficient in the program.

While the State is currently facing significant budgetary challenges, it must weigh the importance of maintaining adequate personnel resources to ensure proper oversight and control over program expenditures that exceed $2 billion in fiscal 2010. Sustained reductions in personnel resources in program areas referenced previously will continue to negatively impact control over program expenditures and compliance with federal program requirements.

Questioned Costs: None

RECOMMENDATION

2010-86 Address personnel resource deficiencies in critical personnel areas to ensure proper administration and control over the Medicaid program.

Finding 2010-87

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Department of Human Services (DHS)

MEDICAL ASSISTANCE PROGRAM - DOCUMENTATION OF CERTAIN ADMINISTRATIVE EXPENDITURES

During our audit, we selected certain administrative expenditures charged to the Medical Assistance program to test for allowability. DHS was unable to provide supporting documentation to support the claiming of the following administrative expenditures:

- Certain postage expenditures were not charged at the required 50% federal match for administrative expenditures. (federal questioned costs = $1,568).

- Certain personnel expenditures charged mostly to Medicaid administrative accounts within the Office of Health and Human Services - in addition to lacking documentation, these expenditures were also charged at the program federal financial participation rates rather than at the required 50% federal and state match. (federal questioned costs = $56,240)

DHS should ensure that proper documentation is maintained to support the allowability and allocation of administrative expenditures charged to federal programs.

Questioned Costs: $57,808

RECOMMENDATION

2010-87 Ensure that documentation is maintained to support all administrative expenditures within the Medical Assistance Program.

Finding 2010-88

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Department of Human Services (DHS)

CONTROLS OVER RHODY HEALTH PARTNERS CAPITATION PAYMENTS

The State provides capitated managed care coverage to adults age 21 or older that meet certain criteria (i.e., live in the community, otherwise uninsured through Medicare or private health insurance coverage) through the Rhody Health Partners program (Rhody Health). The State incurred approximately $150 million for the more than 10,000 individuals enrolled in this program during fiscal 2010. The majority of the individuals enrolled are eligible under Medicaid by virtue of qualifying for federal Social Security Income benefits. These individuals are mostly disabled adults that tend to have long-term eligibility within the Medicaid program. The State designed this program with the goal of providing more cost-effective management of the medical utilization of this population while also expanding the network of providers available to this population.

The State currently pays monthly capitation amounts for these individuals ranging between $800 to $1,600 per month depending on criteria such as age, gender, and medical condition. The State pays monthly capitation amounts to two HMO providers on a monthly basis. Although the capitation payments for individuals enrolled in Rhody Health are paid through the MMIS, the identification of individuals eligible for the program and the determination of capitation payment levels are not coded into the State's computer systems as they are for the State's RIte Care program. Instead, Rhody Health participants are largely determined through queries of MMIS data elements. The State's fiscal agent performs these queries monthly to identify individuals eligible for the program as well as changes in the status of current enrollees. In addition, the capitation payment levels for certain individuals enrolled in Rhody Health are determined based on documentation maintained external to the State's systems.

To ensure that the processes used to determine the eligibility and benefit payments for individuals enrolled in Rhody Health are functioning as designed, the State should expand its Medicaid Eligibility Quality Control (MEQC) procedures to improve control over this program. An expanded MEQC review that validates the eligibility requirements of Rhody Health and ensures that proper capitation payment levels are assigned to program participants would greatly improve controls over this significant segment of the Medicaid program.

Questioned Costs: None

RECOMMENDATION

2010-88 Expand MEQC procedures to validate the eligibility requirements of Rhody Health and the proper assignment of capitation payment levels to program participants.

Finding 2010-89

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Department of Human Services (DHS)

COMPLIANCE WITH STATE PROCUREMENT POLICIES AND PROCEDURES

Federal regulations require States to apply the same State policies and procedures used for procurements made in conjunction with Federal grants as they would for non-federal procurements. State purchasing rules and regulations require departments and agencies to competitively bid all non-exempt procurements of goods and services in excess of $5,000.

We reviewed the related procurements for all contracts in excess of $100,000, most of which related to contract services provided within the program. Of the 22 procurements reviewed, we noted an instance where DHS did not properly procure certain contract services provided. Instead of competitively bidding these newly required services within the program, DHS incorporated the new services under a contract amendment with an existing contractor. That contractor, in turn, subcontracted the work to another provider to actually perform the necessary services. We believe the amount and related scope of these new services required DHS to follow the State's competitive bid procedures before awarding this contract.

The expenditures paid under this contract in fiscal 2010 for the additional scope of services totaled $537,376 (federal share - $403,032). We believe these expenditures did not comply with the State's purchasing policies and procedures and thus would be unallowable under Medicaid program regulations.

Questioned Costs: $403,032

RECOMMENDATION

2010-89 Ensure that all procurements of contract services within the Medicaid Program follow the State's mandated policies and procedures.

Finding 2010-90

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Department of Human Services (DHS)

ANNUAL REPORT ON HOME AND COMMUNITY-BASED SERVICES WAIVERS (FORM HCFA-372 AND FORM HCFA-372(S)

Section 1915(c) of the Social Security Act (the Act) authorizes the Secretary to waive certain Medicaid statutory limitations so that States may cover a broad array of home and community-based services that individuals may need in order to avoid institutionalized care. The Act requires that the Secretary monitor the implementation of the waivers granted to determine if the requirements of the waivers are being met. States are required to annually provide CMS with information on the impact of these waivers on the type, amount and cost of services provided under the State plan and on the health and welfare of recipients. After giving the State notice and an opportunity for a hearing, the Secretary may terminate a waiver for noncompliance with the requirements.

Forms HCFA-372 and HCFA-372(S) provide the basis for the monitoring of waivers by CMS. The report is used by CMS to compare actual data to the approved waiver estimates and to determine whether to continue a home and community-based services waiver. States are required to report the annual number of Section 1915(c) waiver recipients, annual waiver expenditures, and to compute waiver cost neutrality using a formula required by CMS.

All State Medicaid agencies administering home and community-based services under an approved 1915(c) waiver must submit a separate Form HCFA-372 or HCFA-372(S) for each approved waiver. Each report must cover the waiver's 12 month reporting period that can vary depending upon the waiver implementation date. Reports are also required for terminated waivers for that portion of the year in which the waiver was in effect. Reports must be certified by the appropriate State Medicaid agency official before submission to CMS.

Prior to implementation of the Global Consumer Choice Compact Section 1115 Demonstration Waiver (the "Global Waiver") in January 2009, DHS operated several Section 1915(c) waivers targeting a wide-array of home and community based services to the elderly, physically disabled, developmentally disabled, and at-risk children. Upon implementation, these individual waivers were absorbed into the new Medicaid Global Waiver; however, all of the preexisting waivers had outstanding Form HCFA-372 and Form HCFA-372S reporting requirements for previous periods. We noted that most of these waiver reporting requirements were still outstanding. DHS needs to complete all outstanding waiver reports as required for previous periods (pre-Global Waiver) of administration of its 1915(c) waivers.

Questioned Costs: None

RECOMMENDATION

2010-90 Complete all required waiver reports for prior 1915(c) waiver periods.

Finding 2010-91

RESEARCH AND DEVELOPMENT CLUSTER:
Trans-NIH Recovery Act Research Support – CFDA 93.701
Administered by: University of Rhode Island (URI)

IDENTIFICATION OF ARRA AWARDS

Recipients who provide American Recovery and Reinvestment Act (ARRA) funds to subrecipients must provide the Federal award number, CFDA number, and the amount of ARRA funds at the time of the subaward and disbursement. Although the University provided the above required information to the subrecipients who received ARRA funds at the time of the subaward, the University did not furnish that information at the time of the disbursement for any of the three subrecipients who received Recovery Act funds during fiscal year 2010. The total amount of the ARRA funds provided to the three subrecipients during fiscal year 2010 was $83,223.

According to 2 CFR Section 176.210(c):

> Recipients agree to separately identify to each subrecipient, and document at the time of the subaward and at the time of disbursement of funds, the Federal award number, CFDA number and amount of Recovery Act funds. When a recipient awards Recovery Act funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental Recovery Act funds from regular subawards under the existing programs.

The cause of this condition has been attributed to the University not having a proper policy to ensure that the information is supplied to the subrecipients at the time of disbursement. As a result, the subrecipients did not receive the required information at the time of disbursement.

Questioned Costs: None

RECOMMENDATION

2010-91 We recommend that management of the University implement policies and procedures to ensure that the proper information is supplied to the subrecipients.

Corrective Action Plan

Finding 2010-1 – *Corrective Action*

The Department of Administration has implemented certain modules of its Oracle E-Business Suite called RIFANS. These modules include I-Procurement, Sourcing, Contracts, General Ledger, and Fixed Assets. The Department has been requesting funding to continue the installation of the remaining modules. Those remaining modules include Projects and Grants, Time and Attendance, Cash Management and Asset Manager. Due to budget constraints, funding has not been available to implement these modules.

The Department will continue to request further funding to implement the remaining modules. But the installation of these modules will remain resource and funding dependent. We note that in FY 2011, funding was available to implement the I-Supplier module.

<u>Anticipated Completion Date</u>: To be determined

Contact Person: Alan Dias, Assistant Director of IT
Division of Information Technology
Phone: 401.222.6091

Finding 2010-2 – *Corrective Action*

The Office of the General Treasurer will improve the control over cash receipts and disbursements by developing a process improvement that either wholly segregates certain duties or by creating compensating controls while meeting the required cash movement timelines.

<u>Anticipated Completion Date</u>: June 30, 2011

Contact Person: Chris Feisthamel, Chief Operating Officer,
Office of the General Treasurer
Phone: 401.222.8550

Finding 2010-3 – *Corrective Action*

2010-3a

The State's payroll system is a legacy application written in COBOL in an IBM mainframe environment. The payroll system handles payroll for the executive branch of government. It also handles payroll for the other branches of State government, including the colleges and universities. The system does rely on institutional knowledge. The documentation in place is more of a technical nature and relies on understanding the computer code. Since this system is a major system and there are limited resources to undertake a major system documentation effort, DoIT will prioritize which documentation occurs first. The first effort in addressing this audit finding will be to focus on documenting the technical codes for the payroll processing file and to provide an overview and explanation of this file. This will facilitate a better understanding of how the payroll process works for non-technical staff.

2010-3b

DoIT will work with the Office of Accounts and Control to identify better monitoring procedures over changes to the State's payroll processing. These procedures may include additional report changes to current payroll change requests.

Anticipated Completion Date: March, 2012

Contact Person: Alan Dias, Assistant Director of IT
Division of Information Technology
Phone: 401.222.6091

Finding 2010-4 – *Corrective Action*

2010-4a

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. The security group has worked with departments in addressing auditing needs. For example, the security group recently worked with the IRS and the Department of Revenue and DHS to address auditing needs. However, these activities are not proactive at this point in time. Audit finding 2010-4a is resource dependent and DoIT is working on obtaining additional resources for the security group.

Anticipated Completion Date: To be determined.

Contact Person: Ernest Quaglieri, Chief Information Security Officer
Division of Information Technology
Phone: 401.462.9292

2010-4b

The preparation of a corrective action plan is resource and funding dependent.

Anticipated Completion Date: To be determined.

Contact Person: Ernest Quaglieri, Chief Information Security Officer
Division of Information Technology
Phone: 401.462.9292

2010-4c

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 now requires that all new systems and major changes require signoff by the CISO. However, due to limited staff, we are unable to retroactively review systems already in place and provide a certification.

Anticipated Completion Date: To be determined.

Contact Person: Ernest Quaglieri, Chief Information Security Officer
Division of Information Technology
Phone: 401.462.9292

2010-4d

Currently, DoIT has one Chief Information Security Officer (CISO) and one FTE assisting the CISO. DoIT is requesting an additional FTE for the security group in FY2011. DoIT will fill this position once approved.

Anticipated Completion Date: September 30, 2011

Contact Person: Alan Dias, Assistant Director of IT
Division of Information Technology
Phone: 401.222.6091

Finding 2010-5 – *Corrective Action*

2010-5a

The Office of Accounts and Control will enhance the controls related to government-wide accounting entries by implementing a comprehensive review process.

Anticipated Completion Date: November 30, 2011

Contact Person: Peter Keenan, Associate Controller-Finance
Office of Accounts and Control
Phone: 401.222.6408

2010-5b

The Office of Accounts and Control is currently reviewing external software that would significantly enhance the government-wide financial statement preparation process. If there is a viable software option available, a funding request will be submitted by the end of fiscal year 2011.

Anticipated Completion Date: June 30, 2011

Contact Person: Marc Leonetti, Controller
Office of Accounts and Control
Phone: 401.222.6731

Finding 2010-6 – *Corrective Action*

2010-6a

The Office of Accounts and Control completely redesigned the Federal Grants Information Schedule (FGIS) for the fiscal 2010 financial closing. To further improve this process, we will explore enhancements that include providing pre-populated Oracle information to agencies on either a cash or accrual basis, depending on how they prepare federal reports.

Anticipated Completion Date: June 30, 2011

Contact Person: Peter Hodosh, Assistant Director of Special Projects
Office of Accounts and Control
Phone: 401.222.6404

2010-6b

In conjunction with the redesign of the FGIS, procedures were also developed to enhance the review of the report. We will continue to evaluate our procedures, enhance them where appropriate, and use the improved procedures in FY2011.

Anticipated Completion Date: June 30, 2011

Contact Person: Peter Keenan, Associate Controller-Finance
Office of Accounts and Control
Phone: 401.222.6408

2010-6c

A communication will be sent to all agencies reminding them of the existence of the natural account that was created for this purpose.

Anticipated Completion Date: April 30, 2011

Contact Person: Peter Keenan, Associate Controller-Finance
Office of Accounts and Control
Phone: 401.222.6408

2010-6d

The creation of an additional senior level position is subject to budgetary constraints. However, if there is an opportunity to obtain additional funding, Accounts and Control will establish a position to enhance statewide controls.

Anticipated Completion Date: June 30, 2012

Contact Person: Marc Leonetti, Controller
Office of Accounts and Control
Phone: 401.222.6731

Finding 2010-7 – *Corrective Action*

DoIT has implemented certain changes to the responsibilities of privileged users in RIFANS. These changes included creating a new responsibility with additional restrictions to limit functions performed. DoIT will also implement logging of certain critical database changes to critical system tables.

RIFANS provides auditing features of system users. To address this finding, we will configure the auditing features to produce system reports of system changes by privileged users. DoIT will work with Accounts and Control to determine the review process of these reports.

<u>Anticipated Completion Date</u>: September 30, 2011

Contact Person: Alan Dias, Assistant Director of IT
Division of Information Technology
Phone: 401.222.6091

Finding 2010-8 – *Corrective Action*

The Department of Administration has started the conversion of the subsidiary accounting systems. The two major systems are payroll and human resources (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 dependent. Other major changes to payroll in FY11 have impacted the completion date of this finding. In FY11, we determined that a major change also had to occur for this change to be made. That change is a rewrite of our security login procedures. Due to the additional payroll accounts that need to be accessed for historical purposes, this module is being re-written and scheduled to be released in the spring of 2011. This must be released prior to doing the conversion. The security login procedure is currently in test.

<u>Anticipated Completion Date</u>: September 30, 2011

Contact Person: Alan Dias, Assistant Director of IT
Division of Information Technology
Phone: 401.222.6091

Finding 2010-9 – *Corrective Action*

2010-9a

The existing capital project tracking process, which is spreadsheet based, will be reviewed to identify areas that can be improved. However, to address this issue fully, the Oracle projects module should be implemented.

<u>Anticipated Completion Date</u>: November 30, 2011

Contact Person: Peter Keenan, Associate Controller-Finance
Office of Accounts and Control
Phone: 401.222.6408

2010-9b

Physical inventories are now being performed on a regular basis. There are twelve agencies scheduled to be inventoried in FY2011 and the balance of the agencies within the executive branch will have an inventory in FY2012.

<u>Anticipated Completion Date</u>: June 30, 2012

Contact Person: Peter Keenan, Associate Controller-Finance
Office of Accounts and Control
Phone: 401.222.6408

2010-9c

For all assets purchased since the implementation of the Oracle Fixed Asset module in 2007, the funding source is available in the data tables. As a result, the data is currently available by a query function. The Office of Accounts and Control will request that a standard report be developed in RIFANS.

Anticipated Completion Date: June 30, 2011

Contact Person: Peter Keenan, Associate Controller-Finance
Office of Accounts and Control
Phone: 401.222.6408

2010-9d

An internal procedure related to this process exists. This procedure will be used as the basis to formalize a statewide policy which will provide guidance related to the identification and reporting of capital lease activity.

Anticipated Completion Date: June 30, 2011

Contact Person: John Lewis, Supervisor Financial Management and Reporting
Office of Accounts and Control
Phone: 401.222.6302

2010-9e

The Office of Accounts and Control will review the current process and make enhancements where appropriate. This includes incorporating information compiled by the Risk Management Office.

Anticipated Completion Date: June 30, 2011

Contact Person: Peter Keenan, Associate Controller-Finance
Office of Accounts and Control
Phone: 401.222.6408

Finding 2010-10 – ***Corrective Action***

The Division of Information Technology will assign a team to implement this capability using current available technology. This corrective action will be implemented after audit finding 2010-8 is addressed.

Anticipated Completion Date: May 30, 2012

Contact Person: Alan Dias, Assistant Director of IT
Division of Information Technology
Phone: 401.222.6091

Finding 2010-11 – *Corrective Action*

2010-11a

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 have left state service. DoIT acknowledges that procedures and policies in place need to be upgraded and improved to reflect best practices. However, these improvements are resource and funding dependent. Our primary goal will be to first address 2010-11b to ensure future support of the environment.

Anticipated Completion Date: June 30, 2012

Contact Person: Alan Dias, Assistant Director of IT
Division of Information Technology
Phone: 401.222.6091

2010-11b

DoIT acknowledges that improvements need to be made to the original software implementation to better improve the program change control originally put into place. In 2010, DoIT continued to maintain support on the product and determined that we must upgrade in the very near future to be supported. The initial rollout of ClearCase was in 2006. The product offers many features. Many of the issues that we face may be due to a lack of knowledge and internal resources that are familiar with the product. We will seek additional training on the product. DoIT will also contract to acquire resources to upgrade the environment.

The completion of this finding is funding dependent for the outside resources and we have limited staff knowledge of the product at this time.

Anticipated Completion Date: June 30, 2012

Contact Person: Alan Dias, Assistant Director of IT
Division of Information Technology
Phone: 401.222.6091

Finding 2010-12 – *Corrective Action*

2010-12a

Working with the Office of Accounts and Control, the Office of the General Treasurer will create an enhanced centralized control structure. The Office of the General Treasurer will provide reconciliation services for those funds which the Office of Accounts and Control has accounting and oversight responsibilities for.

2010-12b

Neither the State Investment Commission nor the Office of the General Treasurer have any authority over or contractual privity with the trustees holding these funds. A work group will be formed to review the responsibilities related to investments held by fiscal agents as a result of issuance of debt.

Anticipated Completion Date: June 30, 2011

Contact Persons: Chris Feisthamel, Chief Operating Officer
Office of the General Treasurer
Phone: 401.222.8550

Marc Leonetti, State Controller
Office of Accounts and Control
Phone: 401.222.6731

Finding 2010-13 – *Corrective Action*

The Office of the General Treasurer has a formal collateralization policy approved by the State's Investment Commission.

Daily monitoring – We currently have daily balance reporting for all accounts. We also receive monthly spreadsheets recapping balances from the two biggest providers. Further, we have the ability to access collateral information from the third party custodian, wealth management department or the Federal Reserve System. Our providers and collateral method are as follows: Bank of America, Citizens Bank, Sovereign Bank and Webster Bank use BNY Mellon as a third-party custodian. Washington Trust uses their Wealth Management Division; a separate unit of the bank. BankRI uses the Federal Reserve System. All of the providers give us daily access to our collateral information, with the exception of BankRI, which uses the Federal Reserve System for monthly reporting, or when a change to collateral takes place.

Collected Balances – as of 2/25/11, all banks are using the deposited balance as the basis for collateral.

Funds outside of our control – We have worked with the agencies, mainly the Judicial Branch, and the banks to give us sufficient data to verify that we are properly collateralized. We receive balance reports which include the balances that we do not have control over, but which still use the State's Tax ID. Working with the agencies is an integral part of our overall campaign to improve banking services throughout State government.

Independent Custodian – At this time, the majority of our deposits have collateral on deposit with a third party. BankRI uses the Federal Reserve System for its collateral, while Washington Trust uses its Wealth Management Division to hold the collateral. The collateral is in the name of the State of RI and both of these institutions comply with our collateralization policy.

Anticipated Completion Date: Completed

Contact Person: Ken Goodreau, Chief Investment Officer
Office of the General Treasurer
Phone: 401.222.8578

Finding 2010-14 – *Corrective Action*

2010-14a

The Division of Information Technology (DoIT) plans to use Linoma's "Go Anywhere" software for the current TDI transmissions sent to Citizens Bank. The files will be sent via secure file transfer protocol directly from a dedicated secure computer, the TDI I-Series. DoIT has notified Citizens Bank and plans to implement this new process during fiscal year 2011.

Anticipated Completion Date: June 30, 2011

Contact Person: Diane Gagne, Assistant Director, Financial and Contract Management
Department of Labor and Training
Phone: 401.462.8147

2010-14b

The Treasury staff has reviewed the industry literature provided by the Office of the Auditor General. Current procedures mirror the suggested controls related to the risk of wire transfers executed via a web-based application, and, where different, offer compensating controls.

Our processes employ physical, electronic and procedural safeguards to prevent unauthorized access or misuse. While specific protocols vary from bank to bank, access to the bank's system generally require a user name, password and a hardware authenticator (which generates a random, time limited, single use password). Additionally, some banks also require installation of a user-and-machine specific public key certificate. All data transmitted to and received from the banks is 128 bit encrypted. Additionally two of our banks require a telephone confirmation prior to executing a transfer.

Treasury employs an active endpoint antivirus and antimalware software solution. This software is centrally managed and updates to definition files are processed a minimum of four times per day. All computers within Treasury are secured by this software and managed centrally. Treasury also utilizes an automatic Windows Update Service which ensures that all PC's on the Treasury network receive critical security updates in a timely fashion.

Additionally, Treasury's network sits behind the State's enterprise network infrastructure. This ensures that Treasury is protected by the State's firewall and is also the beneficiary of the State's outbound Web-access filter. This prevents users from accessing a wide variety of sites that are not related to our business purpose or could potentially host various forms of malware. Software downloads are completely blocked. Overall network activity is monitored, and Treasury staff notified in the event of aberrant activity.

A dedicated workstation would desegregate the initiation, approval and report gathering functions that are currently independent. Bringing these functions to the same machine creates a potential single point of failure, operational inefficiency and eliminates the unique network credentials used to audit user and machine activity. The use of a dedicated workstation not connected to the Treasury's infrastructure would require unique security and control issues, manual software updates and continual manual antivirus and malware updates.

In the unlikely event that Treasury systems were to be compromised by malware, it is possible that a dedicated workstation could easily be impacted via various network or operating vulnerabilities.

After contacting our three biggest vendors we learned that none of their collective clients have a dedicated workstation to execute wire transfers. Treasury staff believes that current user and transaction authentication procedures represent an appropriate control of security risk for transmission of electronic payments that is consistent with the industry recommendations and practice.

Anticipated Completion Date: Completed

Contact Person: Ken Goodreau, Chief Investment Officer
Office of the General Treasurer
Phone: 401.222.8578

Finding 2010-15 – *Corrective Action*

As part of the fiscal year 2012 budget request, the Division of Taxation requested funding for an integrated tax system. This system will, among other things, overhaul the front-end entry systems, accounting systems and processing systems. These improvements will address many of the Auditor General's findings and meet their recommendations.

2010-15a

The electronic payment files that are currently under "version control" contain only a portion of the EFT payments received (EFT Credit only). The remaining electronic files come from various sources both inside and outside of the Division of Taxation. These files are collected and then combined to create one "optical character recognition" (OCR) file that is manually uploaded to the tax mainframe.

- OCR – originate in Primary Processing and are payments by check that are processed by the NCR machines.
- WEBSTER – originate at Webster Bank and are payments processed through the "lockbox" and transmitted via secure FTP to a site inside the state firewall where they are retrieved by the EFT section for processing. These files are "zipped" and must be extracted before being combined with remaining files. A copy of the ACH credit file is manually loaded into the ClearCase "version control" for reference. It is not part of the automatic process.
- PORTAL – These are payments processed through the State portal (RI.gov) and include direct debits for personal income tax payments as well as EFT debit files. They are retrieved manually by the EFT section directly from the RI.gov site.
- CREDIT CARD – These are payments processed through Official Payments. Official Payments notifies the Division via email when a file is available for download. The files are then retrieved by the EFT section for processing.

The current "version control" is not a solution for these files because of their disparate sources. Taxation will contact DoIT to explore an appropriate solution.

2010-15b

The current system (ClearCase) issues notification regarding problems with data files, but these notifications are not received until the following day. Taxation will work with DoIT to explore alternative options to resolve this issue.

2010-15c

The current system (ClearCase) contains customizable reports for various uses. Taxation will submit a request to DoIT to create custom reports to review/audit changes to data files.

2010-15d

Taxation will work with DoIT to establish a plan for proper data categorization and encryption of these files.

Anticipated Completion Date: June 30, 2011

Contact Person: David Sullivan, Tax Administrator
Division of Taxation
Phone: 401.574.8922

Finding 2010-16 – *Corrective Action*

As part of the fiscal year 2012 budget request, the Division of Taxation requested funding for an integrated tax system. This system will, among other things, centralize all data received by the Division of Taxation. These improvements will allow Taxation to process returns faster and more efficiently. In addition, the system will allow Taxation the ability to change/modify return processing procedures without major programming changes.

2010-16a

Due to a lack of staffing in the past, this function was drastically delayed. Over the past year, the Processing Sections dedicated a Revenue Agent position to focus some of their time to reconciling and processing W-3s. During the past few months, the Processing Section has generated over 1,000 notices in an attempt to reconcile the W-3s for tax year 2008.

During the next few months, Taxation will focus on developing a comprehensive compliance program for employers, utilizing the data warehouse to match various data sources. This program will expedite the processing of W-3s and ensure that employers are complying with all Rhode Island tax laws.

2010-16b

Taxation will submit a request to DoIT programming to add carryovers of income tax refunds to the management report similar to refunds.

2010-16c

Over the past year, returns were being added to the error report faster than the staff could remove them. Over the next few months, the Division of Taxation will review all error codes to determine if they can be modified to reduce the number of errors. The Division will also study if the data warehouse can be used to prescreen returns, therefore creating fewer errors and improving processing time of personal income tax returns and refunds.

2010-16d

Due to lack of staffing, the Division of Taxation opted to defer this project. However, on January 19, 2011, Taxation requested the report from DoIT. The report highlighted several instances of incorrect filings affecting collections. Totals indicated the following: 348 potential weekly filers (presently monthly), and 461 potential monthly filers (presently quarterly). The Division of Taxation will contact these taxpayers to notify them of their correct filing method and continue this project on an annual basis.

Anticipated Completion Date: June 30, 2011

Contact Person: David Sullivan, Tax Administrator
Division of Taxation
Phone: 401.574.8922

Finding 2010-17 – *Corrective Action*

As part of the fiscal year 2012 budget request, the Division of Taxation requested funding for an integrated tax system. This system will, among other things, overhaul the front end entry systems, accounting systems and processing systems. These improvements will allow Taxation Revenue Agents and Revenue Officers the ability to make on-line corrections to taxpayer accounts. Depending on the type and amount of the correction, the system will require supervisor approval(s) and also maintain an audit trail of these corrections.

2010-17a

The Division will review the total number of ARCs and the various types of ARCs. Over the next two months, the Division will issue formal procedures on an approval process for ARCs over an established threshold.

2010-17b

The approval process established as a result of Finding 2010-17a will improve controls over ARC transactions. Currently, ARCs are processed by either a data entry supervisor or a data control clerk. Taxation will work with DoIT programming staff to create mainframe reports to ensure that all ARCs were entered correctly and timely.

Anticipated Completion Date: June 30, 2011

Contact Person: David Sullivan, Tax Administrator
Division of Taxation
Phone: 401.574.8922

Finding 2010-18 – *Corrective Action*

As part of the fiscal year 2012 budget request, the Division of Taxation requested funding for an integrated tax system. This system will, among other things, overhaul the front end data entry systems, accounting and processing systems. These improvements will streamline the Division's data entry and return entry systems therefore improving the timeliness and accuracy of entering returns, corrections, and adjustments to taxpayer accounts. The system will also allow for real time posting of payments and transactions to taxpayer accounts.

2010-18a

The current systems in the Division of Taxation are inadequate and extremely manual. Over the past ten years, the staffing in the data entry section has drastically decreased due to retirements and budget restrictions. Over the past year, the Division of Taxation has partnered with Webster Bank to improve processing of payments and vouchers. The partnership allows for checks to be deposited faster and allows for the data to be automatically and securely uploaded to the mainframe. Over the next few months, the Division of Taxation will explore additional methods to improve controls and expedite the entry of taxpayer information.

Anticipated Completion Date: June 30, 2011

Contact Person: David Sullivan, Tax Administrator
Division of Taxation
Phone: 401.574.8922

2010-18b

The Office of Accounts and Control will revise the methodology regarding refunds payable and base the estimate on payment history for the fiscal 2011 financial closing.

Anticipated Completion Date: August 31, 2011

Contact Person: Peter Keenan, Associate Controller-Finance
Office of Accounts and Control
Phone: 401.222.6408

Finding 2010-19 – *Corrective Action*

2010-19a

The original bill on the mainframe is assigned a special code identifying it as a data warehouse bill. If a subsequent adjustment or correction is performed on this bill, the codes are consistent with other adjustments or corrections. At the end of the fiscal year, Taxation was able to perform an analysis reporting all of the adjustments and corrections posted to data warehouse bills. Due to the age and inflexibility of the mainframe system, it is our position that new correction and adjustment types are unnecessary and would cause a great deal of programming time to create.

2010-19b

During fiscal year 2010, the Division of Taxation used history from other states to create an allowance for uncollectible taxes relating to the data warehouse assessment. Given that the Division now has almost two years of history, the Division of Taxation will work with Accounts and Control to establish an accurate estimate for uncollectible taxes relating to data warehouse billings.

2010-19c

Currently, when a notice is generated through the data warehouse, a transaction (bill) is posted to the taxpayer account. Rhode Island General Law §44-30-81 allows the taxpayer 30 days to appeal any notice of deficiency. Any notice of deficiency created in the mainframe system does not become a receivable until at least 30 days after the creation of the notice to give the taxpayer ample time to appeal the deficiency. To remain consistent with the mainframe process and to adhere to RI law and to allow for delays in processing responses from taxpayers, the notices generated from the data warehouse are held for 60 days before they become a receivable. It is our opinion that the 60 day delay from the time a notice becomes a receivable is fulfilling a statutory requirement.

Anticipated Completion Date: June 30, 2011

Contact Person: David Sullivan, Tax Administrator
Division of Taxation
Phone: 401.574.8922

Finding 2010-20 – *Corrective Action*

A finding concerning the administration of the personal income tax system was communicated confidentially due to the potential impact on taxpayer compliance.

Finding 2010-21 – *Corrective Action*

The Office of Accounts and Control will review the existing control processes and improve them as warranted. Notwithstanding control enhancements, the process requires manual review and, as such, will continue to be subject to manual error.

Anticipated Completion Date: June 30, 2011
Contact Person: Peter Keenan, Associate Controller-Finance
Office of Accounts and Control
Phone: 401.222.6408

Finding 2010-22 – *Corrective Action*

Regarding short-term goals, RIDOT has identified implementing a unified chart of accounts as a desired outcome. Preliminary discussions with Oracle have indicated that transitioning from the FMS account number strings to RIFANS will present both cost and logistical challenges.

RIDOT will obtain estimates from Oracle as to the estimated cost, projected time line, and level of RIDOT and DoIT staff resources needed to implement this project. Based upon this data, RIDOT will assess the likelihood of how quickly this major undertaking can be achieved.

Regarding long-term goals, RIDOT has met with the State Controller to discuss the feasibility of using the FMS system data for financial statement purposes. We will continue to assess the costs and risks of using FMS as the stand-alone accounting system of record for financial reporting, including an analysis of the efficiencies that can be achieved.

Anticipated Completion Date: To be determined.

Contact Person: Robert Farley, Chief Financial Officer
Department of Transportation
Phone: 401.222.6590

Finding 2010-23 – *Corrective Action*

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, Financial Management will implement the following corrective actions:

- Run the Schedule of Revenues, Expenditures and Changes in Net Assets in early June every year to identify and resolve material variances;
- Compare (a) revenues received per the federal FMIS report to (b) receipts booked in RIFANS and resolve any differences;
- Institute revised procedures to ensure that all involved parties agree upon and sign off on the amounts to be reported for likely settlements of legal claims before these liabilities are recorded on the draft financials;
- Work closely with Accounts and Control to ensure that the general obligation fund balance issue is resolved in FY 2011;
- Ensure that a revised report to track changes in EBUB is implemented for FY 2011;
- Amend the fiscal year close schedule to include a step for processing the Gas Tax journal entry required for GARVEE; and
- Include transactions at the account level as part of the GARVEE reconciliation process.

Anticipated Completion Date: August 15, 2011

Contact Person: Robert Farley, Chief Financial Officer
Department of Transportation
Phone: 401.222.6590

Finding 2010-24 – *Corrective Action*

Financial Management will continue to improve controls over the recording of infrastructure investment and disposal. Regarding the identification and recording of infrastructure asset disposals, a control procedure will be implemented for FY 2011 to make the determination based upon useful life codes. This will require increased levels of coordination between RIDOT Financial Management, Accounts and Control, and other RIDOT divisions.

Additionally, Financial Management will improve its methodology of determining when infrastructure assets are placed into service. For FY 2010, Financial Management utilized its historic methodology of basing this determination upon whenever 80 percent of the contract amount had been expended. Going forward, Financial Management will use the date of substantial completion identified on RIDOT form "Substantial Completion and Request for Partial Acceptance / Final Inspection" as the basis. This methodology has been agreed upon by both RIDOT and the Office of the Auditor General.

Regarding the issue of linking actual design and construction costs to projects, RIDOT Financial Management dedicated significant time and personnel resources to revamp the past practice of calculating design costs by using 19 percent of the total construction costs incurred during the fiscal year for each project. For FY 2010, Financial Management determined the total design costs incurred and linked specific design costs for three large-dollar projects, while the remaining design costs were allocated based upon construction costs incurred by each respective smaller-dollar project. The Department concurs that this methodology results in timing issues, and will examine further refinement for linking design and construction costs on a go-forward basis.

Anticipated Completion Date: August 15, 2011

Contact Person: Robert Farley, Chief Financial Officer
Department of Transportation
Phone: 401.222.6590

Finding 2010-25 – *Corrective Action*

RIDOT will work with DoIT Operations to develop a disaster recovery/contingency plan by September 30, 2011. Implementation of the plan depends upon the availability of staff, hardware, and financial resources.

Anticipated Completion Date: September 30, 2011

Contact Person: David Ahlijanian, Chief Technology Officer
Department of Transportation
Phone: 401.574.9203

Finding 2010-26 – *Corrective Action*

Financial Management staff will meet with IT staff to determine the feasibility of fully automating all instances of manual data modifications.

Anticipated Completion Date: September 30, 2011

Contact Person: Robert Farley, Chief Financial Officer
Department of Transportation
Phone: 401.222.6590

Finding 2010-27 – *Corrective Action*

2010-27a

Evaluation will begin on limiting roles and permissions of non-lead programmers. There will be additional Active Directory groups created for the developer's team to further limit their permissions on both the test and production environments. A team leader will manage this effort in working with Tech Support on redefining the current Active Directory groups. A new working structure will be in place by September 30, 2011.

Anticipated Completion Date: September 30, 2011

Contact Person: Thomas Lewandowski, Agency IT Manager
Department of Transportation
Phone: 401.222.6935

2010-27b

An additional Active Directory Group will be created restricting non-lead programmers to move/publish code to production. This will be managed and controlled by one group assigned to the lead programmer. The lead developer will create a log outside of Microsoft SourceSafe of all code published to the Production environment. This person will also do a quarterly comparison of the Microsoft SourceSafe history log with the lead developer log to look for any disparity. A new working structure will be in place by September 30, 2011.

Anticipated Completion Date: September 30, 2011

Contact Person: Thomas Lewandowski, Agency IT Manager
Department of Transportation
Phone: 401.222.6935

Finding 2010-28 – *Corrective Action*

DoIT has indicated to the DLT that there was discussion with audit staff about using ClearCase for this process. DoIT has outlined its planned corrective actions regarding the use of ClearCase in its response to Finding 2010-11.

Anticipated Completion Date: June 30, 2012

Contact Persons: Alan Dias, Assistant Director of IT
Division of Information Technology
Phone: 401.222.6091

Diane Gagne, Assistant Director, Financial and Contract Management
Department of Labor and Training
Phone: 401.462.8147

Finding 2010-29 – *Corrective Action*

DoIT is in the process of developing a Contingency Plan for the DLT Data Center and expects to complete the project during calendar year 2011. The State plans to consolidate the DLT data center into the DoIT Enterprise Data Center within the next couple of years. Upon completion of the consolidation, DLT's disaster recovery will be incorporated into the DoIT plan.

Anticipated Completion Date: June 30, 2011

Contact Person: Diane Gagne, Assistant Director, Financial and Contract Management
Department of Labor and Training
Phone: 401.462.8147

Finding 2010-30 – *Corrective Action*

2010-30a

With the implementation of GTECH's anti-virus and patching program, as well as the newly-implemented controls and additional oversight over the Facilities' Player Tracking systems, the overall program is much stronger.

The findings within the contractor's report were easily correctable, and this review was different from any previous review, due to the scope of the audit. Previously, the Lottery had auditing firms review the Online and Video Systems separately. This review had a much broader scope that included all the Online and Video Systems and associated infrastructure. Also, the review was done by an auditing firm that provided a different perspective than reviews done in the past.

The Lottery ISA and Video Systems Manager heavily monitor and regulate the security over the GTECH and VLT Facility Systems. The Lottery also relies on the annual external audits to strengthen the overall program. The Lottery has been working with all parties involved to address the deficiencies reported in the most recent audit. As stated, most of the deficiencies (80%) have been closed; and the remaining deficiencies will be completed within 60 days.

2010-30b

The Lottery MIS Director and ISA perform internal reviews of all IT Security areas throughout the year to ensure that the current monitoring process and implemented security controls in place are effective. These reviews include:

- Network management
- System management
- User and group policy management
- Intrusion detection system review
- Firewall review
- Review of all device syslogs
- Change management controls
- Software and hardware inventory review
- Software release management
- Anti-virus and security update review

2010-30c

The Lottery understands the value of having an Information Security Administrator function and continues in its well-established efforts to ensure that GTECH and the VLT Facilities assign designated resources to this job function to ensure compliance with the Lottery's policies.

2010-30d

Over the past ten years, the Lottery has engaged the services of consultants to perform annual external security reviews. Each time the Lottery has had an external auditing firm perform an IT Security review, the auditing scope has been reviewed by the Auditor General's Office to ensure that they are involved with the process and that the scope is satisfactory. The Lottery will continue this important practice to ensure its Information Security Program is what it should be and to protect the revenue source the Lottery systems generate.

Anticipated Completion Date: June 30, 2011

Contact Person: Gerald S. Aubin, Director
Rhode Island Lottery
Phone: 401.463.6500

Finding 2010-31 – *Corrective Action*

The Authority will fund the Operating Reserve and Debt Service Reserve components noted above provided there is sufficient cash flow.

Contact Person: James McCarvill, Executive Director
Rhode Island Convention Center Authority
Phone: 401.351.4295

Finding 2010-32 – *Corrective Action*

The System has over 190 participating member units that submit wage and contribution data into the ANCHOR system on various payroll frequencies. The process for analyzing contributions receivable is reviewed by the accounting department. However, given the various pension reforms enacted during the 2010 session, additional off-line efforts were required to be immediately implemented to comply with the enacted budget articles. The limited resources of the accounting department dedicated a significant amount of time to these additional year-end efforts and inadvertently omitted the referenced transaction.

Currently, ERSRI is seeking to procure a new accounting system in addition to an updated line-of-business system in which it will develop enhanced capability for computing, recording, and tracking accounts receivable.

In the interim, ERSRI will develop additional procedures to improve financial reporting of contributions receivable.

Anticipated Completion Date: June 30, 2011

Contact Person: Zachary Saul, Assistant Director-Finance
Employees' Retirement System of Rhode Island
Phone: 401.457.3999

Finding 2010-33 – ***Corrective Action***

Management will implement appropriate procedures to strengthen internal controls.

Contact Person: Christine Callahan, CFO
Rhode Island Turnpike and Bridge Authority
Phone: 401.423.0800

Finding 2010-34 – ***Corrective Action***

Management will comply with the suggestion.

Contact Person: Christine Callahan, CFO
Rhode Island Turnpike and Bridge Authority
Phone: 401.423.0800

Finding 2010-35 – ***Corrective Action***

The District will begin adhering to the Auditor's findings regarding reconciliation and review of the financial statements throughout the year to avoid misstatements in the financial statements and numerous audit adjustments at year end. On a monthly basis the Director of Finance will review all monthly financial reports and financial statement accounts and backup documentation to ensure the correct accounts and entries are made to substantiate the financial documents. In addition, on a monthly basis, the Director of Finance will review the monthly financial reports with the Superintendent and distribute the District's financial reports to the Board of Trustees.

The District continues the process of refining the financial management system and continues in the professional development training of its staff in order to increase their proficiency with the proper use of the various modules and adhere to the audit findings for the fiscal year ended June 30, 2010.

Contact Person: Giovanna Venditti, Finance Director
Central Falls School District
Phone: 401.874.7530

Finding 2010-36 – ***Corrective Action***

The District will make every effort to comply with the Auditor's findings with respect to capital assets and ensure the implementation of the recommended policies and procedures to ensure proper recording of capital asset additions and deletions in the next fiscal year.

The District will begin reviewing on a monthly basis asset purchases and deletions and update the capital assets inventory schedules accordingly to ensure compliance.

The District continues the process of refining the financial management system and continues in the professional development training of its staff in order to increase their proficiency with the proper use of the various modules especially the capital asset module which is available in the financial system and adhere to the compliance with the audit findings for the fiscal year ended June 30, 2010.

Contact Person: Giovanna Venditti, Finance Director
Central Falls School District
Phone: 401.874.7530

Finding 2010-37 – ***Corrective Action***

See corrective action plan for finding 2010-61.

Finding 2010-38 – ***Corrective Action***

See corrective action plan for finding 2010-71.

Finding 2010-39 – ***Corrective Action***

2010-39a

During FY 2011 the State has continued to stress the need to utilize the RI Cash Resources Report as the basis for drawing down federal funds as well as the importance of adherence to the terms of the CMIA Agreement. In addition, the Office of Accounts and Control reviews all covered programs on a quarterly basis in terms of daily cash balances and credits over $50K in order to monitor compliance.

Anticipated Completion Date: December 31, 2011

Contact Person: Peter Hodosh, Associate Director for Special Projects
Office of Accounts and Control
Phone: 401.222.6404

2010-39b

The Office of Accounts and Control will investigate an interface between RIFANS and the federal government's automated funds management system while at the same time recognizing that budgetary restrictions may limit our ability to expand or implement RIFANS applications.

Anticipated Completion Date: June 30, 2012

Contact Person: Peter Hodosh, Associate Director for Special Projects
Office of Accounts and Control
Phone: 401.222.6404

2010-39c

The Office of Accounts and Control will work with RIDOT to establish procedures in RIDOT that mirror those of RIFANS to identify applicable credits as well as to provide daily cash balances. The information provided by RIDOT will be incorporated in to the State's interest calculation. In addition, during FY10 an extensive review of the funding techniques was conducted that resulted in a streamlining of the techniques used in the FY11 CMIA agreement. As a result of these changes reviewing and monitoring compliance has been simplified.

Anticipated Completion Date: December 31, 2011

Contact Person: Peter Hodosh, Associate Director for Special Projects
Office of Accounts and Control
Phone: 401.222.6404

Finding 2010-40 – *Corrective Action*

See corrective action plan for finding 2010-9.

Finding 2010-41 – *Corrective Action*

2010-41a

The Department has access to audit/log files that need to be formatted to help the reviewer or systems security administrator identify patterns of usage. The Department will consult with NGIS and DoIT as to how to best implement the recommendation.

Anticipated Completion Date: December 2011

Contact Person: Diane Cook, Administrator
Department of Human Services
Phone 401.462.6842

2010-41b

The Department has existing disciplinary procedures. Questionable INRHODES usage, when identified, would follow common practice with regard to the investigation and response to any questioned staff action, regardless of the environment in which the action occurred. The Department is not certain separate policies and procedures are needed, but will determine following the consult with NGIS and DoIT.

Anticipated Completion Date: December 2011

Contact Person: Diane Cook, Administrator
Department of Human Services
Phone 401.462.6842

Finding 2010-42 – *Corrective Action*

2010-42a

Effective 10/1/09, RI implemented formal protocols and procedures for URI to follow when documenting committed matches with community partners. At this time, the department implemented new reporting requirements which consisted of a Letter of Agreement from the community partner agencies and an expenditure report reflecting actual costs incurred.

Anticipated Completion Date: September 2011

Contact Person: Nancy Pellegrino, SNAP Administrator
Department of Human Services
Phone 401.462.0993

2010-42b

The URI Outreach and Nutrition Education programs did not maintain detailed documentation for actual costs incurred for FFY 09. Going forward (FFY10), the department has implemented procedures for URI to follow when documenting committed matches with community partners for both the Nutritional Ed and Outreach programs.

Anticipated Completion Date: September 2011

Contact Person: Nancy Pellegrino, SNAP Administrator
Department of Human Services
Phone 401.462.0993

Finding 2010-43 – *Corrective Action*

The six cases in question will be updated to reflect the correct Summary report with the requirement of being registered in the RI Job Service system. All evidence to support the BAM Unit's findings will be attached to the case.

Overpayments resulting from any changes to the Summary will be completed by the BAM Unit.

The conversion of the computer system has been completed and all future BAM audits will now reflect the Job Service registration requirement with evidence in print.

Anticipated Completion Date: June 30, 2011

Contact Person: Raymond Filippone, Assistant Director, Income Support
Department of Labor and Training
Phone: 401.462.8415
Email: rfilippone@dlt.ri.gov

Finding 2010-44 – *Corrective Action*

2010-44a

Additional staff were added to the Business Affairs unit that will facilitate adequate segregation of duties and supervisory review of the ETA 2208A (UI-3) report prior to submission starting with the report for quarter ending 3/31/2011.

Anticipated Completion Date: June 30, 2011

Contact Person: Diane Gagne, Assistant Director, Financial and Contract Management
Department of Labor and Training
Phone: 401.462.8147

Email: dgagne@dlt.ri.gov

2010-44b

The ETA 2208A (UI-3) report filed for quarter ended September 30, 2010 included the cumulative effect of the corrections required for the previously submitted reports, as well as the current quarter's data. Contingency earnings for the September 30, 2009, December 31, 2009, and March 31, 2010 were already awarded by U.S. DOL based on the data reflected on the submitted UI-3 reports. The Regional Office of U.S. DOL was apprised of the errors made in the three quarterly reports and approved the submission of the September 30, 2010 report with the cumulative corrections.

Anticipated Completion Date: Completed

Contact Person: Diane Gagne, Assistant Director, Financial and Contract Management
Department of Labor and Training
Phone: 401.462.8147
Email: dgagne@dlt.ri.gov

Finding 2010-45 – *Corrective Action*

2010-45a

An internal review system has been developed to ensure accuracy of TAPR (formerly ETA-563) data reports prior to submission. This review includes comparison of backup data compiled throughout the reporting period.

Anticipated Completion Date: June 30, 2012

Contact Person: Sue Chomka, Acting Assistant Director, Workforce Development Services
Department of Labor and Training
Phone: 401.462.8712
Email: schomka@dlt.ri.gov

2010-45b

An internal review of the data that supports the TAPR is being conducted prior to submission of the report. Reconciliations of the TAPR to the ETA 9130 reports will be performed on a quarterly basis to ensure consistent reporting.

Anticipated Completion Date: June 30, 2012

Contact Persons: Sue Chomka, Acting Assistant Director, Workforce Development Services
Department of Labor and Training
Phone: 401.462.8712
Email: schomka@dlt.ri.gov

Denise Paquet, Administrator, Financial Management
Department of Labor and Training
Phone: 401.462.8178

Email: dpaquet@dlt.ri.gov

2010-45c

Verification of petition numbers reported on the TAPR will be conducted using the U.S. Department of Labor's ETA petition determination site prior to submission of the TAPR to ensure accuracy of petition numbers being reported.

Anticipated Completion Date: June 30, 2011

Contact Person: Sue Chomka, Acting Assistant Director, Workforce Development Services
Department of Labor and Training
Phone: 401.462.8712
Email: schomka@dlt.ri.gov

Finding 2010-46 – *Corrective Action*

2010-46a

DLT has established authorized balances within the FARS ledgers consistent with grant award documentation for all of the Recovery Act awards. It has initiated this process for all of the non-Recovery Act programs during FY2011 and expects to have it completed by fiscal year end.

Anticipated Completion Date: June 30, 2011

Contact Person: Diane Gagne, Assistant Director, Financial and Contract Management
Department of Labor and Training
Phone: 401.462.8147
Email: dgagne@dlt.ri.gov

2010-46b

Additional staff was added to the SWIO unit during FY2011 that enabled the Department to segregate the monitoring and reporting duties. The additional staff will facilitate supervisory review of reports prior to submission to ensure appropriate reporting.

Anticipated Completion Date: June 30, 2011

Contact Person: David Tremblay, Acting Administrator – State Workforce Investment Office
Department of Labor and Training
Phone: 401.462.8812
Email: dtremblay@dlt.ri.gov

Finding 2010-47 – *Corrective Action*

2010-47a

Training will be conducted on an ongoing basis to all WIA staff including local One-Stop career center managers. This training will include but will not be limited to the objectives of the program and the required documentation. All case file folders will be reviewed and monitored by the local office managers to ensure completeness and accuracy of the documentation that supports eligibility assessments and outcomes.

Anticipated Completion Date: June 310, 2012

Contact Person: Sue Chomka, Acting Assistant Director, Workforce Development Services
Department of Labor and Training
Phone: 401.462.8712
Email: schomka@dlt.ri.gov

2010-48b

Managers will monitor all case file folders for accuracy of documentation, eligibility, form completion, and data entered into the GEOSOL system to ensure consistency.

The SWIO has increased the quality and quantity of its monitoring efforts to ensure data integrity and accuracy. Such efforts will continue to be intensified and technical assistance will be made available to WIA service providers.

Anticipated Completion Date: June 30, 2011

Contact Persons: Sue Chomka, Acting Assistant Director, Workforce Development Services
Department of Labor and Training
Phone: 401.462.8712
Email: schomka@dlt.ri.gov

David Tremblay, Acting Administrator – State Workforce Investment Office
Department of Labor and Training
Phone: 401.462.8812
Email: dtremblay@dlt.ri.gov

Finding 2010-48 – *Corrective Action*

The Department of Administration will establish new accounts in the State's accounting system using the ARRA numbering convention during FY2011 to facilitate identification of all ARRA funded programs.

Anticipated Completion Date: June 30, 2011

Contact Persons: Denise Paquet, Administrator, Financial Management
Department of Labor and Training
Phone: 401.462.8178
Email: dpaquet@dlt.ri.gov

Bernard Lane, Chief Financial Officer
Department of Administration
Phone: (401) 222-6603
Email: blane@ri.gov

Finding 2010-49 – *Corrective Action*

Additional staff was added to the SWIO unit during FY2011 to perform monitoring and preparation of reports to ensure timely communication to sub-recipients.

Contact Person: David Tremblay, Acting Administrator – State Workforce Investment Office
Department of Labor and Training
Phone: 401.462.8812
Email: dtremblay@dlt.ri.gov

Finding 2010-50 – *Corrective Action*

RIDOT's Construction Management Office will take steps to ensure contractor compliance with Davis-Bacon Act requirements. For Fiscal Year ending June 30, 2011, the Office of Construction Management will verify that two labor compliance checklists are completed for each applicable project and will also enforce the submission of all required certified payrolls.

Anticipated Completion Date: June 30, 2011

Contact Person: Frank Corrao, Construction Management
Department of Transportation
Phone: 401.222.2468

Finding 2010-51 – *Corrective Action*

2010-51a

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 is working 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.

Anticipated Completion Date: June 30, 2011

Contact Person: Frank Corrao, Construction Management
Department of Transportation
Phone: 401.222. 2468

2010-51b

An electronic module in the construction management program is scheduled to be implemented by June 30, 2011. This enhancement will ensure that required certificates of compliance are received and recorded in the materials test book prior to contractor payment for the materials. Also, on an on-going basis, RIDOT management communicates the importance of materials testing (and other matters) to staff through formal construction policy memos.

Anticipated Completion Date: June 30, 2011

Contact Person: Frank Corrao, Construction Management
Department of Transportation
Phone: 401.222. 2468

2010-51c

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, 2011

Contact Person: Frank Corrao, Construction Management
Department of Transportation
Phone: 401.222. 2468

2010-51d

An electronic module in the construction management program is scheduled to be implemented by June 30, 2011. Also, on an on-going basis, RIDOT management communicates the importance of materials testing (and other matters) to staff through formal construction policy memos.

Anticipated Completion Date: June 30, 2011

Contact Person: Frank Corrao, Construction Management
Department of Transportation
Phone: 401.222.2468

2010-51e

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
Department of Transportation
Phone: 401.222. 2468

Finding 2010-52 – *Corrective Action*

2010-52a

In FY 2010, RIDOT's Office of Compliance and Review established written policies and procedures for subrecipient monitoring. In addition, a schedule of projects 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, Administrator, Highway and Bridge Construction Operations
Department of Transportation
Phone: 401.222.6940

2010-52b

The RIDOT Office of Financial Management has developed a process for identifying all federal awards passed-through to subrecipients by project. A list identifying all federal awards passed through to subrecipients by project will be generated annually by the RIDOT Office of Financial Management and provided to the RIDOT Office of Compliance and Review.

Anticipated Completion Date: Completed

Contact Person: Robert Farley, Chief Financial Officer
Department of Transportation
Phone: 401.222.6590

2010-52c

RIDOT's Office of Financial Management has assumed the responsibility of securing single audit reports for all subrecipients that are required to have them performed. An audit review checklist is used to document RIDOT's review of single audits, including issuing management decisions within required timeframes when applicable.

Anticipated Completion Date: June 30, 2011

Contact Person: Robert Farley, Chief Financial Officer
Department of Transportation
Phone: 401.222.6590

2010-52d

RIDOT will revise its template for subrecipient agreements to include the CFDA number and title, federal agency and applicable compliance requirements.

Anticipated Completion Date: June 30, 2011

Contact Person: Robert Farley, Chief Financial Officer
Department of Transportation
Phone: 401.222.6590

2010-52e

During its review of subrecipient Single Audit reports, RIDOT's Office of Financial Management will evaluate the impact of any issues identified (e.g., questioned costs, internal control weaknesses, etc.) and determine the impact on RIDOT's ability to comply with applicable federal regulations.

Anticipated Completion Date: June 30, 2011

Contact Person: Robert Farley, Chief Financial Officer
Department of Transportation
Phone: 401.222.6590

Finding 2010-53 – *Corrective Action*

RIDOT concurs that timing differences exist between RIFANS and FMS, primarily related to payroll expenditures. These variances will be examined to determine how they can be more definitively explained so that the reconciliation process that is already in place can be improved.

Anticipated Completion Date: August 15, 2011

Contact Person: Robert Farley, Chief Financial Officer
Department of Transportation
Phone: 401.222.6590

Finding 2010-54 – *Corrective Action*

RIDOT will enter into memorandums of understanding with municipalities that will establish uniform and reasonable charges for police details, including a requirement for municipalities to submit their current police contracts (and any subsequent changes) so that the contracted hourly rate for details can be verified.

Anticipated Completion Date: August 15, 2011

Contact Person: Robert Farley, Chief Financial Officer
Department of Transportation
Phone: 401.222.6590

Finding 2010-55 – *Corrective Action*

RIDOT's Financial Management Office, in collaboration with the State Controller's Office and the State Purchasing Office, will establish a policy whereby one purchase order will be created for every project governed by a cooperative agreement with finding provided by more than one State agency so that a single payment can be simultaneously processed.

Anticipated Completion Date: June 30, 2011

Contact Person: Robert Farley, Chief Financial Officer
Department of Transportation
Phone: 401.222.6590

Finding 2010-56 – *Corrective Action*

The District Grant Coordinator will review the time and effort sheets for appropriate personnel on a monthly basis to ensure proper compliance.

Anticipated Completion Date: On going

Contact Person: Mario Papitto, Grant Coordinator
Central Falls School District
21 Hedley Avenue
Central Falls, RI 02863
Phone: 727-7700 extension 123

Finding 2010-57 – *Corrective Action*

2010-57a

In 2010 RI Works policy changes were vetted, including IEVS, and they are currently in the APA process, with procedural memo to follow. In addition, training for eligibility and service staff and supervisors is planned for 2011 which will heavily emphasize improper payments, service quality, records retention, and documentation of actions taken and why.

Anticipated Completion Date: December 2011

Contact Person: Diane Cook, Administrator
Department of Human Services
Phone 401.462.6842

2010-57b

To standardize the process of full case reviews, a Supervisory Review Checklist that the Field supervisors had been using has been adapted and will be used going forward in both the Field and the low-income child care unit.

Anticipated Completion Date: December 2011

Contact Person: Diane Cook, Administrator
Department of Human Services
Phone 401.462.6842

2010-57c

In 2011, the plan for scanning documents will be reviewed and updated to assure implementation, and scanning will be emphasized in the 2011 all staff training.

Anticipated Completion Date: December 2011

Contact Person: Diane Cook, Administrator
Department of Human Services
Phone 401.462.6842

2010-57d

A review of the specific cases in which children in child care have turned age 13 is underway (in order to determine if there is mis-coding involved or there is another explanation), in addition to an examination of the programming associated with how and when these cases come to the attention of staff for parent notification that the children are no longer eligible for subsidies. When the analysis is complete, corrective action will be taken.

Anticipated Completion Date: December 2011

Contact Person: Diane Cook, Administrator
Department of Human Services
Phone 401.462.6842

2010-57e

DHS will adjust the federal 696 reports for the ineligible child care costs charged to the Child Care Development Block Grant.

Anticipated Completion Date: December 2011

Contact Person: Diane Cook, Administrator
Department of Human Services
Phone 401.462.6842

Finding 2010-58 – ***Corrective Action***

2010-58a

DHS agrees with the finding and will improve controls over the preparation of the ACF-196 and ACF-204 reports.

Anticipated Completion Date: April 2012

Contact Person: Corinne Calise Russo, Deputy Director
Department of Human Services
Phone 401.462.2121

2010-58b

DHS will obtain additional supporting documentation from other departments and agencies to meet TANF MOE and reporting for the requirements ACF-196 and ACF-204 reports.

Anticipated Completion Date: April 2012

Contact Person: Corinne Calise Russo, Deputy Director
Department of Human Services
Phone 401.462.2121

Finding 2010-59 – ***Corrective Action***

2010-59a

The Department has requested the source documentation supporting the expenditures for the base years and 2010 from the CAP agencies.

Anticipated Completion Date: December 2011

Contact Person: Diane Cook, Administrator
Department of Human Services
Phone 401.462.6842

2010-59b

The Department will review and compare the amounts on the documents to the reported amounts and will adjust the OFA-100, if needed and allowable by ACF.

Anticipated Completion Date: December 2011

Contact Person: Diane Cook, Administrator
Department of Human Services
Phone 401.462.6842

Finding 2010-60 – *Corrective Action*

2010-60a

In June, 2010, the division hired three new staff for the Income Eligibility and Verification System (IEVS) unit. They resolve data match discrepancies, make referrals to collections for unreported wages, have entered wages resulting in cash case closures, and have consistently recorded their actions and rationales in the electronic record.

Anticipated Completion Date: December 2011

Contact Person: Diane Cook, Administrator
Department of Human Services
Phone 401.462.6842

2010-60b

Training for all field eligibility staff and supervisors is planned for 2011, and policy changes regarding IEVS are currently in the APA process, with procedural memo to follow.

Anticipated Completion Date: December 2011

Contact Person: Diane Cook, Administrator
Department of Human Services
Phone 401.462.6842

2010-60c

In the procedural memo, the state policy will be clearly addressed, with federal citations referenced.

Anticipated Completion Date: December 2011

Contact Person: Diane Cook, Administrator
Department of Human Services
Phone 401.462.6842

2010-60d

InRhodes staff has been asked to investigate and correct aberrations in the state wage record matching process.

Anticipated Completion Date: December 2011

Contact Person: Diane Cook, Administrator
Department of Human Services
Phone 401.462.6842

2010-60e

InRhodes staff has been asked to investigate and correct aberrations in the state wage record matching process.

Anticipated Completion Date: December 2011

Contact Person: Diane Cook, Administrator
Department of Human Services
Phone 401.462.6842

Finding 2010-61 – *Corrective Action*

The Department of Human Services (DHS) is developing an enterprise-wide ADP risk analysis and security review process that will ensure the security of its eligibility (InRhodes) and claims processing (MMIS) systems. Written policy and procedures for these systems are in place. To test these controls, SAS 70 Type II audits are being scheduled to ensure the procedures for risk assessment and security reviews are working properly. DHS will continue to work collaboratively with the Division of Information Technology (DoIT) to ensure that InRhodes and MMIS security policies comply with DoIT's security policies and procedures.

Anticipated Completion Date: 3rd Quarter SFY 2012

Contact Persons: Ralph Racca, Administrator
Department of Human Services
Phone: 401.462.1879

Corinne Calise Russo, Deputy Director
Department of Human Services
Phone 401.462.2121

Finding 2010-62 – *Corrective Action*

Accepted. In FY 2010 the Office of Energy Resources scheduled draw downs the day before actual payment was made to minimize the need for an authorized red balance for cash in the Energy

Program. However, the Treasury agreement for this funding source is a zero balance allowed (ZBA). The Central Business Office has developed an alternative with the Controller's Office and the State Budget Office to increase the Office of Energy's authorized red balances to be sure we are in compliance with this finding.

Anticipated Completion Date: June 30, 2011

Contact Person: Bernard Lane, Jr., Chief Financial Officer
Department of Administration
Phone: 401.222.6603

Finding 2010-63 – ***Corrective Action***

2010-63a:

Accepted. The Office of Energy Resources will develop a control procedure for each grant award year with advice from the Department of Administration's Purchasing Division.

Anticipated Completion Date: July 1, 2011

2010-63b:

Accepted. The Office of Energy Resources will develop a control procedure for each grant award year with advice from the Department of Administration's Purchasing Division. Note: the funds noted as being comingled were corrected and expensed in the correct grant year through general ledger adjustments.

Anticipated Completion Date: July 1, 2011

Contact Person: Manuel DelSanto, Supervisor of Fiscal Services
Central Business Office
Phone: 401.222.4210

Finding 2010-64 – ***Corrective Action***

Accepted. The Central Business Office has developed a tracking mechanism for the Office of Energy Resources which will demonstrate monthly and cumulative compliance with the earmarking requirements.

Anticipated Completion Date: Completed

Contact Person: Lewis Babbitt, Fiscal Management Officer
Office of Energy Resources
Phone: 401.574.9103

Finding 2010-65 – ***Corrective Action***

Accepted. The Office of Energy Resources implemented the time and effort reports January 2010. The administrative employees' payroll was allocated on a "pooled" allocation method where their charges are allocated based upon the overall time and effort of the program staff. This allocation method was implemented in January 2010.

Anticipated Completion Date: January 1, 2011

Contact Person: Bernard Lane, Jr., Chief Financial Officer
Department of Administration
Phone: 401.222.6603

Finding 2010-66 – *Corrective Action*

2010-66a:

Accepted. The Central Business Office submitted the revised SF-269A financial report to the Administration of Children and Families on March 21, 2011and the Auditor General's Office received a copy of the report.

Anticipated Completion Date: Completed

Contact Person: Manuel DelSanto, Supervisor of Fiscal Services
Central Business Office
Phone: 401.222.4210

2010-66b:

Accepted. The Central Business Office prepared the SF269A financial report for leveraging, and was submitted to the Administration of Children and Families on February 21, 2011 and the Auditor General's Office received a copy of the report.

Anticipated Completion Date: Completed

Contact Person: Manuel DelSanto, Supervisor of Fiscal Services
Central Business Office
Phone: 401.222.4210

2010-66c:

Accepted. The procedures established subsequent to meeting with the Purchasing Division to address the finding related to the Period of Availability will provide supporting documentation to the Carryover and Reallotment report due August 1st each year.

Anticipated Completion Date: June 30, 2011

Contact Person: Bernard Lane, Jr., Chief Financial Officer
Department of Administration
Phone: 401.222.6603

2010-66d:

Accepted. The Central Business Office prepared the revised Carryover and Reallotment Report for the 2008 grant awards, and was submitted to the Administration of Children and Families on February 16, 2011 and the Auditor General's Office received a copy of the report.

Anticipated Completion Date: Completed

Contact Person: Manuel DelSanto, Supervisor of Fiscal Services
Central Business Office
Phone: 401.222.4210

2010-66e:

Accepted. The procedures established subsequent to meeting with the Purchasing Division to address the finding related to the Period of Availability will provide supporting documentation to the Carryover and Reallotment report due August 1st each year.

Anticipated Completion Date: July 1, 2011

Contact Person: Bernard Lane, Jr., Chief Financial Officer,
Department of Administration
Phone: 401.222.6603

2010-66f:

Accepted. The CAPTAIN system was enhanced to gather the household report information required effective October 2010.

Anticipated Completion Date: Completed

Contact Person: Lewis Babbitt, Fiscal Management Officer
Office of Energy Resources
Phone: 401.574.9103

Finding 2010-67 – *Corrective Action*

Accepted. The Office of Energy Resources will revise the contracts with the CAP agencies to ensure they are reimbursing vendors according to the federal rules for LIHEAP.

Anticipated Completion Date: September 1, 2011

Contact Person: Kenneth Payne, Administrator
Office of Energy Resources
Phone: 401.574.9101

Finding 2010-68 – *Corrective Action*

2010-68a

A protocol is under development and will be shared with DCYF for documenting child care expenditures, as well as other sister departments with regard to MOE documentation.

Anticipated Completion Date: April 2012

Contact Person: Diane Cook, Administrator
Department of Human Services
Phone 401.462.6842

2010-68b

The Staff from DCYF is reviewing their data functions to determine if better documentation is available for DCYF child care services in FFY09.

Anticipated Completion Date: April 2012

Contact Person: Diane Cook, Administrator
Department of Human Services
Phone 401.462.6842

Finding 2010-69 – *Corrective Action*

DHS agrees with the finding and have established controls for childcare payroll expenditures so that our payment will not exceed the federal matching percentages (FMAP) rate.

Anticipated Completion Date: June 2011

Contact Person: Janice Cataldo, Acting Chief Financial Officer
Department of Human Services
Phone: 401.462.0547

Finding 2010-70 – *Corrective Action*

The Department concurs with the description of its current monthly query process as “reasonable and effective.” Additionally, the Department notes that the eligibility determination process for the combined MA/CHIP program falls within the purview of both MEQC and PERM. The only specific added data element for determining the appropriateness of CHIP claiming is insurance coverage – the Department’s information of record for insurance coverage resides on the MMIS, and is not readily accessible to MEQC (which is based on InRhodes data.) The Department will review its procedures with respect to the insurance coverage test to determine if additional quality control steps might be readily implemented for this step.

Anticipated Completion Date: 2nd Quarter SFY 2012

Contact Person: Deborah Florio, Administrator
Department of Human Services
Phone: 401.462.0140.

Finding 2010-71 – *Corrective Action*

A SAS 70 Type II audit of the internal control policies and procedures was scheduled and conducted during the two week period beginning December 6, 2010. As noted above the audit was originally scheduled for April 2010, but was canceled due to the flooding of the fiscal agent offices. Annual SAS 70 Type II audits will be scheduled for MMIS beginning the fourth quarter, CY 2011.

Anticipated Completion Date: Audit for SFY 2011 completed February 15, 2011
Audit for SFY 2012, 2nd Quarter SFY 2012

Contact Person: Ralph Racca, Administrator
Department of Human Services
Phone: 401.462.1879

Finding 2010- 72 – *Corrective Action*

The department (DHS) will continue to improve the automation of the CMS reports and reconcile the administrative costs to RIFANS. The Department will work to expedite tracking and will check with CMS about using estimated costs on the PMS 272. Then, when the CMS-64 is completed, any differences reported on the PMS-272 can be matched to the corrected amounts in the CMS-64 and the report could be adjusted in the following quarter.

Accounts are reconciled every month but DHS staff will strengthen controls on federal reporting for administrative and benefit expenditures. We have assigned a new staff person to check and verify the federal reports prior to filing. If broader and detailed report checking is required, extensive training would be necessary for this person or any DHS managers to provide any additional value and to insure report accuracy. DHS is working to automate more report functions, but until there is a consistent automated option that works well with RIFANS, using an FTE to complete the reports manually has proved to be more cost effective.

Anticipated Completion Date: 3rd Quarter SFY 2012

Contact Person: Janice Cataldo, CFO
Department of Human Services
Phone: 401.462.0547

Finding 2010-73 – *Corrective Action*

A new electronic Provider Enrollment Portal and enrollment system will be in place in the second quarter of CY 2011. Pilot projects, with selected provider groups to test the new system, are ongoing. All provider enrollment processes and agreements will be in compliance with provisions of the ACA.

Anticipated Completion Date: September 1, 2011

Contact Person: Ralph Racca, Administrator
Department of Human Services
Phone: 401.462.1879

Finding 2010-74 – *Corrective Action*

The Service Utilization Nurses at HP are conducting an audit of the identified claims. They will prepare recommendations to pursue cases where the problem is verified, and proceed with appropriate recoupment activities.

Attempting to design a completely automated system is made complicated by the fact that 1) home health/homemaker services may not be provided every day within the date span billed;, and 2) home health/homemaker services are billed on a different claim form from institutional services. Current internal processes, billing requirements and system edits will be reviewed to determine if cost effective changes/improvements should be implemented.

Anticipated Completion Date: 2nd Quarter SFY 2012

Contact Persons: Ellen Mauro, Administrator
Department of Human Services
Phone: 401.462.6311

Lawrence Ross, Assistant Director
Executive Office of Health and Human Services
Phone: 401.462.6025

Finding 2010-75 – *Corrective Action*

The Department will again meet with each agency to review the requirements of the Interagency Service Agreement as it relates to compliance with federal regulations, cost allocation plans and claiming requirements. Documentation to support Medicaid claiming will be reviewed for accuracy, completeness and acceptability. Where appropriate, changes will be recommended.

As it relates to recommendation 2010-75b, both BHDDH and DCYF are working on changes to reimbursement methodologies that more closely align with a “payment for unit of service” approach. Any recommended changes are being reviewed by DHS.

In response to recommendation 2010-75c, efforts will continue to process more benefit claims through the MMIS. A major IT initiative is underway to implement BHDDH’s debit authorization system by the end of SFY’11. This initiative will result in DD claims being processed in the MMIS. DCYF is also exploring ways to process claims through the MMIS.

Anticipated Completion Date: 2nd Quarter SFY 2012

Contact Person: Lawrence Ross, Assistant Director
Executive Office of Health and Human Services
Phone: 401.462.6025

Finding 2010-76 – *Corrective Action*

BHDDH 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. During FY 11, the Division hired a consultant to assist with the review of service definitions and the current rate structures, including a review of units of service. Concurrently, BHDDH has also worked with DHS and HP to revise payment systems so that claims are subjected to appropriate edits and adjudicated through the MMIS. It is the intent of BHDDH and HP to have services paid by HP, complying with appropriate edits for nearly all services provided on or after July 1, 2011. Services will be billed in either daily, hourly or 15 minute increments. The rate methodology for services is in the process of being developed and will be approved by CMS.

Below are responses to other items noted in the findings:

- 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 variances 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.

- Worker's compensation 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 appropriate and allowable costs.

- The current process of reviewing of financial schedules was developed by BHDDH and the Bureau of Audits in 2003. BHDDH will work with the consultant and provider agencies to develop a new process.

2010-76c and d:

BHDDH licenses Developmental Disability, Mental Health and Substance Abuse providers. There are regulations and professional standards for each provider type. Licensing staff review provider agencies every two years. The areas that are reviewed include, but are not limited to: personnel, licensure, staff training, health and safety, and policies and procedures. Effective July 1, 2011, licensing staff will compare all professional staff licenses to the Department of Health licensing database to insure that all licenses are current (past practice only reviewed a sampling of professional staff). A memorandum to BHDDH Licensing staff from the Administrator of Licensing was issued on March 24, 2011 to ensure that Licensing staff checks the Department of Health licensing database to ensure that licenses for all professional staff are current when a Licensing survey is conducted going forward.

Currently, all licensed BHDDH providers are in good standing. Section 6.3 of the BHDDH Licensing Process and Procedure Regulations states: "A license continues in effect after the end of the licensure period if the organization has submitted a timely and sufficient renewal application before the end of the licensure period and there are no grounds to deny the license." Therefore, the expiration of a provider's license does not mean that the license is no longer in effect. A letter dated

February 21, 2011 from the Administrator of Licensing at BHDDH was mailed to all licensed BHDDH providers reminding them of the requirements in Section 6.3.

Finally, BHDDH is engaged in active communication with the Office of the State Fire Marshal, including weekly meetings, to ensure that all issues of non-compliance with State fire code regulations are resolved in a timely and appropriate manner.

Anticipated Completion Date: 2nd Quarter SFY 2012

Contact Persons: Maureen Wu, Assoc. Director, Financial Management
Behavioral Health Developmental Disabilities and Hospitals
Phone: 401.462.3100

Ralph Racca, Administrator
Department of Human Services
Phone: 401.462.1879

Finding 2010-77 – *Corrective Action*

2010-77a:

Phase II of the System of Care is anticipated to be in place by January 1, 2012. The Department anticipates contracting with two (2) to four (4) vendors to provide the majority of the services currently being provided through hundreds of individual vendors. The RFP for Phase II of the System of Care is scheduled to be issued by the end of the fiscal year. One of the requirements for the successful bidder(s) will be to have the capacity and infrastructure to bill directly for Medicaid claims.

2010-77b:

We are continuing to work closely with DHS and its vendor to ensure that DCYF services are billed properly through our claiming hierarchy prior to billing Title XIX or Emergency Assistance. We are also reviewing HIPAA compliant billable codes and will establish service billing rates through a rate setting process in conjunction with the implementation of Phase II of the System of Care.

2010-77c:

This will be a requirement of the System of Care – Phase II contracts.

Anticipated Completion Date: The System of Care is anticipated to be operational by January 1, 2012 and we anticipate full compliance from clinicians and providers by the end of fiscal year 2012.

Contact Persons: Brian Peterson, Chief Financial Officer
Department of Children, Youth and Families
Phone: 401.528.3630

C. Lee Baker, Purchasing/Contracts Administrator
Department of Children, Youth and Families
Phone: 401.528.3627

Finding 2010-78 – *Corrective Action*

During the past year, systems work was completed to enable behavioral health and substance abuse CNOM claims to be processed through the MMIS. CNOM claims for the Department of Health are expected to be processed through the MMIS by July, 2011.

All agencies are required to conduct a self-audit of CNOM expenditures claimed, the results of which must be reviewed and approved by DHS. The agencies have been provided with written audit guidelines outlining the standards and practices that need to be met. The federal government will be credited for any over-claimed amounts.

DHS will continue to make every effort to require claims associated with new CNOM initiatives to be processed through the MMIS.

Anticipated Completion Date: 3rd Quarter SFY 2012

Contact Person: Lawrence Ross, Assistant Director
Executive Office of Health and Human Services
Phone: 401.462.6025

Finding 2010-79 – *Corrective Action*

The Department will examine the procedures pertaining to eligibility documentation obtained during the application process and make appropriate changes so as to improve the control of such information. The Department will strive to increase the utilization of electronic scanning of eligibility documentation.

Anticipated Completion Date: 2nd Quarter SFY 2012

Contact Person: Corinne Calise Russo, Deputy Director,
Department of Human Services
Phone: 401.462.2121

Finding 2010-80 – *Corrective Action*

2010-80a:

The Department is in the process of examining the staffing needs of the MEQC unit in order to meet its federal monitoring and reporting responsibilities.

2010-80b:

Policies and procedures are under review for compliance with federal regulations and guidelines.

2010-80c:

MEQC staff are working with eligibility staff and the client population in order to provide clear and specific guidelines as to client responsibility during MEQC reviews.

Anticipated Completion Date: 2nd Quarter SFY 2012

Contact Person: Corinne Calise Russo, Deputy Director
Department of Human Services
Phone: 401.462.2121

Finding 2010-81 – *Corrective Action*

The fiscal agent contract has been reviewed by the Department using guidance from 42 CFR 433.15 and Chapter 11 of the CMS Medicaid Manual and is satisfied that claiming for services is in compliance with the federal guidelines.

Anticipated Completion Date: June 1, 2011

Contact Person: Ralph Racca, Administrator
Department of Human Services
Phone: 401.462.1879

Finding 2010-82 – *Corrective Action*

Medicaid Eligibility: Cases where a discrepancy exists between data in InRhodes and MMIS are resolved on a timely basis by a two person unit within Medicaid. The unit is recording improper payment amounts for fee-for-service and managed care. All overpayments are recouped within 60 days.

RIte Share: DHS has developed another internal control to address RIte Share overpayments. As part of a 2009/2010 budget initiative, the Department crafted legislation (http://www.rilin.state.ri.us/Statutes/TITLE44/44-30.1/44-30.1-3.HTM) that was successfully passed in 2010 which allows us to intercept RI income tax returns for people who owe us Medical Assistance-related money, such as RIte Share overpayments.

The process is such that a letter is generated to the client/former client approximately two months after an overpayment is identified. This letter informs them of their debt and the possibility of a tax refund interception if payment is not made to the Department within the allotted timeframe. If payment is not received, a second letter, identified as a final notice, is sent out informing the client/former client that their debt has been turned over to the Division of Taxation for a tax intercept. The debt remains subject to collection until it is paid in full.

This process went into place in April 2010 and to date, just under $400,000 of the outstanding accounts receivable have been collected.

Hospitals: Guidance received in a State Medicaid Director letter expanded the recovery period from 60 to 365 days. Medicaid will reimburse the federal government for over payments in compliance with federal regulations.

Anticipated Completion Date: January 1, 2012

Contact Persons: Deborah Florio, Administrator
Department of Human Services
Phone: 401.462.0140

Ralph Racca, Administrator
Department of Human Services
Phone: 401.462.1879

Finding 2010-83 – *Corrective Action*

DSH audits of RI hospitals that are receiving DSH payments are currently underway for FFY 2005-2007. Completion of these audits is scheduled for May 2011. DSH audits for FFY 2008 are due by September 30, 2011. Under the current audit contract, audits will be conducted through FFY 2010.

Anticipated Completion Date: Audits for FFY 2005-2001, June 1, 2011
Audit for FFY 2008, October 1, 2011
Audit for FFY 2009-2010, 4th Quarter SFY 2012

Contact Person: Ralph Racca, Administrator
Department of Human Services
Phone: 401.462.1879

Finding 2010-84 – *Corrective Action*

The Retro-DUR Program was enacted under OBRA 90 Legislation as a vehicle to monitor pharmacy services for Medicaid clients. The program's goal is to inform prescribers of potential problems that might arise out of these services. Examples are excessive duration of treatment, potential problems that may arise with medications dispensed and disease state, new findings on patient care, etc. Potential adverse reactions (i.e. drug-drug or drug-allergy reactions) are monitored through the PRO-DUR program and are averted prior to the dispensing of the offending medication. The DHS along with the DUR Board and the DUR contractor Health Information Design (HID) feel that we are meeting the needs for the program. This is an educational program and it is not intended to interfere with the treatment of a patient by their physician. Our response rates for our risk letters are in line with the other Medicaid programs.

The DUR Program will now begin to look further into those prescribers who continue to receive letters but do not respond. HID will now inform the DUR Board at the quarterly meeting of those prescribers that have been sent letters continuously and have not responded. The board will then decide which prescriber should be contacted either through a more precise letter addressing this issue or directly through a phone call from the medical director. HID along with DHS will monitor the outcome of this new procedure. Annual DUR reports are submitted in accordance with federal regulations.

Anticipated Completion Date: May 1, 2011

Contact Person: Ralph Racca, Administrator
Department of Human Services
Phone: 401.462.1879

Finding 2010-85 – ***Corrective Action***

2010-85a:

The Department does not currently have staff resources available to conduct its own audit of the MCOs' general ledger accounts. However, the Department notes that section 2.16.04 of its contract with the MCOs requires that: "…Contractor must submit an acceptable audited financial statement prepared by an independent auditor within nine (9) months of the end of the Contractor's fiscal year. The audit must provide full and frank disclosure of all assets, liabilities, changes in fund balances, and all revenues and expenditures." Review of these independently audited financial statements, along with the attested risk share and stop loss reporting schedules submitted regularly by the MCOs (particularly when compared with encounter data also available to the Department), provides the Department with considerable assurance as to the accuracy, allow ability, and completeness of the MCOs' financial reporting.

2010-85b:

The Department agrees with the desirability of substantial improvements to encounter data functionality in the MMIS. The encounter data subsystem was not originally designed or intended to support financial reconciliations with the kind of detail that would be desirable, Work is currently underway in connection with the MMIS 5010 modifications to move the MCOs' encounter data submissions to a fully HIPAA-compliant 837 transaction basis, along with other appropriate design upgrades to meet the Department's current and anticipated needs. Completion of these modifications is anticipated over the next 12 to 18 months.

<u>Anticipated Completion Date</u>: 4^{th} Quarter SFY 2012

Contact Person: Deborah Florio, Administrator
Department of Human Services
Phone: 401.462.0140.

Finding 2010-86 – ***Corrective Action***

The Department acknowledges that the lack of sufficient personnel resources has had an adverse impact on its ability to carry out some functions on a timely basis. The Department is evaluating its resource needs and is committed to having the resources necessary to adequately administer and monitor the Medicaid program.

<u>Anticipated Completion Date</u>: 2nd Quarter SFY 2012

Contact Person: Elena Nicolella, Medicaid Director
Department of Human Services
Phone: 401.462.0854.

Finding 2010-87 – ***Corrective Action***

The Department will ensure that proper documentation is maintained to support administrative expenditures within the Medicaid program.

Anticipated Completion Date: June 1, 2011

Contact Person: Ralph Racca, Administrator
Department of Human Services
Phone: 401.462.1879

Finding 2010-88 – *Corrective Action*

While the Department considers it important to improve the current procedures and controls for determining the appropriate enrollment category for MA recipients eligible for Rhody Health Partners, it does not concur that the MEQC process would be appropriate to that task. First, MEQC does not currently include SSI recipients within its sample, as eligibility for these recipients is determined by the Social Security Administration. (Medical Assistance eligibility for the majority of recipients in Rhody Health Partners results from their SSI participation.) Second, certain data elements necessary to the enrollment and categorization of Rhody Health Partners enrollees is not resident on the InRhodes system, and is therefore not available for MEQC staff.

The Department has already initiated improvements in the enrollment procedures and controls for Rhody Health Partner enrollment, specifically in requesting a modification to the MMIS to include a specific program indicator for recipients identified as SPMI. This modification is currently being prioritized in the MMIS development queue.

Anticipated Completion Date: 3rd Quarter SFY 2012

Contact Person: Deborah Florio, Administrator
Department of Human Services
Phone: 401.462.0140

Finding 2010-89 – *Corrective Action*

The Department acknowledges that an error occurred in the procurement process of the contract cited and considers it to be a one time event. Notwithstanding the procurement process error, the services were Medicaid allowable and the costs were reasonable and appropriate for the services provided.

The Department recognizes the necessity of ensuring that the procurement of contracted services under the Medicaid Program must follow the State's mandatory policies and procedures and will fully comply with these policies and procedures for any future procurements.

Anticipated Completion Date: April 1, 2011

Contact Person: Ellen Mauro, Administrator
Department of Human Services
Phone: 401.462.6311

Finding 2010-90 – *Corrective Action*

The Medical Assistance Program recognizes the waiver reports (HCFA-372) for the Personal Choice Program and HAB Waiver are outstanding. Staff is currently dedicated to completing these reports.

These reports are manual and labor intensive, however, they are expected to be completed and submitted by March 31, 2011.

Anticipated Completion Date: April 15, 2011

Contact Person: Ellen Mauro, Administrator
Department of Human Services
Phone: 401.462.6311

Finding 2010-91 – ***Corrective Action***

The University issues a separate subaward contract with purchase order to subrecipients of ARRA funded projects. The contract outlines the required information: Federal award number, CFDA number and amount of Recovery Act funds. The subrecipient invoice is required to reference the subaward contract and purchase order number. The University account payable check stub references the vendor's invoice number and invoice amount.

In fiscal year 2011, the University will implement a procedure to manually send a separate remit with each ARRA award disbursement which will include the required information: Federal award number, CFDA number and amount of Recovery Act funds. The University will research the PeopleSoft Financial system to determine if it is possible to automate printing the required information on the accounts payable check stub.

Anticipated Completion Date: June 30, 2011

Contact Person: Sharon Bell, Controller
University of Rhode Island
Phone: 401.874.2378

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
Supplemental Nutrition Assistance Program (SNAP) Cluster:		
Supplemental Nutrition Assistance Program (SNAP)	10.551	09-35
State Administrative Matching Grants for SNAP	10.561	08-46, 08-47, 08-48, 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
Community Development Block Grants/State's Program	14.228	02-30
Unemployment Insurance	17.225	09-33, 09-34, 09-39, 09-40
Trade Adjustment Assistance - Workers	17.245	07-54
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
SFA Cluster:		
Academic Competitiveness Grants	84.375	09-53
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
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	09-33, 09-34, 09-52
Improving Teacher Quality	84.367	09-33, 09-48
State Fiscal Stabilization Fund Cluster		
State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	09-33, 09-49
State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	09-33
Immunization Grants	93.268	09-33, 09-54
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	07-66, 07-67

Summary Schedule of Prior Audit Findings
Table of Prior Findings by Federal Program

Program Title	CFDA Number	Findings included in Previous Single Audit Reports
Temporary Assistance for Needy Families	93.558	07-74, 08-48, 08-70, 08-71, 09-33, 09-35, 09-55, 09-56, 09-57, 09-58, 09-59, 09-60
Child Support Enforcement	93.563	08-73, 08-74
Low-Income Home Energy Assistance Program	93.568	07-80, 08-75, 08-77, 08-78, 09-33, 09-61, 09-62, 09-63, 09-64, 09-65, 09-66
CCDF Cluster:		
Child Care and Development Block Grant	93.575	08-48, 08-71, 08-81, 09-33, 09-35, 09-55, 09-56
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	08-48, 08-71, 08-81, 09-33, 09-35, 09-55, 09-56
Foster Care – Title IV-E	93.658	09-33, 09-34, 09-67, 09-68
Adoption Assistance	93.659	08-84
Social Services Block Grant	93.667	08-48, 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	08-48, 08-101, 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
Block Grants for the Prevention and Treatment of Substance Abuse	93.959	08-106, 08-107, 08-108, 08-109
Homeland Security Cluster:		
State Domestic Preparedness Equipment Support Program	97.004	08-110, 08-113
Homeland Security Grant Program	97.067	08-110, 08-113

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.		X				
	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				
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			See Corrective Action Plan for finding 2010-45.
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.						
	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				
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.						

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
	07-67a		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			Staff resources do not permit us to audit all of our recipients. Additionally, we are not trained in auditing. We require that the recipients send us a copy of their annual audits to the program managers. We have always required backup detail to invoices and our program managers have been involved with program audits. We review invoices received with the contract budgets to insure that what we are paying for is part of the approved agreement and that the detailed backup is available if we find issues.
	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			We have had as standard language in our contracts that recipients must furnish copies of their latest audited financial statements. Auditors must report on issues that are not compliant with federal or state requirements and if appropriate issue a qualified opinion. We only look for qualified opinions when we do receive the audited statements.
	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		This is an audit function that would require extensive training and additional staff for completing this function. We have over 300 contracts with vendors and would need at a minimum 2 full time trained staff to fulfill these requirements.
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				

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
07-80		93.568	The OER contracted with Department of Elderly Affairs (DEA) to provide monitoring services. Actual expenditures were over $22,000 more than the contracted amount.						
	07-80c		Ensure funding limitations in contract award amounts are observed.					X	The expenditures were never drawn down and were moved off of the Elderly Affairs contract with OER to the allocable funding stream. No additional contracts with DEA.
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				
08-47		10.561	Differences were noted 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				
08-48		10.561 93.558 93.575 93.596 93.667 93.778	Controls over the cost allocation process require strengthening. Deficiencies were noted regarding the cost allocation plan.						
	08-48b		Correct CAP programming to prevent the duplication of personnel costs.		X				
	08-48c		Correct applicable federal reports and resubmit to the federal government.		X				
08-70		93.558	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				

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
	08-70b		Adjust the ACF-196 TANF Financial Reports to charge the proper amounts for contract, administrative and child care costs.		X				
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			Some supervisory improvements have been made to ensure that the reports are in agreement.
	08-71b		Adjust the state accounts appropriately.		X				
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.						
	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			Beginning in November 2010, RI Child Support Enforcement (CSE) entered into a partnership agreement with the State of Connecticut to process all of its child support payments. This new process is expected to significantly improve controls over the posting and reconciliation of CSE's collection and distribution activities.
	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			RI Child Support Enforcement has been meeting with the Office of Accounts and Control and its vendors to develop and refine the reports necessary for CSE to implement this recommendation.
08-74		93.563	CSE personnel do not verify that 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.

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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.						
	08-75a		Document the data used to support payments to subrecipients which reflect their estimated cash needs.	06-46a 07-77a	X				
	08-75b		Restrict subrecipient funding to their immediate cash needs.	06-46b 07-77b	X				
08-77		93.568	The SEO does not perform any review or analysis during the year to ensure compliance with the earmarking requirements.						
	08-77		Improve procedures and documentation to ensure compliance with the LIHEAP earmarking requirements.	06-48 07-79		X			See Corrective Action Plan for finding 2010-64.
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 08-78a		X			See Corrective Action Plan for finding 2010-65.
	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				
08-81		93.575 93.596	The Department of Human Services over-claimed federal fiscal year earmarks by a total of $305,125.						
	08-81		Strengthen controls to ensure expenditures claimed for earmarking requirements meet applicable period of availability requirements.						
08-84		93.659	Certain records were not available for our review, resulting in questioned costs for several payments in the sample.						

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	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			The department has created a central repository for all records that support the Adoption Assistance eligibility determination. All Adoption Assistance eligibility determination documentation has been included in this repository for those cases opened subsequent to this finding. Going forward, we will continue to retain this documentation as long as the child remains eligible for Adoption Assistance. The cost of electronic imaging prohibits the Department from considering this option at this time.
08-106		93.959	Numerous deficiencies were noted in contract files.						
	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				
08-107		93.959	It could not determined 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		The Department has not completed earmarking requirements for FFY 2007. RI is not an HIV designated state in FYs 10 & 11, 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	It could not be determined 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				

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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		A template report requiring subrecipients to report immediate cash needs is complete. Staff met with providers to review the new reporting requirement during April and May, 2010. Providers began using the report, on a monthly basis, for the month of July 2010.
08-110		97.004 97.067	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				
08-113		97.004 97.067	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			The agency is in the process of updating its inventory list to include purchase data, acquisition cost and applicable grant. Report is approximately 50% completed.
09-33		Various	The State did not have adequate controls to ensure compliance with federal cash management requirements in drawing cash for federal programs.						

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09-33a		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 08-39a	X				
09-33b		Ensure that the newly-developed standard RIFANS report is utilized by all departments drawing cash for federal programs.	07-44b 08-39b		X			See Corrective Action Plan for finding 2010-39.
09-33c		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.	02-17c 03-20c 04-29c 05-29b 06-22b 07-44c 08-39c		X			See Corrective Action Plan for finding 2010-39.
09-33d		Investigate automating all draws of federal funds through an interface between the RIFANS accounting system and federal government's automated funds management systems.	08-39d			X		See Corrective Action Plan for finding 2010-39.
09-33e		Consider actual compliance with the funding techniques specified in the Treasury/State agreement when calculating the interest liability included in the CMIA Annual Report.	02-17b 03-20b 04-29b 05-29c 06-22c 07-44d 08-39e		X			See Corrective Action Plan for finding 2010-39.

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	09-33f		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.	06-22d 07-44e 08-39f	X				
09-34		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 08-40			X		See Corrective Action Plan for finding 2010-40.
09-35		10.551 93.558 93.575 95.596 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						
	09-35a		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.	05-32d 06-24d 07-46c 08-42a		X			See Corrective Action Plan for finding 2010-41.
	09-35b		Develop policies and procedures detailing appropriate investigation of issues identified by the department’s monitoring procedures.	08-42b		X			See Corrective Action Plan for finding 2010-41.
09-36		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.						

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	09-36a		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.	08-44a	X				
	09-36b		Verify the completeness and accuracy of the FNS-472 report prior to submission to the USDA.	08-44c	X				
09-37		10.553 10.555 10.559	The Central Falls School District did not perform the required verification of free and reduced price lunch applications.						
	09-37		We recommend that the School District ensure that all personnel responsible for the food service program are aware of the federal compliance requirements.					X	
09-38		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.						
	09-38		Reimburse the federal government for the unallowable costs charged to the WIC program.	08-45	X				
09-39		17.225	An error was found in one ETA-563 report. The 227 report was not reconciled to RIFANS.						
	09-39a		Review reports prior to submission to ensure data is consistent with supporting information systems. Perform a reconciliation between the reports and RIFANS.	07-54c		X			See Corrective action plan for finding 2010 – 45.
	09-39b		Perform a reconciliation between the ETA 227 reports and RIFANS.			X			See Corrective action plan for finding 2010 – 45.
09-40		17.225	DLT sold a building purchased with federal funds and did not refund the government promptly.						
	09-40		Return funds to the federal Department of Labor in a timely manner upon the sale of property purchased with federal funds.		X				
09-41		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.						

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	09-41		Establish authorized balances within FARS ledgers consistent with grant award documentation.	07-55a 08-49a		X			See Corrective action plan for finding 2010 – 46.
09-42		17.258 17.260	The forms used as guides to determine program eligibility were not always properly completed by staff.						
	09-42		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.	07-56 08-50			X		See Corrective action plan for finding 2010 – 47.
09-43		20.205	Required labor compliance checks were not always performed and proper documentation was not always maintained.						
	09-43		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.	03-29 04-40 05-42 06-30 07-57 08-52			X		See Corrective Action Plan for finding 2010-50.
09-44		20.205	RIDOT should improve its quality assurance program with respect to materials testing.						
	09-44a		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.	07-58a 08-53a			X		See Corrective Action Plan for finding 2010-51.
	09-44b		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 08-53b			X		See Corrective Action Plan for finding 2010-51.
	09-44c		Improve documentation for tests completed to comply with the FHWA approved Master Schedule for Sampling, Testing and Certification of Materials.	06-33b 07-58c 08-53c			X		See Corrective Action Plan for finding 2010-51.
	09-44d		Require all test results be documented in the materials test book prior to vendor payment of the related materials.	08-53e			X		See Corrective Action Plan for finding 2010-51.

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	09-44e		To report any errors in the materials test book to the appropriate RIDOT personnel for correction.				X		See Corrective Action Plan for finding 2010-51.
09-45		20.205	RIDOT did not have adequate policies or procedures in place to monitor its subrecipients.						
	09-45a		Establish written policies and procedures for subrecipient monitoring and establish a schedule of projects for review and document the monitoring performed.	08-54a			X		See Corrective Action Plan for finding 2010-52.
	09-45b		Identify all federal awards passed-through to subrecipients by project.	08-54b			X		See Corrective Action Plan for finding 2010-52.
	09-45c		Ensure subrecipients have had required single audits performed and review the audit reports on a timely basis including issuing management decisions within required timeframes.	08-54c			X		See Corrective Action Plan for finding 2010-52.
	09-45d		Provide required information to subrecipients in contracts such as CFDA number and title, federal agency and applicable compliance requirements including identification of ARRA funding.	08-54d			X		See Corrective Action Plan for finding 2010-52.
	09-45e		Evaluate the impact of subrecipient activities on RIDOT's ability to comply with applicable federal regulations.	08-54e			X		See Corrective Action Plan for finding 2010-52.
	09-45f		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).				X		See Corrective Action Plan for finding 2010-52.
09-46		20.205	Timing differences exist between the DOT FMS system and RIFANS, making reporting of ARRA expenditures inconsistent.						
	09-46		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.				X		See Corrective Action Plan for finding 2010-53.
09-47		20.205	Funds were drawn and held in an interest bearing account, in violation of cash management regulations. The earnings were not reported and should be returned.						

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	09-47		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.		X				
09-48		84.010 84.027 84.173 84.367	RIDE made advance payments to LEA's; some of these funds were subsequently returned.						
	09-48		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.			X			RIDE will continue to work with the LEAs to improve their cash management practices. We are awaiting DOA's approval to hire the new Compliance Officer and this person will develop policies at RIDE in this regard.
09-49		84.010 84.394	The Central Falls School District did not obtain required certifications from staff members who work on only one federal project.						
	09-49		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.		X				
09-50		84.010	The Central Falls School District did not maintain evidence that all expenditures were approved by the grant coordinator.						
	09-50		We recommend that the School District adhere to its established policies and procedures to ensure compliance with requirements of federal award programs.		X				
09-51		84.010	The Central Falls School District used grant funds for unbudgeted expenditures.						
	09-51		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.		X				

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09-52		84.126	The Office of Rehabilitation Services did not obtain the required suspension and debarment certification from vendors.						
	09-52		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.		X				
09-53		84.375	Supporting documentation for students receiving Academic Competitiveness Grants was not maintained past the student's freshman year.						
	09-53		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.		X				
09-54		93.268	DOH did not prepare comparisons between budgeted and actual time reporting.						
	09-54		Perform quarterly comparisons between estimated payroll allocations and actual time and effort reports and prepare the required adjustments.	07-111c 08-64	X				
09-55		93.558 93.575 93.596 93.667 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.						
	09-55a		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.	03-43a 04-71a 05-64a 06-44a 07-75a 08-72a			X		See Corrective Action Plan for finding 2010-61.
	09-55b		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.	03-43b 04-71b 05-64b 06-44b 07-75b 08-72b			X		See Corrective Action Plan for finding 2010-61.

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
	09-55c		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.	06-44c 07-75c 08-72c			X		See Corrective Action Plan for finding 2010-61.
09-56		93.558 93.575 93.596	Discrepancies were found in the eligibility testing for the RI Works program. Supervisors review cases, but do not specifically test child care cases. Some Ineligible child care costs were included on federal reports.						
	09-56a		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.	01-46 02-47 03-50 04-68 05-63a 06-43a 07-70a 08-67a		X			See Corrective Action Plan for finding 2010-57.
	09-56b		Include childcare cases in the sample case review process.	06-43d 07-70c 08-67c		X			See Corrective Action Plan for finding 2010-57.
	09-56c		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.	08-67d		X			See Corrective Action Plan for finding 2010-57.
	09-56d		Develop control procedures to prevent ineligible child care costs from being charged to the program.			X			See Corrective Action Plan for finding 2010-57.
	09-56e		Adjust the federal report accordingly for the amount inappropriately claimed.		X				
09-57		93.558 93.778	TANF eligibility discrepancies resulting from IEVS data matches were not investigated and resolved in a timely manner.						

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	09-57a		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.	98-36 99-33a 00-32a 01-36a 02-41a 03-41a 04-56a 05-59a 06-40a 07-71a 08-66a		X			See Corrective Action Plan for finding 2010-60.
	09-57b		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 08-66b		X			See Corrective Action Plan for finding 2010-60.
09-58		93.558	TANF – Special Reporting – Strengthen supervisory review and approval of the ACF-204.						
	09-58a		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.	07-73a 08-69a			X		See Corrective Action Plan for finding 2010-58.
	09-58b		Correct the federal fiscal year 2008 ACF-204 and ACF-196 reports and resubmit them to the federal government.	07-73b 08-69b				X	In communication with the regional office, we were informed that financial and reporting data are closed and the report should not be corrected.
09-59		93.558	Expenditures identified on the ACF-196 TANF financial report are not consistently supported by the State's accounting system.						

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
	09-59a		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.				X		See Corrective Action Plan for finding 2010-58.
	09-59b		Adjust the ACF-196 TANF Financial Reports to charge the proper amounts for contract costs.					X	In communication with the regional office, we were informed that financial and reporting data are closed and the report should not be corrected.
09-60		93.558	DHS claimed maintenance of effort costs for housing assistance but these costs were not adequately supported.						
	09-60		Strengthen controls to ensure amounts reported on the ACF-196 and ACF-204 are supported by proper documentation demonstrating compliance with applicable federal regulations.				X		See Corrective Action Plan for finding 2010-58.
09-61		93.568	The Office of Energy Resources did not consistently draw funds in compliance with the Treasury-State agreement, resulting in excessive cash balances for extended periods.						
	09-61		Comply with the Treasury-State agreement in drawing federal funds for the LIHEAP program.				X		See Corrective Action Plan for finding 2010-62.
09-62		93.568	The OER does not maintain adequate accounting records by grant award in order to support compliance with period of availability requirements.						
	09-62a		Maintain documentation to support the calculation of funds expended and obligated by grant award.	06-47a 07-78a 08-76a			X		See Corrective Action Plan for finding 2010-63.
	09-62b		Track expenditures by federal fiscal year grant award within the State accounting system.	06-47b 07-78b 08-76b		X			See Corrective Action Plan for finding 2010-63.
09-63		93.568	The OER does not perform any review or analysis to ensure compliance with earmarking requirements.						
	09-63		Improve procedures and documentation to ensure compliance with the LIHEAP earmarking requirements.			X			See Corrective Action Plan for finding 2010-64.

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09-64		93.568	OER did not perform time studies or maintain time sheets to adjust budgeted payroll costs to actual. Questioned costs $474,664.						
	09-64		Allocate employee salary and fringe benefit costs to LIHEAP based upon personnel activity reports or equivalent documentation.	03-47 04-64 06-49a 07-80a 08-78a		X			See Corrective Action Plan for finding 2010-65.
09-65		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.						
	09-65a		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.					X	The revised reports were submitted to the Department of Health and Human Services.
	09-65b		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.	06-50b 07-81b 08-79b				X	The revised reports were submitted to the Department of Health and Human Services.
	09-65c		Ensure that the Carryover and Reallotment report is consistent with supporting documentation and the State's accounting system.	05-65 06-50d 07-81c 08-79d			X		See Corrective Action Plan for finding 2010-66.
	09-65d		Submit a revised Carryover and Reallotment Report for the 2008 grant awards as required.	08-79e		X			See Corrective Action Plan for finding 2010-66.
09-66		93.568	The OER did not perform any site visits to any subrecipients.						
	09-66a		Reestablish a regular schedule of site visits to LIHEAP subrecipients and document the monitoring procedures performed.			X			The Office of Energy Resources maintained a schedule of monitoring visits in FY 2010.

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	09-66b		Evaluate the impact of subrecipient activities on the OER's ability to comply with applicable federal regulations.			X			The Office of Energy Resources maintained a schedule of monitoring visits, as well as reviewed monthly reports and maintained constant contact with subrecipients in FY 2010.
09-67		93.658	During testing a payment that was not eligible for federal funding was found.						
	09-67		Adjust federal reports to reimburse the federal government for the unallowable maintenance costs.		X				
09-68		93.658	The DCYF did not include $4.2 million in costs incurred in its cost allocation plan. This did not result in any change to charges to the program; controls should be enhanced to ensure all costs are included in the system.						
	09-68		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.		X				
09-69		93.667 93.778	Controls are not adequate to ensure that all payments for homemaker services are charged to the appropriate funding source.						
	09-69		Strengthen system processing controls over home and community based medical and support services to enhance overall program integrity for this claim group.	93.667 & 93.778 00-42 01-49 02-53 06-55 07-86 08-86 93.778 03-57 04-75 05-71			X		See Corrective Action Plan for finding 2010-74.

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09-70		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.						
	09-70		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.	02-54a 03-53a 04-72a 05-68a 06-56a 07-89 08-89			X		See Corrective Action Plan for finding 2010-70.
09-71		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.						
	09-71a		Obtain an annual Type II "SAS 70" examination performed by independent certified public accountants of the fiscal agent's internal control policies and procedures.	97-43a 98-45b 99-43a 00-47a 01-54a 02-58a 03-59a 04-77a 05-72a 06-63a 07-88a 08-88a			X		See Corrective Action Plan for finding 2010-71.

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	09-71b		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.	97-43b 98-45a 99-43b 00-47b 01-54b 02-58b 03-59b 04-77b 05-72b 06-63b 07-88b 08-88b			X		See Corrective Action Plan for finding 2010-71.
09-72		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.						
	09-72a		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 08-90a			X		See Corrective Action Plan for finding 2010-72.
	09-72b		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 08-90b			X		See Corrective Action Plan for finding 2010-72.
	09-72c		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 08-90c			X		See Corrective Action Plan for finding 2010-72.

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	09-72d		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.	08-90d			X		See Corrective Action Plan for finding 2010-72.
	09-72e		Improve controls over federal reporting by consistently reporting expenditure amounts that have been recorded in the State's accounting system.	07-90d 08-90e			X		See Corrective Action Plan for finding 2010-72.
09-73		93.778	Medical Assistance – DHS should improve controls over Medicaid expenditures administered by other state agencies.						
	09-73a		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.	06-62a 07-94a 08-94a		X			See Corrective Action Plan for finding 2010-75.
	09-73b		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.				X		See Corrective Action Plan for finding 2010-75.
	09-73c		Process all benefit claims for Medicaid eligible individuals through the MMIS to ensure proper controls over these Medicaid payments.	05-74a 07-94c 08-94c			X		See Corrective Action Plan for finding 2010-75.
09-74		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.						
	09-74a		Implement system modifications to allow full adjudication of claims for services provided to adults with developmental disabilities through the MMIS.	07-91 08-92a			X		See Corrective Action Plan for finding 2010-76.
	09-74b		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.	08-92b			X		See Corrective Action Plan for finding 2010-76.

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09-75		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.						
	09-75a		Develop a plan that would facilitate the processing of Medicaid eligible services conducted within DCYF contracted placements through the MMIS.	06-64b 07-100b 08-98b			X		See Corrective Action Plan for finding 2010-77.
	09-75b		Develop allowable medical services with defined service units and appropriate reimbursement rates available for DCYF provider groups to bill directly to the MMIS.	06-64a 07-100a 08-98a			X		See Corrective Action Plan for finding 2010-77.
	09-75c		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.				X		See Corrective Action Plan for finding 2010-77.
09-76		93.778	The State was unable to provide specific claims data to support all FY 2009 CNOM (costs not otherwise matchable) expenditures.						
	09-76a		Subject all CNOM claiming to the claims processing and eligibility control processes (MMIS and INRHODES systems) in place over all Medicaid program expenditures.				X		See Corrective Action Plan for finding 2010-78.
	09-76b		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.				X		See Corrective Action Plan for finding 2010-78.
	09-76c		Ensure that all future CNOM claiming processes are fully operational prior to claiming expenditure populations to the Medicaid program.				X		See Corrective Action Plan for finding 2010-78.
09-77		93.778	DHS needs to enhance monitoring and controls to evaluate compliance by LEAs and to ensure only Medicaid allowable procedures are being reimbursed.						
	09-77a		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 08-93b	X				

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	09-77b		Reinforce IEP documentation requirements relating to Medicaid services to ensure that LEAs are updating IEPs each time a student's services require modification.		X				
	09-77c		Implement review procedures for administrative claiming determinations being conducted by a third party contractor on behalf of local education agencies.	06-61d 07-92c 08-93c	X				
09-78		93.778	Numerous documentation deficiencies were noted in the review of case files.						
	09-78		Improve controls over required eligibility documentation obtained during the Medical Assistance application process.	08-103			X		See Corrective Action Plan for finding 2010-79.
09-79		93.778	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.						
	09-79		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 08-95b			X		See Corrective Action Plan for finding 2010-82.
09-80		93.778	DHS should re-evaluate MEQC policies to ensure compliance and revisit the continuing eligibility of recipients who fail to cooperate during MEQC reviews.						
	09-80a		Re-evaluate MEQC policies and procedures to ensure compliance with federal regulations and/or guidelines for conducting MEQC reviews.	07-101a 08-99a			X		See Corrective Action Plan for finding 2010-80.
	09-80b		Revisit the continuing eligibility of recipients who fail to cooperate during MEQC reviews.	07-101b 08-99b			X		See Corrective Action Plan for finding 2010-80.
09-81		93.778	Provider eligibility. Licensure information was lacking in the Medicaid provider files maintained by the fiscal agent.						
	09-81a		Improve fiscal agent oversight of provider enrollment and licensing to ensure that all providers enrolled in the Medical Assistance program are eligible to participate.	07-96a 08-96a			X		See Corrective Action Plan for finding 2010-73.
	09-81b		Develop procedures to electronically match DOH licensure data with active Medicaid providers to periodically update licensure status.	07-96b 08-96b			X		See Corrective Action Plan for finding 2010-73.

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	09-81c		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.	07-96c 08-96c			X		See Corrective Action Plan for finding 2010-73.
	09-81d		Consider centralizing all medical licensure responsibility within one department to ensure consistent application of Medicaid licensing requirements.	07-96d 08-96d			X		See Corrective Action Plan for finding 2010-73.
	09-81e		Ensure that all providers meet federal health and safety requirements for providing services within the Medical Assistance program.				X		See Corrective Action Plan for finding 2010-73.
09-82		93.778	Fiscal Agent Contract. DHS should obtain specific guidance from CMS regarding the allowability of services performed by the fiscal agent.						
	09-82		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.	07-97 08-97			X		See Corrective Action Plan for finding 2010-81.
09-83		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.						
	09-83		Reimburse the federal government for program overpayments within 60 days of discovery.	Hospitals 03-66 04-83 05-78a 06-60a 07-93a 08-101 Premiums 03-63 04-81a 05-76a 06-58 07-99			X		See Corrective Action Plan for finding 2010-82.
09-84		93.778	DHS does not currently have controls in place to ensure the accuracy of the uncompensated care data provided by hospitals.						

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	09-84		Improve controls over Medicaid DSH payments by implementing the federal requirements of section 1923 (j)(2) of the Social Security Act.	08-102			X		See Corrective Action Plan for finding 2010-83.
09-85		93.778	Provider response rates to alert letters sent to Medicaid pharmacies is not adequate to ensure proper monitoring.						
	09-85		Develop procedures to ensure timely monitoring and follow-up of high-risk issues identified by the State's DUR Board.	08-104			X		See Corrective Action Plan for finding 2010-84.
09-86		93.778	DHS needs to increase its oversight and monitoring procedures to improve controls over managed care contract expenditures.						
	09-86		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.			X			See Corrective Action Plan for finding 2010-85.