State of Rhode Island
and Providence Plantations

SINGLE AUDIT REPORT

Fiscal Year Ended June 30, 2011

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STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

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

March 30, 2012

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, 2011. 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 on 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, and the status of prior year findings has been prepared by the State and is included herein.

Respectfully submitted,

Dennis E. Hoyle, CPA
Acting Auditor General

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GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

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INDEPENDENT AUDITOR'S REPORT

Finance Committee of the House of Representatives
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, 2011, 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 2% of the revenues of the aggregate remaining fund information;
- the Convention Center Authority, a major fund, which also represents 68% of the assets and 2% of the revenues of the business-type activities; and
- component units which represent 100% of the assets and 100% of the revenues of the aggregate discretely presented component units.

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

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

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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, 2011, 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 1(R), the State implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

As disclosed in Note 6(J), the State has borrowed $222 million from the federal Unemployment Insurance Trust Fund to fund 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 $153 million at June 30, 2011.

As disclosed in Note 18, the State enacted comprehensive pension reform legislation in November 2011 affecting the majority of members of the plans included within the Employees' Retirement System.

As disclosed in Note 12, unions representing State employees and teachers have filed suit against the State challenging legislative changes made in 2009 and 2010 to pension benefit provisions. Similar legal challenges from unions representing State employees and teachers are anticipated for pension reform measures more recently enacted in November 2011.

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-20, the Budgetary Comparison Schedules on pages A-101 through A-104, and the Schedules of Funding Progress on pages A-105 through A-106 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.

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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 22, 2011

Management's discussion and analysis (MD&A) provides a narrative overview and analysis of the financial activities of the State of Rhode Island (State) for the fiscal year ended June 30, 2011. The MD&A is intended to serve as an introduction to the State's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The MD&A is designed to (a) assist the reader in focusing on significant financial matters, (b) provide an overview of the State's financial activities, (c) identify any material changes from the original budget, and (d) highlight individual fund matters. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the State's financial condition, the following financial statements, notes and required supplementary information should be reviewed in their entirety.

Financial Highlights – Primary Government

Government-wide Financial Statements

- **Net Assets:** The total assets of the State exceeded total liabilities on June 30, 2011 by $926.9 million. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government. Of this amount, ($1,598.7) million was reported as unrestricted net assets (deficit), $473.8 million as restricted net assets, and $2,051.8 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 $140.5 million in fiscal year 2011. Net assets of governmental activities increased by $180.4 million, primarily due to increases in tax revenue due to the gradually improving economy and reductions in general government expenditures which resulted from careful management of expenses. Net assets of the business-type activities decreased by $39.9 million due primarily to the operating loss of the Employment Security Fund. This fund continues to be adversely impacted by the higher than normal unemployment rate in the State.

Fund Financial Statements

Governmental Funds

- The State's governmental funds reported a combined ending fund balance of $796.0 million, a decrease of $88.3 million in comparison with the previous fiscal year, primarily as a result of expenditure of bond and note proceeds in certain special revenue and capital projects funds.

- As of June 30, 2011, the State's General Fund reported an ending fund balance of $270.9 million, an increase of $85.5 million as compared to the prior year. This change resulted from increases in general revenue in fiscal year 2011 and the implementation of a number of measures to enhance controls over expenditures.

- As of June 30, 2011, the State's Intermodal Surface Transportation Fund reported an ending fund balance of $131.8 million, a decrease of $69.4 million as compared to the prior year.

Proprietary Funds

- The Rhode Island State Lottery transferred $354.9 million to the General Fund in support of general revenue expenditures during the fiscal year, an increase of $10.2 million in comparison with the previous fiscal year. This was primarily due to an increase in revenue from video lottery games.

- The Employment Security Fund ended the fiscal year with a fund deficit of ($153.1) million, as compared with a fund deficit of ($116.2) million at the end of fiscal year 2010. This change was primarily attributable to the level of unemployment benefits paid as a result of the high unemployment rate in the State.

- The R.I. Convention Center Authority ended the fiscal year with a net asset deficiency of ($50.9) million, a deficit increase of $3.6 million compared with the prior year. The Authority 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 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 is also a major fund. 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 (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 and other post-employment benefits trusts, private-purpose trust and agency funds, are reported using accrual accounting. Individual fund data for fiduciary funds can be found in the supplementary information section of the State's CAFR.

Discretely Presented Component Units

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

Notes to the Financial Statements

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

Required Supplementary Information

The basic financial statements and accompanying notes are followed by a section of required supplementary information, including information concerning the State's 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. These funds are 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 $926.9 million at the end of fiscal year 2011, compared to $801.1 million at the end of the prior fiscal year before restatement. Governmental activities reported unrestricted net assets (deficit) of ($1,439.3) 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, 2011
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Current and other assets	$ 1,608,885	$ 1,674,250	$ 116,487	$ 150,798	$ 1,725,372	$ 1,825,048
Capital assets	3,130,020	3,033,583	187,120	196,283	3,317,140	3,229,866
Total assets	4,738,905	4,707,833	303,607	347,081	5,042,512	5,054,914
Long-term liabilities outstanding	2,683,490	2,848,899	470,452	482,646	3,153,942	3,331,545
Other liabilities	916,985	900,878	44,663	36,035	961,648	936,913
Total liabilities	3,600,475	3,749,777	515,115	518,681	4,115,590	4,268,458
Net assets:						
Invested in capital assets, net of related debt	2,115,001	2,064,231	(63,156)	(61,806)	2,051,845	2,002,425
Restricted	462,751	483,931	11,036	13,161	473,787	497,092
Unrestricted	(1,439,322)	(1,590,106)	(159,388)	(122,955)	(1,598,710)	(1,713,061)
Total net assets (as restated)	$ 1,138,430	$ 958,056	$ (211,508)	$ (171,600)	$ 926,922	$ 786,456

Certain amounts have been reclassified or restated to conform to current year presentation. For further information please see Note 17 (F) to the financial statements.

As indicated above, the State reported a balance in unrestricted net assets (deficit) of ($1,598.7) million on June 30, 2011 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 ensure that open space is preserved;
- Historical preservation initiatives designed to protect and preserve historical buildings as well as to provide funding for cultural facilities;
- 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.

Changes in Net Assets

The State's net assets increased by $140.5 million during the current fiscal year. Total revenues of $7,144.5 million were more than expenses of $7,004.1 million. Approximately 37.3% of the State's total revenue came from taxes, while 40.7% resulted from grants and contributions (including federal financial aid). Charges for various goods and services provided 20.6% of the total revenues. The State's expenses covered a range of services. The largest expenses were for human services, 43.0%, and education, 19.0%. In fiscal year 2011, governmental activity expenses exceeded program revenues by $2,924.0 million, with excess expenses being funded through general revenues. Net program revenues from business-type activities in fiscal year 2011 exceeded expenses by $296.7 million.

State of Rhode Island's Changes in Net Assets
For the Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	$ 482,652	$ 462,226	$ 985,556	$ 947,826	$ 1,468,208	$ 1,410,052
Operating grants and contributions	2,387,540	2,361,446	358,932	418,270	2,746,472	2,779,716
Capital grants and contributions	162,032	162,090			162,032	162,090
General revenues:						
Taxes	2,665,169	2,577,519			2,665,169	2,577,519
Interest and investment earnings	5,561	4,309	79	164	5,640	4,473
Miscellaneous	102,478	91,110	(5,454)	20,224	97,024	111,334
Payments from component units		7,228				7,228
Total revenues	5,805,432	5,665,928	1,339,113	1,386,484	7,144,545	7,052,412
Program expenses:						
General government	644,194	741,329			644,194	741,329
Human services	3,013,081	2,900,673			3,013,081	2,900,673
Education	1,332,453	1,273,985			1,332,453	1,273,985
Public safety	436,940	418,485			436,940	418,485
Natural resources	80,360	73,551			80,360	73,551
Transportation	300,366	305,460			300,366	305,460
Interest	148,850	142,924			148,850	142,924
Lottery			368,870	358,128	368,870	358,128
Convention Center			32,986	50,732	32,986	50,732
Employment insurance			645,979	783,878	645,979	783,878
Total expenses	5,956,244	5,856,407	1,047,835	1,192,738	7,004,079	7,049,145
Change in net assets before transfers	(150,812)	(190,479)	291,278	193,746	140,466	3,267
Transfers	331,186	318,772	(331,186)	(318,772)		
Change in net assets	180,374	128,293	(39,908)	(125,026)	140,466	3,267
Net assets - Beginning	972,714	844,421	(171,600)	(46,574)	801,114	797,847
Cumulative effect of prior period adjustments	(14,658)				(14,658)	
Net assets - Beginning, as restated	958,056	844,421	(171,600)	(46,574)	786,456	797,847
Net assets - Ending	$ 1,138,430	$ 972,714	$ (211,508)	$ (171,600)	$ 926,922	$ 801,114

Certain amounts have been reclassified or restated to conform to current year presentation. For further information please see Note 1 (S) and Note 17 (F) to the financial statements.

Chart 1 depicts the State's sources of revenues from Governmental Activities for the fiscal year ended June 30, 2011.

Chart 1 - Revenues and Transfers - Governmental Activities

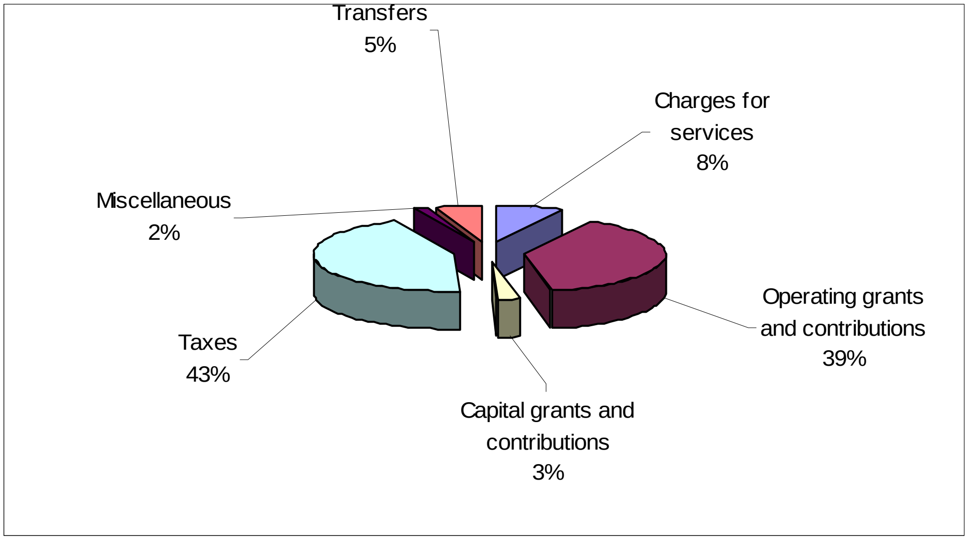
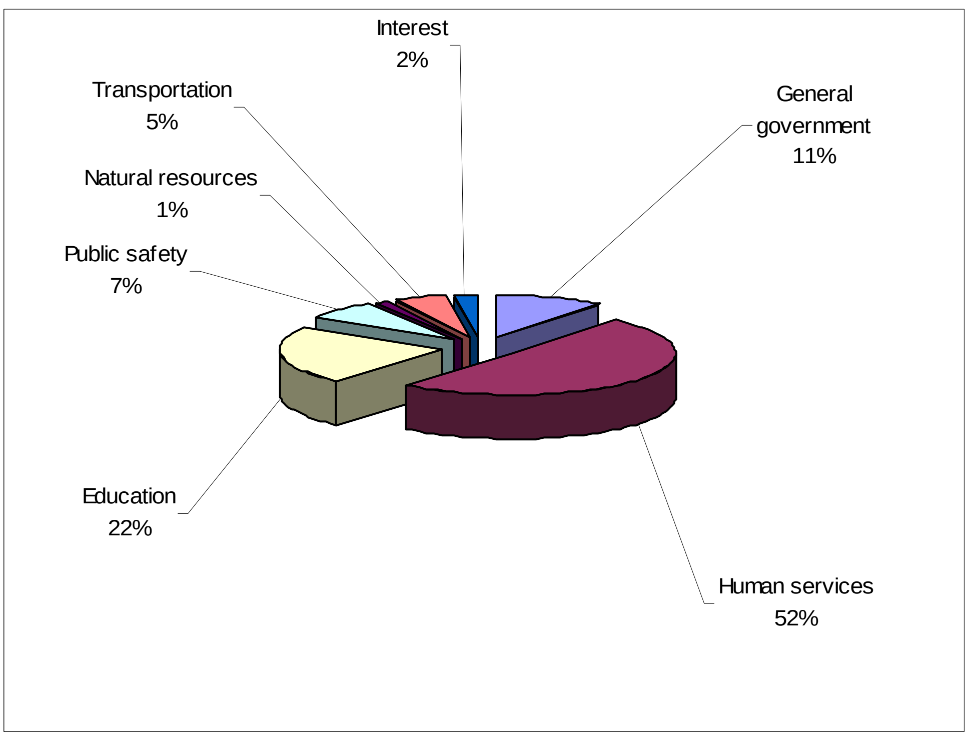


Chart 2 depicts the purposes that program expenses related to Governmental Activities were expended for during the fiscal year ended June 30, 2011.

Chart 2 - Program Expenses - Governmental Activities



Financial Analysis of the State's Funds

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

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. At the end of the current fiscal year, the State's governmental funds reported a combined ending fund balance of $796.0 million, a decrease of $88.3 million from June 30, 2010. A breakdown of the components follows (expressed in thousands):

	2011	2010	Change	Percent
Governmental Funds				
Nonspendable	$ 53,527	$ 49,476	$ 4,051	8.19%
Restricted	726,136	843,686	(117,550)	-13.93%
Unrestricted				
Committed	7,404	7,651	(247)	-3.23%
Assigned	8,709	19,704	(10,995)	-55.80%
Unassigned (deficit)	238	(36,201)	36,439	100.66%
Total	$ 796,014	$ 884,316	$ (88,302)	-9.99%

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

- Nonspendable fund balance – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- Restricted fund balance – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by constitutional provisions, as is the case for the Budget Reserve and Cash Stabilization Account, or by law through enabling legislation enacted by the General Assembly.
- Committed fund balance – amounts that can only be used for specific purposes determined by the enactment of legislation by the General Assembly, and that remain binding unless removed in the same manner. The underlying action that imposed the limitation must occur no later than the close of the fiscal year and must be binding unless repealed by the General Assembly.
- Assigned fund balance – amounts that are constrained by the State's intent to be used for specific purposes. The intent is generally established by legislation enacted by the General Assembly and is implemented at the direction of the Governor. This is also the classification for residual funds in the State's special revenue funds.
- Unassigned fund balance – the residual classification for the State's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The decrease in restricted fund balances of $117.6 million is primarily a result of expenditure of bond and note proceeds in certain special revenue and capital projects funds.

The major governmental funds of the primary government are:

General Fund

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

	2011	2010	Change	Percent
Nonspendable	$ 53,353	$ 49,302	$ 4,051	8.22%
Restricted	197,885	161,904	35,981	22.22%
Unrestricted				
Committed	5,956	4,285	1,671	39.00%
Assigned	8,425		8,425	0.00%
Unassigned (deficit)	5,281	(30,041)	35,322	117.58%
Total	$ 270,900	$ 185,450	$ 85,450	46.08%

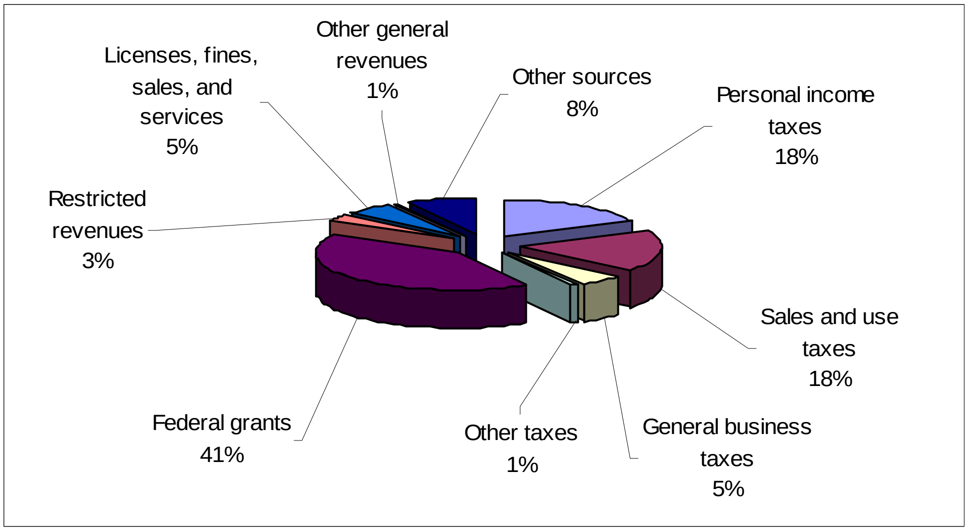
Revenues and other sources of the General Fund totaled $5,637.9 million in fiscal year 2011, an increase of $128.0 million, 2.32%, from the previous year. The revenues from various sources and the change from the previous year are shown in the following tabulation (expressed in thousands):

			Increase (decrease) from 2010	
	2011	2010	Amount	Percent
Taxes:				
Personal income	$ 1,014,617	$ 879,007	$ 135,610	15.43%
Sales and use	1,007,460	1,002,233	5,227	0.52%
General business	286,564	355,664	(69,100)	-19.43%
Other	54,551	37,543	17,008	45.30%
Subtotal	2,363,192	2,274,447	88,745	3.90%
Federal grants	2,314,100	2,275,606	38,494	1.69%
Restricted revenues	174,192	149,638	24,554	16.41%
Licenses, fines, sales, and services	309,687	310,505	(818)	-0.26%
Other general revenues	34,651	27,351	7,300	26.69%
Subtotal	2,832,630	2,763,100	69,530	2.52%
Total revenues	5,195,822	5,037,547	158,275	3.14%
Other sources	442,116	472,355	(30,239)	-6.40%
Total revenue and other sources	$ 5,637,938	$ 5,509,902	$ 128,036	2.32%

Personal Income Taxes increased significantly between FY 2010 and FY 2011 due to a decline in refunds paid of approximately 10.0 percent, an increase in final payments of 19.4 percent and an improvement in withholding tax payments of 4.9 percent. The decline in refunds paid and the increase in final payments received are attributable in part to the fact that the 2009 General Assembly changed the law and began taxing capital gains income at the same rates as all other income effective January 1, 2010. The increase in withholding tax payments in FY 2011 compared to FY 2010 is due to the State's improving economy and perhaps, to a lesser extent, the change in the withholding tables issued by the Division of Taxation effective January 1, 2011 to reflect the reformed personal income tax structure enacted by the General Assembly in June 2010.

Chart 3 depicts the General Fund's revenues and other sources for the fiscal year ended June 30, 2011.

Chart 3 – Revenues and Other Sources – General Fund



Expenditures and other uses totaled $5,552.5 million in fiscal year 2011, an increase of $160.7 million, or 2.98%, 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 2010	
	2011	2010	Amount	Percent
General government	$ 458,222	$ 552,229	$ (94,007)	-17.02%
Human services	3,009,097	2,884,419	124,678	4.32%
Education	1,287,549	1,239,074	48,475	3.91%
Public safety	428,687	394,860	33,827	8.57%
Natural resources	71,812	67,427	4,385	6.50%
Debt Service:				
Principal	106,961	115,395	(8,434)	-7.31%
Interest	75,634	73,960	1,674	2.26%
Total expenditures	5,437,962	5,327,364	110,598	2.08%
Other uses	114,526	64,448	50,078	77.70%
Total expenditures and other uses	$ 5,552,488	$ 5,391,812	$ 160,676	2.98%

The decrease from the prior year in the General Government function is primarily attributable to a restructuring of the Motor Vehicle Excise Tax Phase-out program, under which cities and towns are reimbursed for a portion of taxes on motor vehicles that are exempt under state law.

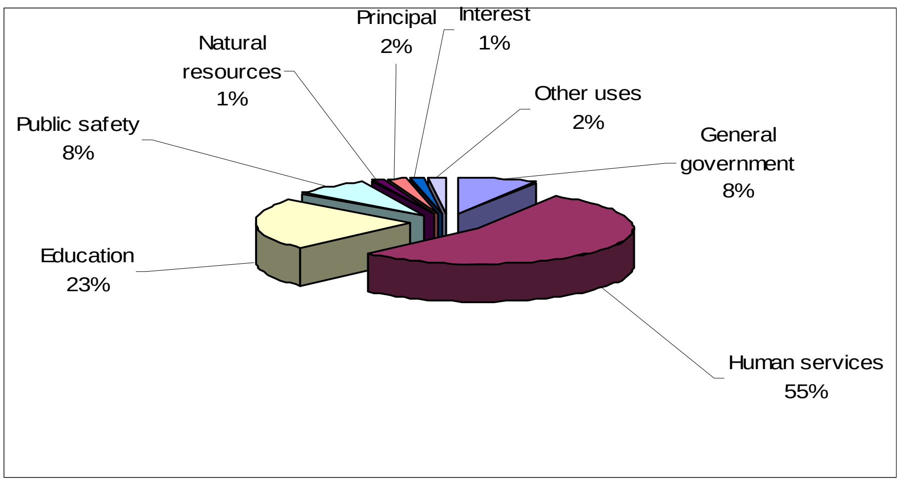
The increase in the Human Services function expenditures is attributable to an increase in federal funds for the Supplemental Nutrition Assistance Program (SNAP) of about $38 million and a net increase in all funds for Medicaid of approximately $82 million. The increase in Medicaid costs is due to a shift of former fee-for-service populations to managed care, particularly in the Rhody Health program, which yielded significant year-over-year caseload increases. In addition, average capitation rates also increased in FY 2011 compared to FY 2010 in both the Rite Care and Rhody Health programs.

The increase in the Education function expenditures is primarily in the Department of Elementary and Secondary Education and is attributable to increases in aid to charter schools ($6.5 million); school construction aid ($9.7 million); statewide transportation ($5.9 million) and additional federal funds under the Education Jobs Fund ($14.4 million) and Race to the Top ($1.6 million).

The increase in the Public Safety function is attributable to three primary areas. First, resolution of a new contract with the RI Brotherhood of Correctional Officers resulted in increased personnel costs in the Department of Corrections. This new contract included cost of living adjustments retroactively to FY 2007, which resulted in the salary base in FY 2011 increasing by 15.3 percent over the prior year or approximately $8.6 million in increased costs including associated benefits. Second, within the Department of Public Safety, payroll costs, primarily in the State Police program, increased in FY 2011 compared to FY 2010 due to several factors. A new contract with the RI Troopers Association resulted in retroactive payments of approximately $0.5 million; pay as you go pensions increased by approximately $0.6 million; annualized cost for a new Trooper class totaled about $1.5 million; overtime expenses increased by approximately $1.8 million and retiree health rates for Troopers increased from 14.62 percent in FY 2010 to 25.67 percent in FY 2011 for an additional cost of $2.2 million. Finally, the RI Emergency Management agency received additional federal funds of approximately $11.3 million, of which $8.3 million was the FEMA 90% share of costs associated with the 2010 Floods.

Chart 4 depicts the General Fund's Expenditures and Other Uses for the fiscal year ended June 30, 2011.

Chart 4 – Expenditures and Other Uses – General Fund



Intermodal Surface Transportation Fund

The Intermodal Surface Transportation Fund (IST) is a special revenue fund that accounts for the collection of gasoline tax, federal grants, and bond proceeds that are used in maintenance, upgrading, and construction of the State's highway system. It also accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds, related expenditures, and the two cents per gallon gasoline tax that is dedicated for the debt service of the RIMFT bonds. The components of fund balance of the IST fund are as follows (expressed in thousands):

	2011	2010	Change	Percent
Restricted	$ 135,310	$ 203,858	$ (68,548)	-33.63%
Unrestricted				
Committed	1,448	3,366	(1,918)	-56.98%
Assigned	85	85		0.00%
Unassigned (deficit)	(5,043)	(6,160)	1,117	18.13%
Total	$ 131,800	$ 201,149	$ (69,349)	-34.48%

General Fund Budgetary Highlights – General Revenue Sources

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. These sources consist of the current fiscal year's budgeted general revenue plus the general fund undesignated fund balance from the prior fiscal year. Excess revenue 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 FY2011 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 an increase of $70.3 million between the original budget and the final budget. General revenue appropriations increased from the original budget by $32.1 million. Some significant changes between the preliminary and final estimated general revenues and the enacted and final general revenue appropriations (expressed in thousands) are listed below.

General Fund Budgetary Highlights
General Revenue Sources

	Original Budget	Final Budget	Actual	Variance
Revenues and sources:				
Taxes:				
Personal income	$ 937,900	$ 1,003,600	$ 1,021,339	$ 17,739
General business	361,250	310,800	294,032	(16,768)
Sales and use	982,200	1,011,800	1,007,460	(4,340)
Other taxes	35,800	57,400	54,550	(2,850)
Departmental revenue	345,227	334,116	332,715	(1,401)
Other sources:				
Miscellaneous	5,331	13,130	11,116	(2,014)
Lottery transfer	346,939	353,037	354,861	1,824
Unclaimed property	6,000	7,100	7,640	540
Total revenues and other sources	3,020,647	3,090,983	3,083,713	(7,270)
Expenditures and other uses:				
General government	434,602	443,251	434,618	8,633
Human services	1,074,919	1,107,527	1,096,983	10,544
Education	1,031,328	1,020,451	1,022,170	(1,719)
Public safety	363,512	365,365	365,120	245
Natural resources	37,758	37,610	37,262	348
Total expenditures and other uses	2,942,119	2,974,204	2,956,153	18,051
Excess of revenues and other sources over expenditures and other uses	$ 78,528	$ 116,779	$ 127,560	$ 10,781

The positive variance from the FY 2011 Original and Final Budgets to the FY 2011 Actual for Personal Income Taxes is due to a significant downward trend in refunds paid and a sharp increase in withholding tax payments received. The downward trend in refunds paid was based on actual collections in FY 2010 which were nearly $18.0 million less than the FY 2010 Final Budget and the actual refunds paid throughout FY 2011. The increase in withholding tax payments received was due to the improved State and regional economies between June 2010 and June 2011. The increase in Sales and Use Taxes between the FY 2011 Original and Final Budget is primarily due to an increase in actual sales and use tax collections (versus other excise tax collections). The FY 2011 Final Budget was revised based on actual collections.

The positive variance in the General Government function of approximately $8.6 million for expenditures was primarily in two agencies, Administration and the Legislature. Within Administration, the majority of the positive variance was in the Facilities Management program due to lower electricity and natural gas rates and/or usage, as well as lower costs for sewer and water charges. Savings from vacant positions also contributed to the positive variance. In the Legislature's budget, the positive variance was primarily in the grants category, a major portion of which being due to a delay in work on redistricting, which had an appropriation of $1.5 million, against which no expenditures were incurred.

The positive variance in the Human Services function of approximately $6.2 million for expenditures was due to a positive variance in the Department of Human Services (DHS) of $10.1 million, offset by negative variances in the Department of Children, Youth and Families (DCYF) of $3.2 million and the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (BHDDH) of $1.6 million. The DHS positive variance was primarily in the Medicaid program due to final caseloads being lower than estimated by the Caseload Estimating Conference in May 2011. The DCYF negative variance was primarily attributable to delays in the implementation of the new System of Care Transformation initiative that was intended to achieve savings from a shift to more community based services. The BHDDH negative variance was primarily in the Developmental Disabilities program and is mainly attributable to additional overtime resulting from higher than expected staff vacancy rates.

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, 2011, amounts to $3,317.1 million, net of accumulated depreciation of $2,037.7 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 2.7% of net book value. This increase is primarily caused by the construction and rehabilitation of highways 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 $236.4 million for the year. Of this amount, $142.0 million was used to construct or reconstruct highways. Depreciation charges for the year totaled $146.8 million.

State of Rhode Island's Capital Assets as of June 30, 2011
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Capital assets not being depreciated						
Land	$ 351,873	$ 349,811	$ 45,558	$ 45,558	$ 397,431	$ 395,369
Works of Art	1,283	422			1,283	422
Intangibles	155,206	151,076			155,206	151,076
Construction in progress	427,459	463,964	154	649	427,613	464,613
Total capital assets not being depreciated	935,821	965,273	45,712	46,207	981,533	1,011,480
Capital assets being depreciated						
Land improvements	3,700	3,700			3,700	3,700
Buildings	644,386	587,448	234,130	234,086	878,516	821,534
Building improvements	260,066	210,608			260,066	210,608
Equipment	242,348	235,227	24,956	22,943	267,304	258,170
Intangibles	14,049	11,986			14,049	11,986
Infrastructure	2,949,715	2,811,359			2,949,715	2,811,359
	4,114,264	3,860,328	259,086	257,029	4,373,350	4,117,357
Less: Accumulated depreciation	1,920,065	1,792,020	117,678	106,953	2,037,743	1,898,973
Total capital assets being depreciated	2,194,199	2,068,308	141,408	150,076	2,335,607	2,218,384
Total capital assets (net)	$ 3,130,020	$ 3,033,581	$ 187,120	$ 196,283	$ 3,317,140	$ 3,229,864

Certain amounts have been reclassified or restated to conform to current year presentation. For further information please see Note 17 (F) to the financial statements.

In fiscal year 2011, the State completed a number of significant capital projects, including new office facilities for the Division of Motor Vehicles, a new facility for the School for the Deaf, and the new headquarters for use by the R.I. State Police. 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 in Tiverton and a new Blackstone River Bridge on Route I-95 in Pawtucket. 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 $2,411.8 million of which $1,049.4 million is general obligation debt, $567.2 million is special obligation debt and $795.2 million is debt of the blended component units. Additionally, accreted interest of $14.3 million has been recognized for debt of one blended component unit, which will not be paid until 2052. The State's total bonded debt decreased by $127.2 million during the current fiscal year. This decrease consists of a $68.6 million decrease in general obligation debt, a decrease of $46.1 million in special obligation debt, and a decrease of $12.5 million in the blended component units' debt. The general obligation debt is supported by the full faith and credit of the State. Other obligations subject to annual appropriation by the R.I. General Assembly totaled $358.0 million and are discussed in Note 6.

The State's assigned general obligation bond ratings at June 30, 2011 were as follows: AA by Standard & Poor's Investor Services (S&P), Aa2 (with a negative outlook) by Moody's Investor Service, Inc. and AA by Fitch Investor Service. 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 $262.0 million; other obligations that are authorized but unissued totaled $382.9 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 2012 Budget

The first quarter report for FY 2012 prepared by the State Budget Office contains estimates of annual expenditures based upon analysis of expenditures through the first quarter of FY 2012, as well as caseload and medical assistance expenditure estimates and revenue estimates adopted at the November 2011 Caseload and Revenue Estimating Conferences. The FY 2012 balance, based upon these assumptions, is estimated to reflect a $2.1 million deficit.

The Budget Office continues to review department and agency FY 2012 expenditure plans in conjunction with the FY 2013 budget process. Any changes recommended by the Governor to the FY 2012 enacted appropriations, or adopted revenues, will be incorporated in the supplemental appropriations bill, which under current law must be submitted to the General Assembly no later than January 19, 2012.

The November Revenue Estimating Conference's estimates reflect recent revenue trends and expected collections based upon the current economic forecast. On the revenue side, general revenue receipts are expected to be $19.4 million more than enacted for FY 2012. Taxes are expected to exceed enacted estimates by $10.0 million, while departmental revenues and other sources, including lottery revenues, are also expected to exceed enacted estimates by $9.4 million. The November Revenue Estimating Conference estimates that revenues will be $3,195.4 million as compared with the enacted estimate of $3,176.0 million for FY 2012.

Lottery Revenue

The General Fund derives more than 11% of general revenue from the Rhode Island Lottery.

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, player reward incentives being offered and increased marketing efforts.

The Lottery's video lottery operations currently compete with casinos in nearby Connecticut. In addition, Massachusetts in November 2011 enacted legislation to allow three casinos and one slot parlor in that state. It is anticipated that there could be an adverse effect on the amount of revenue derived from video lottery facilities in Rhode Island. The Lottery and the State continually monitor the risk to gaming operations resulting from competition in nearby states.

Recently enacted legislation has authorized a statewide ballot referendum in November 2012 that allows the voters of Rhode Island to approve the expansion of gaming at the Twin River video lottery facility located in Lincoln, RI. The expansion would allow Twin River to offer casino style gaming (i.e., table games) to the public subject to the operational control by the Lottery and/or Department of Business Regulation. This referendum is also subject to local (Town of Lincoln) voter approval.

Pension Benefits

During Fiscal 2012, the General Treasurer and Governor undertook a comprehensive pension reform initiative with the goal of improving the funded status of the plans within the System, reducing required employer contributions, and ensuring the long-term viability of the Employees' Retirement System. The General Assembly convened a special legislative session to solely address pension reform measures which were enacted on November 18, 2011.

The pension reform measures make significant changes to member benefit provisions including retirement eligibility age and service credit accrual factors. Additionally, cost of living allowances are generally suspended until the funded status of the plans improves and is now linked to performance of the System's investments. A defined contribution plan will be implemented for most active employees to supplement the reduced benefits provided through the defined benefit plans. The restated unfunded liability of the plans is reamortized over a 25 year period.

Other Post Employment Benefits

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 its OPEB plans. In addition, effective in fiscal year 2011, all participating employers are required by law to fully fund the actuarially determined annual required contribution.

In accordance with GASB Statement No. 45, the State began accounting for retiree health care benefits on an actuarial basis in fiscal year 2008. The most recent actuarial study completed as of June 30, 2009 has determined the State's unfunded actuarial liability for all six plans included in the Rhode Island State Employees' and Electing Teachers OPEB System to be approximately $822.4 million. Based on a discount rate of 5.0%, the State and other participating employers' annual required contribution was determined to be $53.0 million. For fiscal year 2011, the State funded the retiree health care program in accordance with law by contributing the actuarially determined contribution.

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. Future changes in healthcare costs, as well as investment returns and other assumptions, could significantly affect the level of contributions required of the State.

Federal Debt Limit and Potential Federal Spending Cuts

On August 2, 2011, the President signed a bill into law raising the national debt limit and providing for substantial reductions in federal spending over the next decade. It is not known what impact, if any, these reductions may have on the State. It is possible that certain federal aid and other federal payments to the State, as well as to other states and municipalities, could be significantly reduced or otherwise affected. The budget and financial health of the State could be materially adversely affected by any material disruption or change in the flow of anticipated federal assistance to the State.

Transportation Funding Initiatives

The Blue Ribbon Panel for Transportation Funding (Panel), formed by the Governor, concluded in a report issued in December 2008, that the State faced a potential annual funding gap of $285 million. The Panel also provided a variety of recommendations ranging from the implementation of tolls on cars and trucks entering the State, tolls on all State bridges, raising vehicle registration fees, raising the gasoline tax, and other tax and fee alternatives. In fiscal 2011, the State enacted legislation to establish the Rhode Island Highway Maintenance Trust Fund (Trust). The purpose of the Trust is to provide stable financing for the State's Transportation Improvement Program. The Trust will be financed through surcharges on vehicle registrations that will begin in fiscal 2014 and be phased-in over a three year period.

Unemployment Insurance Program

The State has borrowed from the Federal Unemployment Trust Fund to continue to pay benefits to unemployed individuals. Borrowings through September 2011 totaled approximately $216 million. It is expected that additional borrowings will be needed in the balance of fiscal year 2012. Effective January 1, 2011, the Job Development assessment rate was increased from .21% to .51% to accumulate funds to begin to repay the balance borrowed.

Local Government Financial Matters

A number of local governments in the State continue to experience financial difficulties involving cumulative deficits, budgetary imbalances, unfunded pension and OPEB obligations, and rating agency downgrades. Most notably, the City of Central Falls was under the control of a State appointed receiver at June 30, 2011 and subsequently filed for federal bankruptcy protection in August 2011.

The State has certain oversight responsibilities with respect to municipalities which are outlined in the General Laws and carried out by the Department of Revenue – Division of Municipal Finance and the Office of the Auditor General. The General Laws give the State, acting through the Department of Revenue, the power to effect three levels of oversight and control: fiscal overseer, budget commission, and state receiver. A State fiscal overseer was appointed for the City of East Providence in November 2011. Subsequently, a budget commission was appointed in December 2011.

Many of the locally-administered pension plans are poorly funded with a collective unfunded liability of $2.1 billion and funded ratio of approximately 40%. Additionally, locally-administered OPEB plans have a collective unfunded liability of $3.5 billion and funded ratio of just 1%. Recently enacted pension reform measures for state–administered pension plans did not address the locally-administered pension plans; however, efforts to improve the funded status of those plans while recognizing the inherent resource limitations of the sponsoring municipalities will continue.

The State is continually monitoring the financial status of all municipalities to forestall the need for more intensive intervention.

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, 2011
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business - Type Activities	Totals	Component Units
Assets				
Current assets:				
Cash and cash equivalents	$ 557,299	$ 24,561	$ 581,860	$ 291,325
Funds on deposit with fiscal agent	149,178	1,517	150,695	
Investments				25,193
Receivables (net)	547,566	72,107	619,673	160,364
Restricted assets:				
Cash and cash equivalents		11,035	11,035	528,824
Investments	71,642		71,642	272,528
Receivables (net)				14
Other assets				91,390
Due from primary government				8,147
Due from component units	2,271		2,271	227
Internal balances	(51)	51		
Due from other governments and agencies	144,978	1,828	146,806	2,144
Inventories	1,719	992	2,711	10,712
Other assets	60,277	488	60,765	40,329
Total current assets	1,534,879	112,579	1,647,458	1,431,197
Noncurrent assets:				
Investments				156,019
Receivables (net)	15,192		15,192	962,254
Due from other governments and agencies	5,120		5,120	
Restricted assets:				
Cash and cash equivalents				115,561
Investments				227,994
Other assets				2,524,740
Due from component units	35,421		35,421	2,837
Capital assets - nondepreciable	935,821	45,712	981,533	445,149
Capital assets - depreciable (net)	2,194,199	141,408	2,335,607	1,874,570
Other assets	18,273	3,908	22,181	176,306
Total noncurrent assets	3,204,026	191,028	3,395,054	6,485,430
Total assets	4,738,905	303,607	5,042,512	7,916,627
Liabilities				
Current Liabilities:				
Cash overdraft				242
Accounts payable	511,043	15,708	526,751	102,107
Due to primary government				2,271
Due to component units	8,147		8,147	227
Due to other governments and agencies		7,638	7,638	36,030
Accrued expenses		3,230	3,230	67
Deferred revenue	73,173	226	73,399	39,923
Other current liabilities	107,923	3,605	111,528	329,980
Current portion of long-term debt	216,699	9,298	225,997	218,593
Obligation for unpaid prize awards		4,958	4,958	
Total current liabilities	916,985	44,663	961,648	729,440
Noncurrent Liabilities:				
Due to primary government				35,421
Due to other governments and agencies		222,352	222,352	322,540
Net OPEB obligation	13,257		13,257	28,496
Deferred revenue		6,875	6,875	8,246
Due to component units				2,837
Notes payable	8,175	419	8,594	17,549
Loans payable				275,919
Obligations under capital leases	207,581		207,581	10,189
Compensated absences	24,081	247	24,328	22,710
Bonds payable	2,357,592	240,559	2,598,151	3,685,238
Other liabilities	72,804		72,804	121,222
Total noncurrent liabilities	2,683,490	470,452	3,153,942	4,530,367
Total liabilities	3,600,475	515,115	4,115,590	5,259,807
Net Assets				
Invested in capital assets, net of related debt	2,115,001	(63,156)	2,051,845	1,313,794
Restricted for:				
Budget reserve	130,293		130,293	
Transportation	1,425		1,425	
Debt	84,758	11,036	95,794	351,406
Assistance to other entities	21,697		21,697	
Temporary disability insurance program	150,914		150,914	
Other	73,490		73,490	538,700
Nonexpendable	174		174	97,102
Unrestricted	(1,439,322)	(159,388)	(1,598,710)	355,818
Total net assets	$ 1,138,430	$ (211,508)	$ 926,922	$ 2,656,820

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

State of Rhode Island and Providence Plantations
Statement of Activities
For the Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
					Primary Government			
Functions/Programs	**Expenses**	**Charges for Services**	**Operating grants and contributions**	**Capital grants and contributions**	**Governmental activities**	**Business-type activities**	**Totals**	**Component Units**
Primary government:								
Governmental activities:								
General government	$ 644,194	$ 185,918	$ 113,749	$ 897	$ (343,630)	$	$ (343,630)	$
Human services	3,013,081	210,905	1,862,016	947	(939,213)		(939,213)	
Education	1,332,453	22,022	264,736	50	(1,045,645)		(1,045,645)	
Public safety	436,940	34,389	46,057	3,086	(353,408)		(353,408)	
Natural resources	80,360	29,046	20,049	4,139	(27,126)		(27,126)	
Transportation	300,366	372	80,933	152,913	(66,148)		(66,148)	
Interest and other charges	148,850				(148,850)		(148,850)	
Total governmental activities	5,956,244	482,652	2,387,540	162,032	(2,924,020)		(2,924,020)	
Business-type activities:								
State lottery	368,870	723,187				354,317	354,317	
Convention center	32,986	22,005				(10,981)	(10,981)	
Employment security	645,979	240,364	358,932			(46,683)	(46,683)	
Total business-type activities	1,047,835	985,556	358,932			296,653	296,653	
Total primary government	$ 7,004,079	$ 1,468,208	$ 2,746,472	$ 162,032	(2,924,020)	296,653	(2,627,367)	
Component units:	$ 1,213,159	$ 1,011,808	$ 82,572	$ 95,465				(23,314)
General Revenues:								
Taxes:								
Personal income					1,014,528		1,014,528	
General business					287,573		287,573	
Sales and use					1,007,145		1,007,145	
Gasoline					136,811		136,811	
Other					219,112		219,112	
Interest and investment earnings					5,561	79	5,640	24,223
Miscellaneous revenue (expense)					102,478	(5,454)	97,024	35,560
Gain (loss) on sale of capital assets								(10,356)
Transfers (net)					331,186	(331,186)		
Payments from primary government								202,374
Total general revenues and transfers					3,104,394	(336,561)	2,767,833	251,801
Change in net assets					180,374	(39,908)	140,466	228,487
Net assets - beginning as restated					958,056	(171,600)	786,456	2,428,333
Net assets - ending					$ 1,138,430	$ (211,508)	$ 926,922	$ 2,656,820

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, 2011
(Expressed in Thousands)

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 188,547	$ 22,887	$ 307,149	$ 518,583
Funds on deposit with fiscal agent		105,101	44,077	149,178
Restricted investments			71,642	71,642
Receivables (net)	499,262	13,457	45,085	557,804
Due from other funds	32,519	586	2,774	35,879
Due from component units	55			55
Due from other governments and agencies	99,096	41,038		140,134
Loans to other funds	15,937			15,937
Other assets	53,538			53,538
Total assets	$ 888,954	$ 183,069	$ 470,727	$ 1,542,750
Liabilities and Fund Balances				
Liabilities				
Accounts payable	443,728	21,077	28,649	493,454
Due to other funds			34,439	34,439
Due to component units	3,323	4,368	688	8,379
Loans from other funds			13,227	13,227
Deferred revenue	88,365	20,782		109,147
Other liabilities	82,638	5,042	410	88,090
Total liabilities	618,054	51,269	77,413	746,736
Fund Balances				
Nonspendable	53,353		174	53,527
Restricted	197,885	135,310	392,941	726,136
Unrestricted				
Committed	5,956	1,448		7,404
Assigned	8,425	85	199	8,709
Unassigned	5,281	(5,043)		238
Total fund balances	270,900	131,800	393,314	796,014
Total liabilities and fund balances	$ 888,954	$ 183,069	$ 470,727	$ 1,542,750

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
June 30, 2011
(Expressed in Thousands)

Fund balance - total governmental funds		$ 796,014
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	5,043,811	
Accumulated depreciation	(1,916,359)	
		3,127,452
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	(87,311)	
Bonds payable	(2,463,461)	
Net premium/discount and deferred amount on refunding	(22,235)	
Refunding costs	6,744	
Cost of issuance	10,922	
Obligations under capital leases	(224,045)	
Premium	(5,051)	
Refunding costs	1,200	
Cost of issuance	2,076	
Interest payable	(24,445)	
Other liabilities	(99,161)	
		(2,904,767)
Other long-term assets and deferred revenue are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Receivables	9,954	
Due from component units	37,595	
Other assets	5,104	
Deferred revenue	35,974	
		88,627
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.		31,104
Net assets - total governmental activities		$ 1,138,430

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

State of Rhode Island and Providence Plantations
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	$ 2,363,192	$ 136,811	$ 164,417	$ 2,664,420
Licenses, fines, sales, and services	309,687		(1,123)	308,564
Departmental restricted revenue	174,192	371		174,563
Federal grants	2,314,100	227,235		2,541,335
Income from investments	57	755	4,725	5,537
Other revenues	34,594	2,296	45,812	82,702
Total revenues	5,195,822	367,468	213,831	5,777,121
Expenditures:				
Current:				
General government	458,222		161,888	620,110
Human services	3,009,097			3,009,097
Education	1,287,549		184	1,287,733
Public safety	428,687			428,687
Natural resources	71,812		6	71,818
Transportation		365,726	1,770	367,496
Capital outlays			138,843	138,843
Debt service:				
Principal	106,961	33,546	13,968	154,475
Interest and other charges	75,634	23,954	38,478	138,066
Total expenditures	5,437,962	423,226	355,137	6,216,325
Excess (deficiency) of revenues over (under) expenditures	(242,140)	(55,758)	(141,306)	(439,204)
Other financing sources (uses):				
Operating transfers in	424,654	32,150	88,425	545,229
Other	17,462			17,462
Operating transfers out	(114,526)	(45,741)	(51,522)	(211,789)
Total other financing sources (uses)	327,590	(13,591)	36,903	350,902
Net change in fund balances	85,450	(69,349)	(104,403)	(88,302)
Fund balances - beginning (as restated)	185,450	201,149	497,717	884,316
Fund balances - ending	$ 270,900	$ 131,800	$ 393,314	$ 796,014

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

State of Rhode Island and Providence Plantations
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of the Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

Net change in fund balances - total governmental funds			$ (88,302)
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	230,746	
	Depreciation expense	(135,746)	
			95,000
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	154,475	
	Accrued interest and other charges	(16,267)	
	Amortization of premium/discount	8,113	
	Deferral of issuance costs	413	
	Amortization of issuance costs	(1,928)	
	Amortization of refunding costs	(775)	
			144,031
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	(8,555)	
	Program expenses	18,186	
	Program revenue	(477)	
	Capital grant revenue	8,239	
	General revenue - taxes	746	
	General revenue-miscellaneous	2,353	
			20,492
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.			9,153
Change in net assets - total governmental activities			$ 180,374

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, 2011
(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	$ 18,229	$ 3,031	$ 3,301	$ 24,561	$ 38,716
Restricted cash and cash equivalents		11,035		11,035	
Funds on deposit with fiscal agent			1,517	1,517	
Receivables (net)	4,125	829	67,153	72,107	4,954
Due from other funds			3,118	3,118	412
Due from other governments and agencies			1,828	1,828	
Inventories	992			992	1,719
Other assets	51	437		488	6,914
Total current assets	23,397	15,332	76,917	115,646	52,715
Noncurrent assets:					
Capital assets - nondepreciable		45,712		45,712	
Capital assets - depreciable (net)	469	140,939		141,408	2,568
Other assets		3,908		3,908	
Total noncurrent assets	469	190,559		191,028	2,568
Total assets	23,866	205,891	76,917	306,674	55,283
Liabilities					
Current Liabilities:					
Accounts payable	11,951	3,757		15,708	17,608
Due to other funds	3,067			3,067	1,903
Due to other governments and agencies			7,638	7,638	
Loans from other funds					2,710
Accrued expenses	3,230			3,230	
Deferred revenue	226			226	
Other current liabilities	812	2,793		3,605	1,958
Notes payable		188		188	
Bonds payable		9,110		9,110	
Obligation for unpaid prize awards	4,958			4,958	
Total current liabilities	24,244	15,848	7,638	47,730	24,179
Noncurrent Liabilities:					
Due to other governments and agencies			222,352	222,352	
Deferred revenue	6,875			6,875	
Notes payable		419		419	
Bonds payable		240,559		240,559	
Compensated absences	247			247	
Total noncurrent liabilities	7,122	240,978	222,352	470,452	
Total liabilities	31,366	256,826	229,990	518,182	24,179
Net Assets					
Invested in capital assets, net of related debt	469	(63,625)		(63,156)	2,568
Restricted for:					
Debt		11,036		11,036	
Unrestricted	(7,969)	1,654	(153,073)	(159,388)	28,536
Total net assets	$ (7,500)	$ (50,935)	$ (153,073)	$ (211,508)	$ 31,104

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 Fiscal Year Ended June 30, 2011
(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	$	$ 21,635	$ 240,364	$ 261,999	$ 273,385
Lottery sales	230,593			230,593	
Video lottery, net	492,594			492,594	
Federal grants			358,932	358,932	
Miscellaneous		370		370	
Total operating revenues	723,187	22,005	599,296	1,344,488	273,385
Operating expenses:					
Personal services	4,826	13,407		18,233	11,889
Supplies, materials, and services	223,855	8,879		232,734	244,744
Prize awards, net of prize recoveries	139,955			139,955	
Depreciation and amortization	234	10,700		10,934	261
Benefits paid			645,979	645,979	
Total operating expenses	368,870	32,986	645,979	1,047,835	256,894
Operating income (loss)	354,317	(10,981)	(46,683)	296,653	16,491
Nonoperating revenues (expenses):					
Interest revenue	77	2		79	24
Other nonoperating revenue	1,092		24,347	25,439	(4)
Interest expense		(15,794)	(4,699)	(20,493)	
Other nonoperating expenses			(10,400)	(10,400)	
Total nonoperating revenue (expenses)	1,169	(15,792)	9,248	(5,375)	20
Income (loss) before transfers	355,486	(26,773)	(37,435)	291,278	16,511
Transfers in		23,130	6,953	30,083	
Transfers out	(354,861)		(6,408)	(361,269)	(7,358)
Change in net assets	625	(3,643)	(36,890)	(39,908)	9,153
Total net assets - beginning	(8,125)	(47,292)	(116,183)	(171,600)	21,951
Total net assets - ending	$ (7,500)	$ (50,935)	$ (153,073)	$ (211,508)	$ 31,104

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

State of Rhode Island and Providence Plantations
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2011
(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	$ 233,199	$ 23,301	$ 240,574	$ 497,074	$ 274,676
Cash received from video lottery operations, net	492,594			492,594	
Cash received from grants			360,081	360,081	
Cash payments to suppliers for goods and services	(3,927)	(8,932)		(12,859)	(248,675)
Cash payments to employees for services	(4,867)	(13,682)		(18,549)	(11,477)
Cash payments to prize winners	(143,485)			(143,485)	
Cash payments for commissions	(216,017)			(216,017)	
Cash payments for benefits			(645,979)	(645,979)	
Other operating revenue (expense)			161	161	(78)
Net cash provided by (used for) operating activities	357,497	687	(45,163)	313,021	14,446
Cash flows from noncapital financing activities:					
Loan from federal government			89,908	89,908	
Loans from other funds					895
Loans to other funds					(1,025)
Repayment of loans to other funds					2,000
Repayment of loans from other funds					(645)
Operating transfers in		23,130	2,636	25,766	
Operating transfers out	(353,775)		(6,408)	(360,183)	(7,358)
Net transfers from (to) fiscal agent			(40,270)	(40,270)	
Net cash provided by (used for) noncapital financing activities	(353,775)	23,130	45,866	(284,779)	(6,133)
Cash flows from capital and related financing activities:					
Principal paid on capital obligations		(8,848)		(8,848)	
Interest paid on capital obligations		(14,541)		(14,541)	
Acquisition of capital assets	(13)	(1,724)		(1,737)	(57)
Net cash provided by (used for) capital and related financing activities	(13)	(25,113)		(25,126)	(57)
Cash flows from investing activities:					
Interest on investments	77	2		79	24
Net cash provided by investing activities	77	2		79	24
Net increase (decrease) in cash and cash equivalents	3,786	(1,294)	703	3,195	8,280
Cash and cash equivalents, July 1	14,443	15,360	2,598	32,401	30,436
Cash and cash equivalents, June 30	$ 18,229	$ 14,066	$ 3,301	$ 35,596	$ 38,716
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	354,317	(10,981)	(46,683)	296,653	16,491
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	234	10,700		10,934	261
Other revenue (expense) and operating transfer in (out)	467			467	1
Net changes in assets and liabilities:					
Receivables, net	(1,352)	539	1,520	707	855
Inventory	100			100	(146)
Prepaid items		154		154	1,171
Other assets	199			199	
Due to / due from transactions	210			210	
Accounts and other payables	1,488	(481)		1,007	(4,599)
Accrued expenses	2,006			2,006	412
Deferred revenue	65	756		821	
Prize awards payable	(237)			(237)	
Total adjustments	3,180	11,668	1,520	16,368	(2,045)
Net cash provided by (used for) operating activities	$ 357,497	$ 687	$ (45,163)	$ 313,021	$ 14,446

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, 2011
(Expressed in Thousands)

	Pension and Other Postemployment Benefit Trusts	Private Purpose Touro Jewish Synagogue	Agency
Assets			
Cash and cash equivalents	$ 6,006	$	$ 14,501
Deposits held as security for entities doing business in the State			85,841
Advance held by claims processing agent	1,171		
Receivables			
Contributions	29,997		
Due from state for teachers	13,959		
Miscellaneous	2,693		1,517
Total receivables	46,649		1,517
Investments, at fair value			
Equity in Pooled Trust	7,462,527		
Other investments		2,114	
Total investments	7,462,527	2,114	
Property and equipment, at cost, net of accumulated depreciation	2,262		
Total assets	7,518,615	2,114	101,859
Liabilities			
Accounts payable	4,800		3,486
Incurred but not reported claims	3,740		
Deferred revenue	6,065		
Other	170		
Deposits held for others			98,373
Total liabilities	14,775		$ 101,859
Net assets			
Held in trust for:			
Pension benefits	7,488,903		
Other postemployment benefits	14,937		
Other		2,114	
Total net assets	$ 7,503,840	$ 2,114	

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 Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

	Pension and Other Postemployment Benefit Trusts	Private Purpose Touro Jewish Synagogue
Additions		
Contributions		
Member contributions	$ 192,353	$
Employer contributions	329,359	
State contributions for teachers	70,286	
Interest on service credits purchased	1,163	
Total contributions	593,161	
Other income	1,875	
Investment income		
Net appreciation in fair value of investments	1,169,409	343
Interest	84,476	
Dividends	2,841	37
Other investment income	15,446	1
	1,272,172	381
Less investment expense	15,092	
Net income from investing activities	1,257,080	381
Total additions	1,852,116	381
Deductions		
Benefits		
Retirement benefits	634,632	
Cost of living adjustment	180,213	
SRA Plus Option	26,689	
Supplemental benefits	1,089	
Death benefits	3,336	
OPEB benefits	59,663	
Total benefits	905,622	
Refund of contributions	11,243	
Administrative expense	8,548	
Distribution		88
Total deductions	925,413	88
Change in net assets held in trust for:		
Pension benefits	911,766	
Other postemployment benefits	14,937	
Other		293
Net assets - beginning	6,577,137	1,821
Net assets - ending	$ 7,503,840	$ 2,114

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, 2011
(Expressed in Thousands)

	RIHMFC	RIEDC	RIRRC	RIPTA
Assets				
Current Assets:				
Cash and cash equivalents	$ 1,332	$ 55,390	$ 21,823	$ 5,936
Investments				4,059
Receivables (net)	2,829	8,024	7,520	3,350
Restricted assets:				
Cash and cash equivalents	227,866	26,614		
Investments	102,710			
Receivables (net)				
Other assets	29,901	7,798		
Due from primary government		292		5,979
Due from other governments		553		
Due from other component units		38		
Inventories			3,475	2,880
Other assets	2,205	1,858	2,872	111
Total current assets	366,843	100,567	35,690	22,315
Noncurrent Assets:				
Investments	9,435			
Receivables (net)		5,303		
Restricted assets:				
Cash and cash equivalents		59,140	741	
Investments	167,217	953	1,645	
Other assets	1,579,483	30,546	83,057	
Capital assets - nondepreciable		106,365	25,302	6,040
Capital assets - depreciable (net)		557,633	20,096	151,588
Due from other component units		697		
Other assets, net of amortization	131,269	5,223	11,519	
Total noncurrent assets	1,887,404	765,860	142,360	157,628
Total assets	2,254,247	866,427	178,050	179,943
Liabilities				
Current liabilities:				
Cash overdraft				
Accounts payable	485	30,212	7,976	6,320
Due to primary government				618
Due to other component units				
Due to other governments				
Accrued liabilities				
Deferred revenue		8,172		114
Other liabilities	292,827			5,422
Current portion of long-term debt	115,193	11,519	8,400	
Total current liabilities	408,505	49,903	16,376	12,474
Noncurrent liabilities:				
Due to primary government		6,790		12,266
Due to other governments				
Due to other component units				
Deferred revenue	6,581	593		
Notes payable	14,557	1,434		
Loans payable		23,838		
Obligations under capital leases		64		
Net OPEB obligation	2,756	1,766	315	23,659
Other liabilities	3,259		81,376	8,028
Compensated absences	1,314			
Bonds payable	1,526,932	333,569	11,942	
Total noncurrent liabilities	1,555,399	368,054	93,633	43,953
Total liabilities	1,963,904	417,957	110,009	56,427
Net assets				
Invested in capital assets, net of related debt	9,144	345,769	39,887	144,743
Restricted for:				
Debt	231,845			
Other		48,033	3,761	
Other nonexpendable	2,505			
Unrestricted	46,849	54,668	24,393	(21,227)
Total net assets	$ 290,343	$ 448,470	$ 68,041	$ 123,516

(Continued)

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

State of Rhode Island and Providence Plantations
Combining Statement of Net Assets
Component Units
June 30, 2011
(Expressed in Thousands)

	URI	RIC	CCRI	Other Component Units	Totals
Assets					
Current Assets:					
Cash and cash equivalents	$ 95,136	$ 22,406	$ 26,114	$ 63,188	$ 291,325
Investments				21,134	25,193
Receivables (net)	34,318	4,830	4,175	95,318	160,364
Restricted assets:					
Cash and cash equivalents	1,741			272,603	528,824
Investments				169,818	272,528
Receivables (net)			14		14
Other assets	525			53,166	91,390
Due from primary government		1,876			8,147
Due from other governments				1,591	2,144
Due from other component units				189	227
Inventories	2,856	657	722	122	10,712
Other assets	451		195	32,637	40,329
Total current assets	135,027	29,769	31,220	709,766	1,431,197
Noncurrent Assets:					
Investments	122,076		2,081	22,427	156,019
Receivables (net)	16,850	4,251	24	935,826	962,254
Restricted assets:					
Cash and cash equivalents	57	137	2,971	52,515	115,561
Investments		21,013		37,166	227,994
Other assets	74,901	10,606	778	745,369	2,524,740
Capital assets - nondepreciable	59,409	6,583	9,069	232,381	445,149
Capital assets - depreciable (net)	438,197	90,404	40,871	575,781	1,874,570
Due from other component units				2,140	2,837
Other assets, net of amortization	10,705	25		17,565	176,306
Total noncurrent assets	722,195	133,019	55,794	2,621,170	6,485,430
Total assets	857,222	162,788	87,014	3,330,936	7,916,627
Liabilities					
Current liabilities:					
Cash overdraft				242	242
Accounts payable	27,145	7,559	8,423	13,987	102,107
Due to primary government		1,556		97	2,271
Due to other component units				227	227
Due to other governments				36,030	36,030
Accrued liabilities				67	67
Deferred revenue	15,278	1,873	2,929	11,557	39,923
Other liabilities	845	5,025	1,251	24,610	329,980
Current portion of long-term debt	9,478	4,605	4,424	64,974	218,593
Total current liabilities	52,746	20,618	17,027	151,791	729,440
Noncurrent liabilities:					
Due to primary government		16,365			35,421
Due to other governments				322,540	322,540
Due to other component units				2,837	2,837
Deferred revenue				1,072	8,246
Notes payable		1,531	27		17,549
Loans payable	1,325			250,756	275,919
Obligations under capital leases	8,570		1,428	127	10,189
Net OPEB obligation					28,496
Other liabilities	12,793	3,962		11,804	121,222
Compensated absences	18,191	2,076	644	485	22,710
Bonds payable	245,801	19,618	1,964	1,545,412	3,685,238
Total noncurrent liabilities	286,680	43,552	4,063	2,135,033	4,530,367
Total liabilities	339,426	64,170	21,090	2,286,824	5,259,807
Net assets					
Invested in capital assets, net of related debt	312,789	67,036	43,632	350,794	1,313,794
Restricted for:					
Debt				119,561	351,406
Other	50,131	4,227	3,195	429,353	538,700
Other nonexpendable	79,323	15,274			97,102
Unrestricted	75,553	12,081	19,097	144,404	355,818
Total net assets	$ 517,796	$ 98,618	$ 65,924	$ 1,044,112	$ 2,656,820

(Concluded)

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

State of Rhode Island and Providence Plantations
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Component Units
For the Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

	RIHMFC	RIEDC	RIRRC	RIPTA
Operating revenues:				
Charges for services	$ 10,183	$ 59,224	$ 49,165	$ 29,499
Interest income on loans	84,825	657		
Investment income (net)	11,292			
Other operating income		2,884	2,757	1,590
Total operating revenues	106,300	62,765	51,922	31,089
Operating expenses:				
Personal services	14,699	23,367	12,217	73,396
Supplies, materials, and services	4,383	14,790	17,115	23,609
Interest expense	65,386			
Grants, scholarships and contract programs	8,499	1,797	1,969	
Depreciation, depletion and amortization	2,526	21,170	10,400	12,674
Other operating expenses	6,105	2,602	1,111	5,149
Total operating expenses	101,598	63,726	42,812	114,828
Operating income (loss)	4,702	(961)	9,110	(83,739)
Nonoperating revenues (expenses):				
Interest revenue		4,023	1,040	55
Grants		6,429		24,373
Payments (to) from primary government		16,501		41,025
Gain (loss) on sale of property		62	(10,564)	(5)
Interest expense		(16,440)	(685)	(483)
Investment income (net)				
Other nonoperating revenue (expenses)		(10,497)		3,341
Total nonoperating revenue (expenses)		78	(10,209)	68,306
Income (loss) before contributions	4,702	(883)	(1,099)	(15,433)
Capital contributions		1,090		50,812
Change in net assets	4,702	207	(1,099)	35,379
Total net assets - beginning as restated	285,641	448,263	69,140	88,137
Total net assets - ending	$ 290,343	$ 448,470	$ 68,041	$ 123,516

(continued)

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

State of Rhode Island and Providence Plantations
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Component Units
For the Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

	URI	RIC	CCRI	Other Component Units	Totals
Operating revenues:					
Charges for services	$ 281,600	$ 66,406	$ 31,357	$ 118,686	$ 646,120
Interest income on loans				56,905	142,387
Investment income (net)				7,353	18,645
Other operating income	110,814	28,172	41,590	16,849	204,656
Total operating revenues	392,414	94,578	72,947	199,793	1,011,808
Operating expenses:					
Personal services	265,222	93,440	91,656	35,026	609,023
Supplies, materials, and services	120,252	23,241	10,295	32,792	246,477
Interest expense				47,387	112,773
Grants, scholarships and contract programs	29,119	6,792	6,489	15,979	70,644
Depreciation, depletion and amortization	23,447	6,103	3,481	16,750	96,551
Other operating expenses	7,376		105	14,625	37,073
Total operating expenses	445,416	129,576	112,026	162,559	1,172,541
Operating income (loss)	(53,002)	(34,998)	(39,079)	37,234	(160,733)
Nonoperating revenues (expenses):					
Interest revenue				1,414	6,532
Grants		2,427		49,343	82,572
Payments (to) from primary government	56,619	37,568	42,884	7,777	202,374
Gain (loss) on sale of property				151	(10,356)
Interest expense	(8,559)	(1,790)	(180)	(12,481)	(40,618)
Investment income (net)	13,631	3,573	486	1	17,691
Other nonoperating revenue (expenses)	18,623	3,537	1,669	18,887	35,560
Total nonoperating revenue (expenses)	80,314	45,315	44,859	65,092	293,755
Income (loss) before contributions	27,312	10,317	5,780	102,326	133,022
Capital contributions	31,061	3,878	4,581	4,043	95,465
Change in net assets	58,373	14,195	10,361	106,369	228,487
Total net assets - beginning as restated	459,423	84,423	55,563	937,743	2,428,333
Total net assets - ending	$ 517,796	$ 98,618	$ 65,924	$ 1,044,112	$ 2,656,820

(Concluded)

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

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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, and the State university and colleges 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.

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 distinguishes between major and nonmajor component units based upon several quantitative and qualitative factors including the total assets, net assets and revenues of each component unit as well as the significance of transactions between the component unit and the primary government. Discretely presented component units, grouped by major and nonmajor categories, are as follows:

Major Component Units

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.

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 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 State and federal 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 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.

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.

Nonmajor Component Units

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.

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. 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 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 that are 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 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 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 College Crusade of Rhode Island, The 134 Center, Suite 111, 134 Thurbers Avenue, Providence, RI 02905.

Related Organization

Central Falls School District

The Central Falls School District ("District") is governed by a seven member board of trustees that is appointed by the State's Board of Regents for Elementary and Secondary Education ("Board"). In addition, the Commissioner of Education and the Board also have authority over the development and approval of the District's operating budget. The District is considered legally part of the City of Central Falls and is included in the City's financial statements.

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 resources and the earnings thereon, which are used for the promotion and support of public education.

Proprietary Fund Types

Internal Service Funds **-** These funds account for, among other things, employee 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 and Other Post Employment Benefit Trust Funds

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

Other Post Employment Benefit (OPEB) Trust Funds - These funds account for the activities of the Rhode Island State Employees' and Electing Teachers OPEB System, which accumulate resources for other post employment 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.

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. It also 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.

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 Veterans' Memorial Auditorium Arts and Cultural Center located in Providence.

Employment Security Fund

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

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 thousand	3 - 10 years
Intangibles	$1 million	5 years
Infrastructure	$1 million	7 - 75 years

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

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

Depreciation and amortization are recorded in the government-wide financial statements, proprietary funds, fiduciary funds and component unit financial statements. Capital assets of the primary government 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. Also, an additional category of leave obligation has been established as a result of pay reductions taken by certain classes of employees. For governmental fund types, such obligations are recognized when paid. For proprietary fund types, they are recorded as fund liabilities when earned.

P. Other Assets and Liabilities

Other assets primarily include prepaid expenditures for managed care capitation coverage under the State's Medical Assistance program. Contract provisions with the State's participating Health Maintenance Organizations require coverage amounts to be paid in advance of the month of coverage. Deposits required by contract with the State's healthcare claims administrator are also reported as other assets.

Other liabilities include 1) escrow deposits, accrued salary and fringe benefits for the governmental fund types; 2) accrued interest payable, accrued salaries, accrued vacation and sick leave for the proprietary fund types; and 3) escrow deposits, landfill closure costs, accrued expenses, and arbitrage and interest payable for the component units.

Q. Fund Balances

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

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

- Restricted – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by constitutional provisions, as is the case for the Budget Reserve and Cash Stabilization Fund, or (c) by law through enabling legislation enacted by the General Assembly.

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

- Assigned – amounts that are constrained by the State's intent that they be used for specific purposes. The intent is generally established by legislation enacted by the General Assembly and is implemented at the direction of the Governor. This is also the classification for residual funds in the State's special revenue funds.

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

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

R. Recently Issued Accounting Standards

During the fiscal year ended June 30, 2011, the State adopted the following new accounting standards issued by GASB:

> GASB 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. To implement this statement, the fund balance section of the balance sheet for the governmental funds was reorganized and additional disclosures have been included in the notes to the basic financial statements.

GASB Statement No. 59 – *Financial Instruments Omnibus* improved 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 accounting pronouncements in future years:

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.

GASB Statement No. 60 – *Accounting and Financial Reporting for Service Concession Arrangements*, effective for the State's fiscal year ending June 30, 2013.

GASB Statement No. 61 – *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, effective for the State's fiscal year ending June 30, 2013.

GASB Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for the State's fiscal year ending June 30, 2013.

GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for the State's fiscal year ending June 30, 2013.

GASB Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, effective for the State's fiscal year ending June 30, 2012.

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

S. Changes in Presentation

The GARVEE fund was a capital projects fund that was used to record certain bond issues and related transportation infrastructure expenditures. Since the last of these bond authorizations were issued in May 2009 and the majority of the designated construction projects have been completed, the GARVEE fund was merged into the IST fund for fiscal year 2011.

The State has elected to categorize discretely presented component units as major and nonmajor as part of the basic financial statements for fiscal year 2011.

Effective July 1, 2010, the State created the Rhode Island State Employees' and Electing Teachers OPEB System (the "System"). The System's financial statements are reported as Other Post Employment Benefit (OPEB) Trust Funds in the Fiduciary Funds within the State's basic financial statements. The System includes six separate plans to separately account for the administration of retiree health coverage for qualified State employees (including employees of certain component units), electing teachers, judges, state police officers, legislators, and certain employees of the Board of Governor's for Higher Education. During fiscal 2011, the State transferred residual net assets previously accumulated in internal service and agency funds to the System.

For fiscal 2011 the Lottery included <u>net</u> video terminal revenue in the financial statements as compared to <u>gross</u> video revenue and prize awards reported in the prior periods. Prior period amounts included in Management's Discussion and Analysis have been restated to conform to the new net presentation.

T. Change in Reporting Entity

The classification of the Central Falls School District was changed from a discretely presented component unit of the State to a related organization for fiscal 2011. The District is considered legally part of the City of Central Falls and is included in the City's financial statements.

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

A. Primary Government-Governmental and Business-Type Activities

Cash Deposits

At June 30, 2011, the carrying amount of the State's cash deposits was $358,665,000 and the bank balance was $374,144,000. 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 federal depository insurance and the deposits are a) uncollateralized, b) collateralized with securities held by the pledging financial institution, or c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name.

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the primary government were required to be collateralized at June 30, 2011 pursuant to this statutory provision. However, the Office of the General Treasurer instituted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the balance of uninsured deposits. Additionally, consistent with State Investment Commission guidelines, certain interest-bearing deposit accounts used as short-term investments are required to be collateralized at 102% of the outstanding balance.

Effective December 31, 2010, federal depository insurance provisions were amended to provide 100% insurance coverage to noninterest-bearing transaction accounts through December 31, 2012.

The following summarizes the State's exposure to custodial credit risk (expressed in thousands) for deposits at June 30, 2011 within the governmental and business type activities:

Bank balance	$ 374,144
Bank balance insured by federal depository insurance or collateralized by securities held by an independent third party custodian in the State's name	374,144
Uninsured and uncollateralized balance	$ 0

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.

The State's restricted investments, equaling $71,642,000, are held by the Tobacco Settlement Financing Corporation, a nonmajor governmental fund.

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, 2011 are as follows:

Investment Type	Fair Value	Investment Maturities (in Years) Less Than 1	1-5	6-10	More Than 10
U.S. Government Agency Securities	$ 19,026	$ 19,026	$ 0	$ 0	$ 0
Money Market Mutual Funds	232,138	$ 232,138	$ 0	$ 0	$ 0
Commercial Paper	52,616	52,616	0	0	0
Repurchase Agreements	2,091	2,091	0	0	0
	305,871	$ 305,871	$ 0	$ 0	$ 0

(71,642)	Restricted investments
234,229	Cash equivalents
358,666	Cash deposits
$ 592,895	Total cash and cash equivalents

	Statement of Net Assets
$ 581,860	Cash and cash equivalents
11,035	Restricted cash and cash equivalents
$ 592,895	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, 2011, 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)	$ 19,026		AAA	
Money Market Funds				
Black Rock Liquidity Funds: Fed Fund	43,664	Money Market	AAAm	31
Fidelity Institutional Money Market Funds Gvt. Port Class I	176,732	Money Market	AAAm	44
Fidelity Institutional Money Market Funds Gvt. Port Class III	11,584	Money Market	AAAm	44
Goldman Sachs Treasury Investment	7	Money Market	AAAm	25
Wells Fargo Advantage 100% Treasury Plus	151	Money Market	AAAm-G	50
Commercial Paper				
Silver Tower US Funding	14,602	Commercial Paper	A-1	
Banco Bilbao Vizcaya	38,014	Commercial Paper	A-1	
TOTAL	$ 303,780			

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, 2011 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	$ 14,974	$ 14,974	$ 0	$ 0	$ 0
Money Market Mutual Funds	129,193	129,193	0	0	0
Investment Contracts	5,011	5,011	0	0	0
Funds on deposit with fiscal agent	$ 149,178	$ 149,178	$ 0	$ 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)	$ 3,080	AAA	
Federal Home Loan Bank (FHLBank)	11,647	AAA	
Federal National Mortgage Association (Fannie Mae)	247	AAA	
Money Market Funds			
Dreyfus Treasury Prime Cash Management Fund	8,761	AAAm-G	56
Federated Govt. Obligation Tax Managed Fund	17,117	AAAm	44
Fidelity Institutional Money Market Funds Gvt. Port Class III	99,864	AAAm	44
JP Morgan US Govt. Money Market Fund Agency Class	2,423	AAAm	48
JP Morgan US 100% Treasury Securities Money Market Fund	1	AAAm-G	27
Wells Fargo Advantage 100% Treasury Money Market Fund	1,027	AAAm-G	50
Investment Contracts			
FSA Capital Management GIC	5,011		
TOTAL	$ 149,178		

Funds on deposit with fiscal agent also includes $1,517,000 held by the Federal Unemployment Insurance Trust Fund.

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
Money Market Funds	Black Rock Liquidity Funds: Fed Fund	$ 43,664	9.64%
Money Market Funds	Fidelity Institutional Money Market Funds Gvt. Port Class I	176,732	39.02%
Money Market Funds	Fidelity Institutional Money Market Funds Gvt. Port Class III	111,448	24.60%
Commercial Paper	Banco Bilbao Vizcaya	38,014	8.39%

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 (JRBT).

Cash Deposits and Cash Equivalents

At June 30, 2011, the carrying amount of the ERS cash deposits was $3,529,000 and the bank balance was $4,285,000. 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, $3,031,821 is covered by federal depository insurance and the remainder representing interest-bearing collateralized bank deposits totaling $1,253,398 is collateralized (102%) with U.S. Treasury and agencies held by a third party custodian.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the System's deposits were required to be collateralized at June 30, 2011 (excluding the collateralized interest-bearing deposits). However, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the deposit amounts that are not insured by federal depository insurance.

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 plan's 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, 2011 (expressed in thousands):

Investment Type	Fair Value
Cash Deposits	$ 15,000
Money Market Mutual Fund	819,602
U.S. Government Securities	508,163
U.S. Government Agency Securities	487,503
Collateralized Mortgage Obligations	23,389
Corporate Bonds	730,595
Domestic Equity Securities	101,112
International Equity Securities	15,893
Foreign Currencies	3,698
Commingled Funds - Domestic Equity	2,565,168
Commingled Funds - International Equity	1,328,371
Private Equity	606,555
Real Estate	
Limited Partnership	108,822
Commingled Funds	90,169
Real Estate Investment Trusts	45,157
	$ 7,449,197
Net investment receivable (payable)	(9,079)
Total	$ 7,440,118

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, 2011, 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, 2011 (expressed in thousands):

Investment Type		Fair Value	Effective Duration
U.S. Government Securities	$	508,163	4.70
U.S. Government Agency Securities		487,503	4.57
Collateralized Mortgage Obligations		23,389	7.67
Corporate Bonds		730,595	5.77
Total Fixed Income	$	1,749,650	5.15

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 33 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 (PO) strips in part to hedge against a rise in interest rates. Interest-only strips are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to prepayments 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, 2011 is as follows (expressed in thousands):

Quality Rating (1)	Collateralized Mortgage Obligations	U.S. Government Agency Obligations	Corporate Bonds
Aaa	$ 15,772	$ 487,503	$ 73,266
Aa	194		94,070
A	2,411		163,539
Baa	995		196,880
Ba	695		72,499
B	1,777		87,920
Caa	352		17,605
Ca			228
Not rated	1,193		24,588
Fair Value	$ 23,389	$ 487,503	$ 730,595

(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 the 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, 2011 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, 2011 (expressed in thousands), was as follows:

Currency	Commingled Fund	Foreign Cash	Equities	Private Equity	Total
Australian Dollar	$ 76,408	$ 245	$	$	$ 76,653
Brazilian Real	47,835				47,835
Canadian Dollar	103,999	120	363	13,254	117,736
Chilean Peso	5,461				5,461
Colombian Peso	2,605				2,605
Czech Koruna	1,242				1,242
Danish Krone	9,863				9,863
Egyptian Pound	1,038				1,038
Euro Currency	279,774	2,040	3,148	97,860	382,822
Hong Kong Dollar	77,682	74	5,883		83,639
Hungarian Forint	1,364				1,364
Indian Rupee	27,324				27,324
Indonesian Rupiah	8,236				8,236
Israeli Shekel	6,495				6,495
Japanese Yen	179,011	819	4,487		184,317
Malaysian Ringitt	11,811				11,811
Mexican Peso	15,310				15,310
Moroccan Dirham	439				439
New Russian Ruble	59				59
New Taiwan Dollar	32,922				32,922
New Zealand Dollar	936				936
Norwegian Krone	8,097				8,097
Philippine Peso	3,493				3,493
Polish Zloty	5,754				5,754
Pound Sterling	188,251	359			188,610
Singapore Dollar	14,977				14,977
South African Rand	21,071				21,071
South Korean Won	39,338				39,338
Sri Lanka Rupee	525				525
Swedish Krona	28,162	41	2,012	114	30,329
Swiss Franc	74,136				74,136
Thailand Baht	5,468				5,468
Turkish Lira	4,952				4,952
Total	$ 1,284,038	$ 3,698	$ 15,893	$ 111,228	$ 1,414,857
US Dollar	44,333				
Commingled Fund	$ 1,328,371				

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.

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, 2011 (expressed in thousands):

Investment Derivative Instruments	Change in fair value included in investment income	Fair value at June 30, 2011		Notional amount
Equity options written	$ 139	$		$
Fixed income futures - long	8,916			260,533
Foreign currency forward contracts	(1,089)	259	(a)	(1,908)
Index futures - long	1,973			2,302
Index futures - short	(18,622)			(9,740)
Warrants	8	33		33
	$ (8,675)	$ 292		

(a) - Foreign Currency Forward Contracts

Pending receivable	$ 395
Pending payable	(136)
Foreign currency forward contract asset (liability)	$ 259

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, 2011 was $395,000. 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.

D. OPEB Trust Funds

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

Cash Deposits and Cash Equivalents

At June 30, 2011, the carrying amount of the OPEB System's cash deposits and the bank balance were both $2,477,000. The bank and book balances represent the OPEB System's deposits in short-term trust accounts, which include demand deposit accounts and interest-bearing, collateralized bank deposit accounts.

Investments

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

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

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

The following table presents the fair value of investments by type that are held within the pooled trust at June 30, 2011 (expressed in thousands):

Investment Type		Fair Value
U.S. Government Securities	$	1,524
Corporate Bonds		3,203
Money Market Mutual Fund		13,727
Commingled Funds - Domestic Equity		7,168
	$	25,622
Net investment receivable (payable)		(3,213)
Total	$	22,409

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

Interest Rate Risk

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

The following table shows the OPEB System's fixed income investments by type, fair value and the effective duration at June 30, 2011 (expressed in thousands):

Investment Type		Fair Value	Effective Duration
U.S. Government Securities	$	1,524	5.43
Corporate Bonds		3,203	5.92
Total Fixed Income	$	4,727	5.76

The OPEB System's investments in State Street Institutional Liquid Reserves, a money market mutual fund, had an average maturity of 33 days at June 30, 2011.

Credit Risk

The OPEB System generally manages exposure to credit risk by adhering to an overall target weighted average credit quality for the portfolio. At June 30, 2011, all debt securities were U.S. Government Obligations and corporate bonds.

The OPEB System's exposure to credit risk on corporate bonds as of June 30, 2011 is as follows (expressed in thousands):

Quality Rating (1)	U.S. Government Obligations	Corporate Bonds
Aaa	$ 1,524	
Aa		$ 372
A		991
Baa		1,743
Ba		97
Fair Value	$ 1,524	$ 3,203

(1) Moody's Investors Service

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

Concentration of Credit Risk

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

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the OPEB System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2011, all securities were registered in the name of the OPEB System (or in the nominee name of its custodial agent) and were held in the possession of its custodial bank, State Street Bank and Trust Co.

E. Private Purpose Trust

The private purpose trust (Touro Jewish Synagogue) had investments of $2,113,653 in the Fidelity Balanced Fund.

F. Agency Funds

At June 30, 2011, the carrying amount of the State's cash deposits within the agency funds was $14,501,000 and the bank balance was $13,917,000. 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 federal depository insurance and the deposits are a) uncollateralized, b) collateralized with securities held by the pledging financial institution, or c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name.

The following summarizes the State's exposure to custodial credit risk for deposits at June 30, 2011 within the agency funds (expressed in thousands):

Bank balance	$ 13,917
Bank balance insured by federal depository insurance or collateralized by securities held by an independent third party custodian	13,917
Uninsured and uncollateralized balance	$ 0

Note 3. Receivables

Receivables at June 30, 2011 (expressed in thousands) consist of the following:

Primary Government	Taxes Receivable	Accounts Receivable	Notes and Loans Receivable	Total Receivables, Net	Due from Other Governments and Agencies	Due from Component Units
Governmental receivables	$ 426,442	$ 317,549	$ 1,000	$ 744,991	$ 150,098	$ 37,692
Less: Allowance for Uncollectibles	86,233	96,000		182,233		
Governmental receivables, net	340,209	221,549	1,000	562,758	150,098	37,692
Business-type receivables	68,316	25,084		93,400	1,828	
Less: Allowance for Uncollectibles	4,703	16,590		21,293		
Business-type receivables, net	63,613	8,494		72,107	1,828	
Receivables, Net of Allowance for Uncollectibles	403,822	230,043	1,000	634,865	151,926	37,692
Less: Current Portion						
Governmental receivables	332,600	213,966	1,000	547,566	144,978	2,271
Business-type receivables	63,613	8,494		72,107	1,828	
Noncurrent Receivables, Net	$ 7,609	$ 7,583	$	$ 15,192	$ 5,120	$ 35,421

Note 4. Intra-Entity Receivables and Payables

Intra-entity receivables and payables as of June 30, 2011 are the result of ongoing operations and are expected to be reimbursed within the subsequent fiscal year. They are summarized below (expressed in thousands):

	Interfund Receivable	Interfund Payable	Description
Governmental Funds			
Major Funds			
General	$ 32,519	$	Loans to other funds
Intermodal Surface Transportation	586		Transportation funding
Non-Major Funds			
RI Temporary Disability Insurance		575	Debt service and administrative costs
Bond Capital		8,854	State match for transportation
RI Capital Plan		25,010	Excess transfer owed to General Fund
RI Historic Tax Credit	1,576		Tax credit fees owed to fund
Certificates of Participation	1,198		Fees restricted for COPS debt service
Total Non-Major Funds	2,774	34,439	
Total Governmental	35,879	34,439	
Proprietary Funds			
Enterprise			
RI Lottery		3,067	Net income owed to General Fund
Employment Security Trust	3,118		Benefit reimbursements
Total Enterprise	3,118	3,067	
Internal Service	412	1,903	Settlement of services rendered
Total primary government	$ 39,409	$ 39,409	

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 *	$ 349,811	$ 2,109	$ (47)	$ 351,873
Works of Art	422	861		1,283
Intangibles	151,076	4,130		155,206
Construction in progress *	463,964	215,672	(252,177)	427,459
Total capital assets not being depreciated or amortized	965,273	222,772	(252,224)	935,821
Capital assets being depreciated or amortized:				
Land improvements	3,700			3,700
Buildings *	587,448	61,667	(4,729)	644,386
Building Improvements	210,608	49,458		260,066
Furniture and equipment	235,227	11,836	(4,715)	242,348
Intangibles	11,986	2,063		14,049
Infrastructure *	2,811,359	245,277	(106,921)	2,949,715
Total capital assets being depreciated or amortized	3,860,328	370,301	(116,365)	4,114,264
Less accumulated depreciation or amortization for:				
Land improvements	3,233	95		3,328
Buildings *	191,319	12,019	(3,178)	200,160
Building Improvements	159,471	8,576		168,047
Furniture and equipment	200,205	16,220	(4,784)	211,641
Intangibles	6,614	4,221		10,835
Infrastructure *	1,231,178	94,876		1,326,054
Total accumulated depreciation or amortization	1,792,020	136,007	(7,962)	1,920,065
Total capital assets being depreciated or amortized, net	2,068,308	234,294	(108,403)	2,194,199
Governmental activities capital assets, net	$ 3,033,581	$ 457,066	$ (360,627)	$ 3,130,020

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

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

General government	$ 11,848
Human services	8,146
Education	3,105
Public safety	11,862
Natural resources	3,680
Transportation	97,366
Total depreciation or amortization expense - governmental activities	$ 136,007

Business-type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 45,558	$	$	$ 45,558
Construction in progress	649	148	(643)	154
Total capital assets not being depreciated	46,207	148	(643)	45,712
Capital assets being depreciated:				
Buildings	234,086	44		234,130
Machinery and equipment	22,943	2,172	(159)	24,956
Total capital assets being depreciated	257,029	2,216	(159)	259,086
Less accumulated depreciation	106,953	10,884	(159)	117,678
Total capital assets being depreciated, net	150,076	(8,668)		141,408
Business-type activities capital assets, net	$ 196,283	$ (8,520)	$ (643)	$ 187,120

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land *	$ 112,181	$ 3,055	$ (272)	$ 114,964
Construction in progress *	417,423	160,082	(247,570)	329,935
Other	250			250
Total capital assets not being depreciated or amortized	529,854	163,137	(247,842)	445,149
Capital assets being depreciated or amortized:				
Buildings *	1,528,400	215,227	(5,684)	1,737,943
Land improvements *	183,704	9,810	(18,539)	174,975
Machinery and equipment	313,869	74,942	(24,244)	364,567
Intangibles	4,100			4,100
Infrastructure	642,983	20,603		663,586
Total capital assets being depreciated or amortized	2,673,056	320,582	(48,467)	2,945,171
Less accumulated depreciation or amortization for:				
Buildings *	592,846	55,823	(2,401)	646,268
Land improvements	110,669	6,953	(11,530)	106,092
Machinery and equipment *	200,834	21,534	(22,709)	199,659
Intangibles	2,255	1,845		4,100
Infrastructure	103,542	10,940		114,482
Total accumulated depreciation or amortization	1,010,146	97,095	(36,640)	1,070,601
Total capital assets being depreciated or amortized, net	1,662,910	223,487	(11,827)	1,874,570
Total capital assets, net	$ 2,192,764	$ 386,624	$ (259,669)	$ 2,319,719

* Beginning balances have been restated.

Note 6. Long-Term Liabilities

A. Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2011 are presented in the following table:

(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)	$ 1,118,030	$	$ (68,630)	$ 1,049,400	$ 73,230	$ 976,170
RIEDC Grant Anticipation Revenue Bonds	400,515		(28,205)	372,310	29,590	342,720
RIEDC Rhode Island Motor Fuel Tax Revenue Bonds	77,645		(3,585)	74,060	3,710	70,350
Tobacco Settlement Asset-Backed Bonds	807,731		(12,570)	795,161		795,161
Accreted interest on TSFC bonds	37,369	14,341		51,710		51,710
RIEDC Historic Tax Credit Bonds	135,195		(14,375)	120,820	14,830	105,990
Net unamortized premium/discount	28,660	352	(6,777)	22,235		22,235
Deferred amount on refunding	(7,252)		508	(6,744)		(6,744)
Bonds Payable, net	2,597,893	14,693	(133,634)	2,478,952	121,360	2,357,592
Obligation under capital leases (see section E)	244,805		(20,760)	224,045	20,315	203,730
Net unamortized premium/discount	6,025	5	(979)	5,051		5,051
Deferred amount on refunding	(1,467)		267	(1,200)		(1,200)
Obligation under capital leases, net	249,363	5	(21,472)	227,896	20,315	207,581
Compensated absences	80,302	75,768	(66,801)	89,269	65,188	24,081
Net OPEB Obligation (see note 14 C)	36,212		(22,955)	13,257		13,257
Special obligation notes	19,450		(6,350)	13,100	4,925	8,175
Other Long-term Liabilities						
Arbitrage rebate	2,656		(2,656)			
Pollution remediation	20,121	3,455	(3,354)	20,222	2,823	17,399
Other	58,744	7,037	(8,288)	57,493	2,088	55,405
Total Governmental Long-term Liabilities	$ 3,064,741	$ 100,958	$ (265,510)	$ 2,900,189	$ 216,699	$ 2,683,490
Business-type Activities						
Revenue bonds (see section B)	$ 268,280	$	$ (8,660)	$ 259,620	$ 9,110	$ 250,510
Net unamortized premium/discount	1,096		(133)	963		963
Deferred amount on refunding	(12,082)		1,168	(10,914)		(10,914)
Revenue bonds, net	257,294		(7,625)	249,669	9,110	240,559
Notes payable	795		(188)	607	188	419
Net OPEB Obligation	139		(139)			
Deferred Revenue	8,125		(625)	7,500	625	6,875
Compensated absences	362	347	(275)	434	187	247
Due to Other Governments and Agencies (see Section J)	225,473	89,907	(93,028)	222,352		222,352
Other long-term liabilities	72		(72)			
Total Business-type Long-term Liabilities	$ 492,260	$ 90,254	$ (101,952)	$ 480,562	$ 10,110	$ 470,452
Component Units						
Bonds payable (see section B)	$ 4,089,778	$ 209,662	$ (529,772)	$ 3,769,668	$ 114,029	$ 3,655,639
Net unamortized premium/discount	40,716	2,398	(1,273)	41,841	105	41,736
Deferred amount on refunding	(13,375)		1,238	(12,137)		(12,137)
Bonds Payable, net	4,117,119	212,060	(529,807)	3,799,372	114,134	3,685,238
Notes payable (see section C)	80,357	289,078	(286,413)	83,022	65,473	17,549
Loans payable (see section D)	262,767	49,553	(17,470)	294,850	18,931	275,919
Obligations under capital leases	13,784	144	(1,990)	11,938	1,749	10,189
Net OPEB obligation	30,252	7,091	(8,847)	28,496		28,496
Compensated absences	30,328	3,522	(895)	32,955	10,245	22,710
Due to primary government	35,342	4,499	(2,149)	37,692	2,271	35,421
Due to Other Governments and Agencies	584,129		(225,559)	358,570	36,030	322,540
Deferred Revenue	42,234	6,214	(279)	48,169	39,923	8,246
Due to Component Units	3,782		(718)	3,064	227	2,837
Other Long-term liabilities						
Arbitrage rebate	18,427	1,290	(4,890)	14,827	45	14,782
Pollution remediation	18,598	14,361	(1,738)	31,221	1,835	29,386
Other liabilities	96,784	1,297	(14,845)	83,236	6,182	77,054
Total Component Units Long-term Liabilities	$ 5,333,903	$ 589,109	$ (1,095,600)	$ 4,827,412	$ 297,045	$ 4,530,367

Certain beginning balances of the component units have been reclassified to conform with the financial statement presentation.

B. Bonds Payable

At June 30, 2011, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government				Component Units	
	Governmental Activities		Business Type Activities			
	Principal	Interest	Principal	Interest	Principal	Interest
2012	$ 121,360	$ 115,176	$ 9,110	$ 14,030	$ 114,029	$ 147,257
2013	146,480	108,679	9,570	13,565	119,073	143,210
2014	128,775	102,261	10,060	13,075	117,943	138,512
2015	138,585	96,050	10,550	12,535	135,832	133,368
2016	137,825	89,536	11,095	11,983	146,026	128,539
2017 - 2021	600,435	349,555	64,390	50,899	670,095	555,329
2022 - 2026	319,855	233,244	82,745	32,360	682,523	398,667
2027 - 2031	81,470	176,641	38,200	12,412	655,075	253,674
2032 - 2036	168,260	131,615	23,900	3,727	504,825	135,084
2037 - 2041		116,156			405,900	49,555
2042 - 2046	371,700	34,847			140,805	17,652
2047 - 2051					76,465	3,818
2052 - 2056	197,006	2,637,174 *			1,077	16
	$ 2,411,751	$ 4,190,934	$ 259,620	$ 164,586	$ 3,769,668	$ 2,104,681

* 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.

At June 30, 2011, general obligation bonds authorized by the voters and unissued amounted to $262,000,000. 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.

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 - $84,700,000, ($31,980,000 issued subsequently to June 30, 2011 – see Note 18. Subsequent Events), (2) Economic Development Corporation – Job Creation Guaranty Program - $50,000,000 and (3) Economic Development Corporation – 195 Land Sales - $42,000,000.

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. Pledged revenues were sufficient to fund fiscal 2011 debt service payments for Grant Anticipation and Motor Fuel Tax Revenue Bonds. These revenues have been pledged for the term of the Grant Anticipation and Motor Fuel Tax Revenue Bonds through fiscal 2021 and 2027, respectively.

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, 2011, TSFC utilized $12,570,000 of excess collections to early redeem an equal amount of outstanding bonds. Pledged tobacco revenues were sufficient to fund fiscal 2011 debt service payments for Tobacco Settlement Asset-Backed bonds. These revenues have been pledged for the term of the underlying debt through fiscal 2052.

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

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, 2011, outstanding bond and note indebtedness totaled $260,227,000.

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 Dunkin Donuts 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 2011, the RICCA was unable to fund the Operating Reserve and Debt Service Reserve requirements. Also, RICCA was unable to fund the Renewal and Replacement component of the restrictive covenants for the Rhode Island Convention Center and the Dunkin Donuts Center pursuant to the indentures.

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. 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 $260,945,000 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 $38,157,000 for the year ended June 30, 2011. Principal and interest payments for the year ended June 30, 2011 were approximately $22,476,000.

RIAC has pledged facility revenues related to the InterLink Facility, net of specified operating expenses, to repay $48,765,000 in First Lien Special Facility Bonds. Proceeds from the bonds were used for the construction of the InterLink Facility. Facility revenues, including customer facility charges, were $6,138,000 for the year ended June 30, 2011. Interest paid for the year ended June 30, 2011 was approximately $2,418,000. Principal payments commenced on July 1, 2011. The InterLink Facility includes consolidated facilities for Airport rental car operations; a train platform to provide access for commuter rail service south to Wickford, Rhode Island and north to both Providence and Boston; and a parking garage for rental car operators and rail commuters.

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 InterLink 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 2012. 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 2012 with a final maturity in fiscal year 2042. Such repayments are payable solely from the net revenues derived from the InterLink Facility. As of June 30, 2011, RIAC had $23,838,000 in borrowings under this agreement.

Other Component Units

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

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, 2011 are as follows:

Note payable to R.I. Housing and Mortgage Finance Corporation - to provide financing for various affordable housing initiatives	$	3,485
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, 2012-2017		9,615
	$	13,100

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. Pledged revenues were sufficient to fund fiscal 2011 debt service payments for this special obligation note. These revenues have been pledged for the term of the note through fiscal 2017.

Discretely Presented Component Units

Notes payable (expressed in thousands) at June 30, 2011 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.	$	1,613
R.I. Housing and Mortgage Finance Corporation bank notes, 5.275% to 5.70% interest, payable through 2030.		23,610
R.I. Economic Development Corporation (Quonset Development Corporation) monthly payments of principal and interest through FY 2016 bearing interest at 5.00%.		1,322
R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 4.15% interest, payable through 2015		444
		26,989
Less: current portion		(9,440)
	$	17,549

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 $334,265,040.

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, 2011 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, 2011:

Fiscal Year Ending June 30	COPS
2012	$ 30,525
2013	29,465
2014	27,827
2015	27,153
2016	26,696
2017 - 2021	95,385
2022 - 2026	51,287
2027 - 2031	7,448
Total future minimum lease payments	295,786
Amount representing interest	(71,741)
Present value of future minimum lease payments	$ 224,045

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. At June 30, 2011, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	$ 131,840
R.I. Convention Center Authority	28,455
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	186,755
R.I. Economic Development Corporation	15,220
R.I. Turnpike and Bridge Authority	32,300
R.I. Clean Water Finance Agency	53,410

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, 2011 was $103,000,000, $2,850,675,000 and $1,122,000,000 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, 2011:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011
General Obligation Tax Anticipation Notes	$ 0	$ 350,000	$ 350,000	$ 0
RI Capital Plan Fund	78,648	65,562	144,210	0
Total Short-Term Borrowing	$ 78,648	$ 415,562	$ 494,210	$ 0

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

In addition, R.I. Housing & Mortgage Corporation had outstanding balances of $56,000,000 on two lines of credit that are payable on demand and accrue interest at rates ranging from 1.20% to 1.94%.

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 had borrowed $222,352,000 at June 30, 2011 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 was deferred through December 31, 2010; however, interest accrued beginning January 1, 2011 and is payable on October 1 of each year. It is expected that borrowing will continue in fiscal 2012.

The interest due on federal loans cannot be paid from employer taxes and federal revenue received by the State to pay unemployment benefits. In recent years, the General Assembly passed legislation increasing the Job Development Fund Assessment on employers by 0.3%, dedicating the additional assessment to pay the principal and interest on the federal loans. Other legislative changes, effective in fiscal 2012, include adjusting the unemployment insurance taxable wage base and reducing individual unemployment benefit amounts. Estimated savings from these changes are designed to reduce the amount owed to the federal government in future years.

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. A liability has been calculated for all earned vacation credits subject to certain limitations and vested sick leave credits that are payable at retirement subject to certain limitations. Payment is calculated at their current rate of pay.

L. Arbitrage Rebate

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

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 that are not expected to be paid in the subsequent fiscal period.

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

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

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

Note 7. Net Assets/Fund Balances

Governmental Activities

Restricted Net Assets

The Statement of Net Assets reflects $462,751,000 of restricted net assets, of which $218,505,000 is restricted by enabling legislation. The restricted net assets that are restricted by enabling legislation are included in the Temporary Disability 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

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

	Major Funds			
	General Fund	IST Fund	Other Funds	Total
Fund Balances:				
Nonspendable:				
Prepaids	$ 53,353	$	$	$ 53,353
Permanent Fund Principal			174	174
Restricted for:				
Budget Reserve and Cash Stabilization	130,293			130,293
Purposes specified by enabling legislation	66,178			66,178
Debt Service		12,195	71,645	83,840
Capital Projects			138,165	138,165
Temporary Disability Insurance			150,914	150,914
Historic Tax Credit Redemption			30,331	30,331
Transportation		123,115		123,115
Education			1,645	1,645
Other	1,414		241	1,655
Committed to:				
Appropriations Carried Forward by Statute:				
Judiciary	92			92
Legislature	3,842			3,842
Transportation		1,448		1,448
Other	2,022			2,022
Assigned to:				
Subsequent Years Expenditures	8,271			8,271
Other	154	85	199	438
Unassigned:	5,281	(5,043)		238
Totals	$ 270,900	$ 131,800	$ 393,314	$ 796,014

Article IX of the State Constitution requires the maintenance of a State Budget Reserve and Cash Stabilization Account ("Reserve") within the State's General Fund. Section 35-3 of the General Laws specifically establishes the annual minimum balance requirements for the account. For fiscal year 2011, 2.60% of total general revenues and opening surplus are transferred to the Reserve. Amounts in excess of 4.20% of total general revenues and opening surplus are transferred to the RI Capital Plan Fund to be used for capital projects. The Reserve, 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 year. Such appropriations must be approved by a majority of each chamber of the General Assembly.

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

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	$ 1,014,617	$ 1,014,528
General Business Taxes:		
Business Corporations	83,692	84,227
Public Utilities Gross Earnings	103,744	102,421
Financial Institutions	2,459	4,358
Insurance Companies	53,941	53,926
Bank Deposits	1,967	1,967
Health Care Provider Assessment	40,761	40,674
Sub-total - General Business Taxes	286,564	287,573
Sales and Use Taxes:		
Sales and Use	813,007	812,578
Motor Vehicle	47,655	47,659
Motor Fuel	1,055	1,177
Cigarettes	134,060	134,048
Alcoholic	11,683	11,683
Sub-total - Sales and Use Taxes	1,007,460	1,007,145
Other Taxes:		
Inheritance and Gift	46,855	46,999
Racing and Athletics	1,325	1,325
Realty Transfer	6,371	6,371
Sub-total - Other Taxes	54,551	54,695
Total - General Fund	2,363,192	2,363,941
Intermodal Surface Transportation Fund		
Gasoline	136,811	136,811
Other Governmental Funds	164,417	164,417
Total Taxes	$ 2,664,420	$ 2,665,169

Note 9. Operating Transfers

Operating transfers for the fiscal year ended June 30, 2011 are presented below (expressed in thousands):

	Transfers	Description
Governmental Activities		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	$ 44,013	Debt service and operating assistance
Nonmajor Funds		
RI Temporary Disability Insurance	1,742	Administrative cost reimbursement
Historic Tax Credit	14,190	Reimbursement for tax credits claimed
Bond Capital	3,437	Interest earnings transfer
Business-Type Activities		
Lottery	354,861	Net income transfer
Employment Security	6,408	Administrative cost reimbursement
Internal Service	3	Charges for Information Technology Services
Intermodal Surface Transportation		
Bond Capital	32,150	Infrastructure funding
Nonmajor Funds		
COPs		
General	2,052	Debt service reserve
RI Capital Plan		
General	84,645	Transfer statutory excess in budget reserve
RI Public Rail Corporation		
Intermodal Surface Transportation	1,728	Operating assistance
Total Governmental Activities	545,229	
Business-Type Activities		
Convention Center		
General	23,130	Debt service
Employment Security		
General	4,699	Administrative cost reimbursement
Assessed Fringe Benefits	2,254	Reimbursement for State employees' unemployment compensation
Total operating transfers primary government	$ 575,312	

Note 10. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately $11,616,000 for the fiscal year ended June 30, 2011.

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, 2011:

Fiscal Year Ending June 30	
2012	$ 10,285
2013	8,423
2014	8,223
2015	8,084
2016	6,058
2017 - 2021	5,878
Total	$ 46,951

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, 2011 are listed below (expressed in thousands):

Major funds		
General	$	10,799
IST		458,216
Total major funds		469,015
Other governmental funds		6,486
Total encumbrances outstanding	$	475,501

The primary government is committed at June 30, 2011 under various contractual obligations for infrastructure construction and other capital projects, which will be principally financed with debt 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, 2011 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 through fiscal year 2021 of an amount equal to the lesser of (a) two-thirds of the amount of sales tax generated from retail transactions occurring at or within the mall or (b) $3,680,000 in the first five years and $3,560,000 in years 6 through 20. In the year ended June 30, 2011, $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 $2,533,000 of the debt on the related economic development revenue bonds in fiscal year 2011. The State has commitments relating to this debt through fiscal year 2027.

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. UTGR and the Lottery extended the contract and signed the first five-year extension term commencing on July 18, 2010. The second term would commence on July 18, 2015. Certain extensions are contingent on UTGR's compliance with full-time employment mandates.

The First Amendment to the Master Contract provides for a promotional points program of up to 4% of the facility's prior year net terminal income. The general laws require a base of $750,000 to be expended before the previously authorized 4% of prior year net terminal income. The First Amendment requires the Lottery 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 (61.08% for fiscal 2011). The reimbursement of marketing expenses by the Lottery occurs only after UTGR has incurred $4 million in qualified marketing expenses (with marketing expenses defined by the Lottery) and is contingent on the State receiving net terminal income from UTGR at least equal to fiscal year 2009 amounts. These amounts were pro-rated on a partial year basis for fiscal year 2011.

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.

Newport Grand and the Lottery extended the contract and signed the first five-year extension term of the contract commencing on November 23, 2010. The second term, which would commence on November 23, 2015, is contingent on Newport Grand's compliance with full-time employment mandates specified in the 2010 law.

The First Amendment also provides for a promotional points program of up to 4% of the facility's prior year net terminal income and requires the Lottery 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 (61.69% for fiscal 2011). The reimbursement of marketing expenses by the State occurs only after Newport Grand has incurred $560,000 in qualified marketing expenses (with marketing expenses to be defined by the Lottery). These amounts are pro-rated on a partial year basis for fiscal year 2011. Additionally, the First Amendment provides an allocation of video lottery net terminal income to Newport Grand equal in percentage to that of UTGR.

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 liability insurance coverage 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.

Discretely Presented Component Units

R.I. Airport Corporation

The R.I. Airport Corporation (RIAC), a subsidiary and component unit of RIEDC, was obligated for completion of certain airport improvements under commitments of approximately $6,836,000, which are expected to be funded from current available resources and future operations. As of June 30, 2011, RIAC was also obligated for completion of the Warwick Intermodal Facility under commitments of approximately $20,853,000.

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 $57,211,199 as of June 30, 2011 has been recorded in the accompanying statement of net assets, as summarized by Phases below:

	Year ended June 30, 2011
Phase I	$ 10,124,584
Phase II and III	5,504,366
Phase IV	10,285,941
Phase V	31,296,308
	$ 57,211,199

The Corporation has received site approval for Phase VI from the State Planning Council and has been licensed by RIDEM.

As of June 30, 2011, 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 $484,678 and 95.5%, respectively. The corresponding amounts for Phase V are $12,678,178 and 71.2%, respectively. Estimated remaining years for accepting waste is less than one year for Phase IV and 3.5 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, 2011 is $41,075,529 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, 2011 is as follows:

Balance, June 30, 2010	Additions	Reductions	Balance, June 30, 2011	Current Portion
$ 18,599,143	$ 14,361,079	$ (1,737,815)	$ 31,222,407	$ 1,834,895

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 $41,981,365 as of June 30, 2011 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 $30,591,000 as of June 30, 2011.

<u>Other pollution remediation obligations:</u>

The Corporation is the owner of several properties adjacent to its landfill operations. The Corporation is obligated to remediate one of these parcels. The Corporation has recorded a liability for future remediation costs of approximately $632,000 as of June 30, 2011.

<u>Environmental concerns:</u>

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, 2011 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. Public Transit Authority

The R.I. Public Transit Authority is committed under construction contracts in the amount of $15,193,207 at June 30, 2011.

R.I. Industrial-Recreational Building Authority

At June 30, 2011, 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, 2011 are $20,779,093.

Other Component Units

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

Note 12. Contingencies

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.

Pension Reform Litigation

On May 12, 2010, unions, which represent State employees and teachers, filed a lawsuit against the State of Rhode Island challenging legislative changes made in 2009 to pension benefit provisions within the ERS plan for State employees and teachers. The lawsuit was later amended to include the 2010 legislative changes. Various parties have been named as defendants in the lawsuit including the System and the Board of Directors. The State is vigorously contesting the lawsuit.

The State filed a Motion for Summary Judgment which was heard on July 18, 2011. Prior to the hearing, the parties stipulated that the only issue that would be presented to the court during the hearing would concern whether the statute created a contract between the State and its participants. The parties agreed that in the event that the Court concluded that the statute did create a contract, the remaining issues of whether the contract had been impaired and whether any such impairment was legally justified would be argued at a later date. On September 13, 2011, the Superior Court issued its decision in which it ruled that pension plan participants have a contractual right based on an implied-in-fact contract theory. Consistent with the parties' stipulation, the Court did not decide whether that contract had been impaired or whether any such impairment was legally justified. The Defendants believe the Superior Court's ruling was legally wrong. On October 3, 2011, Defendants filed a Petition for Issuance of a Writ of Certiorari and Supporting Memorandum of law with the Rhode Island Supreme Court. Defendants also filed a motion through which they requested that the Supreme Court expedite its review of the Petition for Issuance of a Writ of Certiorari. On November 22, 2011, the Supreme Court denied the defendants' petition and the case will proceed in the Superior Court.

Management believes that the comprehensive pension reform legislation enacted on November 18, 2011 will likely prompt similar legal challenges from unions representing State employees and teachers.

Management cannot estimate the likelihood of loss to the State or the System, if any. If challenges to the statutory changes are successful, future contribution rates for the plans and the unfunded actuarial accrued liability could be materially impacted.

Transportation Related Litigation

The State has been sued by a contractor via a third party complaint relating to the construction of the I-Way Bridge spanning the Providence River (I-195). A subcontractor, Raito, Inc., was hired by the contractor, Cardi Corp., to, among other things, drill and install twenty-three shafts to allow for placement and construction of the I-Way Bridge. Raito claims that it is entitled to compensation for extra work performed and alleged unforeseen conditions encountered during its work. Raito's claims total approximately $11 million. The litigation is still in the discovery phase and the State cannot estimate the likelihood of loss to the State, if any.

In late 2009, Shire Corporation sued the Rhode Island Department of Transportation, the Rhode Island Department of Administration and several State employees. The complaint alleges that Shire suffered damages and losses over a period of years in several past and current projects and from bids it claims it did not receive. Shire claims damages of approximately $15,000,000. The State has denied the claim in its totality and will contest all damages.

Other

Separate claims have been made against the Rhode Island Department of Education by the Cranston School Department and the Chariho Regional School Committee alleging that they are owed reimbursement for certain expenses incurred by them in the operation of their respective area vocational-technical career centers. The Cranston School Department claims it is owed $7,166,656 for the amounts it paid for salaries of directors and guidance counselors from 1990 to the present and for the costs of building repairs from 1999 to the present at the Cranston Area Vocational Technical Center. The Chariho Regional School Committee claims it is owed $4,142,893 for amounts it paid for salaries of directors and guidance counselors from 1990 to the present at the Chariho Career and Technical Center. None of the other six school districts that operate regional vocational technical centers in the State have raised similar claims to date. The claims were assigned to a hearing officer at the Department of Education. On August 26, 2009, counsel for the Department filed a preliminary motion to dismiss on several legal grounds. That motion was granted and both claims were dismissed by the Commissioner on January 21, 2010. Both parties appealed to the Board of Regents. Cranston and Chariho filed their briefs with the Board of Regents on February 17, 2010. The Department submitted a reply brief, and the Board of Regents affirmed the dismissal. The Cranston School Department has filed both an Administrative Procedures Act appeal and a Petition for Writ of Mandamus in the Superior Court on the basis of these claims. The mandamus action has been appealed by petitioning the Supreme Court for the issuance of a Writ of Certiorari, which was granted. The matter is scheduled for a Mediation Conference. If a settlement does not result, full briefs will be due within 40 days without extension. The aggregate sums demanded by the school districts is approximately $22 million.

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.

The Securities and Exchange Commission has opened a non-public formal investigation into the disclosures by the State regarding ERSRI. The State is fully cooperating with the investigation.

Tobacco Settlement Financing Corporation

According to the Master Settlement Agreement ("MSA"), for any year in which the Participating Manufacturers ("PMs") suffer a loss of market share of more than two percent as compared to their collective market share in 1997, there is the potential of a Non-Participating Manufacturer Adjustment ("NPM Adjustment" or "Adjustment") that would permit the PMs to reduce their MSA payments for that year. Whether such an adjustment is applicable depends on whether (1) an economic firm jointly selected by the Settling States and the PMs determines that the disadvantages experienced by the PMs as a result of the provisions of the MSA were a "significant factor" contributing to the market share loss ("Significant Factor Proceeding"), and (2) the State is found as not having diligently enforced its escrow statute.

For calendar years 2003, 2004, 2005 and 2006, there have been Significant Factor Proceedings in which the firm found in favor of the PMs. Settling States and the PMs are engaged in arbitration proceedings in connection with the issue of Diligent Enforcement for 2003 (Adjustment reported at $1.2 billion). Rhode Island's Diligent Enforcement for 2003 is no longer being challenged; however, many uncertainties remain concerning the resolution of the dispute regarding the 2003 NPM Adjustment. The resolution of the substance of such dispute could take years. In regards to future potential NPM Adjustments, such Adjustments could be as large as or exceed that of calendar year 2003. There will not be a Significant Factor Proceeding for 2007, 2008 and 2009. As for the Significant Factor proceedings for 2010, 2011 and 2012, no decision has been made.

In addition to NPM adjustment litigation, litigation has been filed alleging, among other claims, that the MSA violates provisions of the U.S. Constitution, state constitutions, federal antitrust and civil rights laws and state consumer protection laws. These actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. Such 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. 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 ruling, the Corporation may not have adequate financial resources to service its debt obligations.

Many of the tobacco manufacturers participating in the MSA have either withheld all or portions of their payments due or have remitted their payments to an escrow account, disputing the calculations of amounts due under the MSA (collectively "Disputed Payments"). These manufacturers assert that the calculations of the amounts due failed to recognize NPM Adjustments. The Corporation's share of these Disputed Payments is approximately $22 million. 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 Disputed Payments, they have not been recognized as revenue in the accompanying financial statements. The Corporation and the other affected parties are taking action, provided for in the MSA, to arrive at a resolution of such 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.

The Lottery's video lottery operations could be adversely impacted by Massachusetts legislation enacted in November 2011 to allow three casinos and one slot parlor in that state. If successful, and depending on the resulting location of the facilities within Massachusetts, video lottery revenues in Rhode Island could decrease. The Rhode Island General Assembly enacted legislation that calls for analysis of competitive casino gaming operations and a statewide referendum (November 2012) to allow casino style gaming at Twin River. Subsequently, the constitutionality of that legislation is being challenged by the Narragansett Indian Tribe. The State does not believe that the Tribe's lawsuit seeking a declaratory judgment will be successful.

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, 2010 was issued in March 2011. That report identified approximately $14.9 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 2011 Single Audit is in progress. It is anticipated that there will be additional questioned costs identified in that audit. The State's management believes that any disallowances of federal funding received by the State will not have a material impact on the State's financial statements.

Moral Obligation Bonds

Some component units issue bonds with bond indentures requiring capital reserve funds. Monies in a capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the 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, 2011, the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had $235,172,235 and $112,054,089 respectively, in "moral obligation" bonds outstanding.

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

Component Units

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 has had a significant impact on the Authority's 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, 2011, the Corporation may borrow up to a maximum of $40,000,000 under one revolving loan agreement expiring in November 2011, up to a maximum of $15,000,000 under a revolving loan agreement expiring in January 2012 and up to a maximum of $20,000,000 under a revolving loan agreement expiring in May 2013.

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, 2011 is $51,906,673.

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), which are 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. The report may be obtained by writing to the Employees' Retirement System, 50 Service Ave., Warwick, RI 02886.

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 wages, subject to required contributions, are earned for the performance of duties for covered employment. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Dividend income is recorded on the ex-dividend date. Investment transactions are recorded on a trade date basis. The gains or losses on foreign currency exchange contracts are included in income consistent with changes in the underlying exchange rates.

Method Used to Value Investments

Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale.

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

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

Commingled funds consist of institutional domestic equity index, international equity index, and real estate funds. 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 8.2% and 3.3%, respectively, of the total reported fair value of all ERSRI investments at June 30, 2011. Of the underlying holdings within private equity investments, approximately 11% 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 fiscal year ended June 30, 2011 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%	24.58%	16.19%
Plan members - state employees	8.75%	8.75%	8.75%
State contribution for teachers	7.32% and 7.76%		
Annual pension cost	$196,847	$3,787	$1,298
Contributions made - state employees	$126,561	$3,787	$1,298
Contributions made - teachers	$70,286		
Actuarial valuation date	June 30, 2008, restated	June 30, 2008	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	21 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	6/30/09	199,898	100%	0
	6/30/10	192,091	100%	0
	6/30/11	196,847	100%	0
State Police Retirement Benefits Trust	6/30/09	3,341	100%	0
	6/30/10	3,591	100%	0
	6/30/11	3,787	100%	0
Judicial Retirement Benefits Trust	6/30/09	1,700	100%	0
	6/30/10	1,181	100%	0
	6/30/11	1,298	100%	0

Funded Status and Funding Progress

The table below displays the funded status of each plan for the fiscal year ended June 30, 2010 (as restated to reflect the provisions of pension reform legislation enacted on November 18, 2011), 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	$ 2,532,090,798	$ 4,234,045,007	$ 1,701,954,209	59.80%	$ 630,246,973	270.00%
Teachers	3,873,118,262	6,265,273,231	2,392,154,969	61.80%	989,236,951	241.80%
SPRBT	65,760,284	73,048,680	7,288,396	90.00%	19,715,070	37.00%
JRBT	38,074,287	46,641,701	8,567,414	81.60%	7,461,120	114.80%

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, 2010 actuarial valuation (as restated to reflect the provisions of pension reform legislation enacted on November 18, 2011) follows:

	ERS			
	State Employees	Teachers	SPRBT	JRBT
Valuation Date	6/30/2010	6/30/2010	6/30/2010	6/30/2010
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	25 years	25 years	25 years	25 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	7.50%	7.50%	7.50%	7.50%
Projected Salary Increases	4.00% to 7.00%	4.00% to 12.75%	4.00% to 12.00%	4.00%
Inflation	2.75%	2.75%	2.75%	2.75%
Cost of Living Adjustments	COLA is equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% - the COLA is to be applied to the first $25,000 of benefits, indexed over time (see note 2 below). COLA is delayed until the later of Social Security eligibility age or 3 years after retirement except for State Police for which the COLA is delayed until the later of age 55 or 3 years after retirement.			

Note 1. Within the Entry Age Normal Actuarial Cost Method, the Individual Entry Age Cost Methodology is used.

Note 2. Cost of Living Adjustments (COLA) in member benefit provisions prior to the enactment of pension reform legislation on November 18, 2011 will remain in effect through June 30, 2012.

A COLA of 2% is assumed only every five years until the plans achieve an 80% collective funded status in accordance with the law. It is assumed that the plans will not achieve the targeted 80% funded status for 19 years.

The June 30, 2010 valuations (as restated to reflect the provisions of pension reform legislation enacted on November 18, 2011) reflect comprehensive changes to plan member benefit provisions which are effective beginning July 1, 2012. The June 30, 2010 valuations also reflect material changes to certain actuarial assumptions.

The revised member benefit provisions become effective on July 1, 2012. These include changes in service period accrual rates, retirement eligibility age, and future cost of living adjustments. Additionally, the unfunded accrued liability is now amortized over a twenty-five year period from June 30, 2010 compared to the 30 year period from June 30, 1999 employed in prior actuarial valuations.

The Individual Entry Age Cost Method is used in the June 30, 2010 actuarial valuations. Prior valuations utilized the Ultimate Normal Cost methodology where normal cost was determined based on the benefits applicable to new hires under the replacement benefit structure resulting from prior pension reform measures.

The annual investment rate of return was lowered from 8.25% to 7.5%.

The post-termination mortality rates for non-disabled state employees and members of the State Police and Judicial plans were previously based on the 1994 Group Annuity Mortality Tables. New mortality tables have been constructed and adopted with adjustments for these employees using the RP-2000 Combined Healthy for Males and Females with White Collar adjustments, projected with Scale AA from 2000 for non-disabled individuals.

The post-termination mortality rates used for non-disabled teachers in the June 30, 2009 and June 30, 2010 valuations were both based on tables developed by ERSRI's actuary based on teacher experience. The rates used in the June 30, 2010 valuation for male teachers were lowered to 97% of the rates in these tables based on male teacher experience, projected with Scale AA from 2000 from 100% of the actuary's table based on male teacher experience used in the June 30, 2009 valuation. The rates used in the June 30, 2010 valuation for female teachers were lowered to 92% of the rates used in the actuary's tables based on female teacher experience, projected with Scale AA from 2000 from 95% of the actuary's table based on female teacher experience used in the June 30, 2009 valuation.

The post-termination mortality rates for disabled members of all ERSRI plans are based on the PBGC table Va for males and table VIa for females. The rates used in the June 30, 2010 valuation for disabled males eligible for social security disability benefits were lowered to 60% of PBGC table Va from 65% of this table in the June 30, 2009 valuation. The rates used in the June 30, 2010 valuation for disabled females eligible for social security disability benefits were lowered to 60% of PBGC table VIa from 100% of this table in the June 30, 2009 valuation.

The pre-retirement mortality rates for all members of the ERSRI plans were previously based on the 1994 Group Annuity Mortality Tables. The rates used in the June 30, 2010 valuation for these employees were based on the RP-2000 Combined Tables with white collar adjustment for males and females. The tables were adjusted for each individual plan.

The inflation assumption rate was decreased from 3% to 2.75% and the projected salary increase assumptions were also decreased compared to the prior valuation. The assumption for cost of living adjustments subject to the Consumer Price Index (for those not eligible to retire on September 30, 2009) was decreased from 2.5% to 2.35%.

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 $15,573,000 during the year ended June 30, 2011.

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 2011 totaled $7,339,827. At January 1, 2011, the most recent valuation date, the total actuarial accrued liability was $102,331,744 and the actuarial value of assets was $67,178,156. The Authority contributed 100.00% of its annual pension cost for fiscal year 2011 and had a net pension obligation of $1,755,708 at June 30, 2011.

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

Note 14. Other Post-Employment Benefits

A. Plan Descriptions

The Rhode Island State Employees' and Electing Teachers OPEB System (the "System") acts as a common investment and administrative agent for other post employment benefits provided for the six groups/plans listed below:

- Certain state employees and employees of the following component units: Narragansett Bay Commission, RI Airport Corporation and RI Economic Development Corporation.
- Certain certified public school teachers
- Judges
- State police officers
- Legislators
- Certain employees of the Board of Governors for Higher Education (BOG)

Members of the System must meet the eligibility and services requirements set forth in the RI General Laws or other governing documents.

Although the assets of the six plans are commingled for investment purposes, each plan's assets are accounted for separately and may be used only for the payment of benefits to the members of that plan, in accordance with the terms of that plan.

The System's financial statements are included as Trust Funds within the Fiduciary Funds. The System is administered by the State of Rhode Island OPEB Board and was authorized, created and established under Chapter 36-12.1 of the RI General Laws. The Board was established under Chapter 36-12.1 as an independent board to hold and administer, in trust, the funds of the OPEB system. The Board began operations and the Trust was established effective July 1, 2010.

The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans and a description of the benefit structures. The report may be obtained by writing to the State Controller's Office, 1 Capitol Hill, Providence, RI 02903.

A summary of the principal provisions of the plans follow:

	State Employees and Teachers	Judicial	State Police	Legislators	BOG Plan
Plan type	Cost Sharing Multiple Employer	Single employer	Single employer	Single employer	Cost Sharing Multiple Employer
Eligibility	Members of ERS meeting eligibility criteria.	Retired judges.	Retired members of the State Police.	Retired legislators.	Members of the BOG Alternative Retirement Plan as defined in RI G.L. 16-17.1-1 and 2 meeting eligibility criteria.
Plan benefits	Retiree plan for members and dependents until Medicare eligible; subsequently eligible for Medicare supplement.	May purchase active employee plan for member and dependents until age 65. At 65 must enroll in Medicare supplement.	Active employee plan for member and dependents until age 65; at that age coverage ceases if Medicare eligible.	May purchase active employee plan for member and dependents until age 65. At 65 must enroll in Medicare supplement.	For employees retiring after June 21, 1998 the Board pays a portion of the post 65 Tier II benefits depending on the years of service and the retiree's age. Those employees who retired previously have different benefits which are discussed below.
Other	Retired teachers can purchase coverage for themselves and dependents at active or early retirement rate, as applicable until age 65. At 65 must enroll in Medicare supplement.				

RIGL Sections 16-17.1-1 and 2, 36-10-2, 36-12.1, 36-12-2.2 and 36-12-4 govern the provisions of the System, and they may be amended in the future by action of the General Assembly.

B. Funding Policy, Funding Status and Funding Progress

The contribution requirements of plan members, the State, and other participating employers are established and may be amended by the General Assembly.

In fiscal year 2011 the State and other participating employers were required by law to fund the plans on an actuarially determined basis. For the fiscal year ended June 30, 2011, the State and other participating employers paid $53,044,000 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, where applicable, less c) the ARC adjustment, where applicable (discounted present value of the OPEB liability at the beginning of the fiscal year). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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

	State Employees	Teachers	Judicial	State Police	Legislators	BOG
Date of Actuarial Valuation	06/30/07	06/30/07	06/30/07	06/30/07	06/30/07	06/30/09
Annual required contribution as a percent of payroll	6.74%	N/A	9.86%	25.67%	95.49%	2.69%
Annual required contribution	$ 41,120	$ 2,333	$ 986	$ 4,216	$ 1,520	$ 2,869
Plus: Interest on net OPEB obligation at beginning of year	0	NA	141	411	106	0
Less: Adjustment to ARC	0	NA	113	332	85	0
Annual OPEB cost	41,120	2,333	1,014	4,295	1,541	2,869
Participating State and/or other employer contributions	41,120	2,333	986	4,215	1,520	2,869
Increase in OPEB obligation	0	0	28	80	21	0
Net OPEB obligation at beginning of year	0	0	2,811	8,222	2,095	0
Net OPEB obligation at end of year	$ 0	$ 0	$ 2,839	$ 8,302	$ 2,116	$ 0

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation were as follows (dollar amounts expressed in thousands):

Plan	Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
State Employees	2009	$ 34,683	96.17%	$ -
	2010	45,852	73.07%	-
	2011	41,120	100.00%	-
Teachers	2009	2,180	100.00%	-
	2010	2,345	100.00%	-
	2011	2,333	100.00%	-
Judicial	2009	1,109	15.34%	1,853
	2010	1,131	15.33%	2,811
	2011	1,014	97.23%	2,839
State Police	2009	4,609	43.55%	5,850
	2010	4,640	48.88%	8,222
	2011	4,295	98.13%	8,302
Legislators	2009	298	48.40%	378
	2010	1,861	7.72%	2,095
	2011	1,541	98.62%	2,116
BOG	2009	1,572	77.00%	-
	2010	1,665	53.20%	-
	2011	2,869	100.00%	-

The Net OPEB Obligation for the State Employees and BOG plans has been restated for 2009 and 2010 due to the change in the plans' type from an agent multi-employer to cost sharing multi-employer plan.

The table below displays the funded status of each plan at June 30, 2009, the most recent actuarial valuation date (dollar amounts expressed in thousands):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
State Employees	$ 0	$ 673,640	$ 673,640	0.0%	$ 574,569	117.2%
Teachers	0	13,529	13,529	0.0%	n/a	n/a
Judicial	0	8,665	8,665	0.0%	9,395	92.2%
State Police	0	67,079	67,079	0.0%	16,725	401.1%
Legislators	0	11,752	11,752	0.0%	1,612	729.0%
BOG	0	47,704	47,704	0.0%	112,884	42.3%

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 substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in the actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plans by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not exceeding thirty years.

The Annual Required Contributions for fiscal year 2011 were determined based on the June 30, 2007 valuations for all plans except for the Board of Governors plan, which was based on the June 30, 2009 valuation.

As of the June 30, 2007 actuarial 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 as a level dollar amount over an 8-year period from June 30, 2007.

For the June 30, 2007 valuation the actuarial assumptions include a 3.566% discount rate, a health care cost trend assumption of 10% progressively declining to 4.5% after 7 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 most recent 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.

The most recent actuarial valuations of the plans were performed as of June 30, 2009. The actuarial methods and assumptions used in those valuations are summarized in the following table.

The following changes in actuarial assumptions were made between the June 30, 2007 and June 30, 2009 valuations. These changes include an increase in the investment return assumption from 3.566% to 5.00%, a change in the medical trend assumption from 10% decreasing to 4.5% in 7 years to 9% decreasing to 4.5% in 9 years. In addition, the wage inflation assumption was changed to 0% for two years before reverting to 4.5% to reflect the current economic environment.

The following table summarizes the actuarial methods and assumptions used in the most recent actuarial valuation:

Summary of Actuarial Methods and Assumptions as of June 30, 2009 Valuations

	Plan					
	State Employees	**Teachers**	**Judicial**	**State Police**	**Legislators**	**Board of Governors**
Valuation Date	June 30, 2009	June 30, 2009	June 30, 2009	June 30, 2009	June 30, 2009	June 30, 2009
Plan Type	Cost sharing multiple employer	Single Employer (1)	Single Employer	Single Employer	Single Employer	Cost sharing multiple employer
Actuarial Cost Method	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age
Amortization Method	Level Percent of Payroll – Closed	Level Dollar	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	27 years	6 years	27 years	27 years	27 years	27 years
Asset Valuation Method	Market	Market	Market	Market	Market	Market
Actuarial Assumptions						
Investment Rate of Return	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Projected Salary Increases	9.00% to 4.50%	13.25% to 4.50%	4.50%	12.50% to 4.50%	9.00% to 4.50%	9.00% to 4.50%
Valuation Health Care Cost Trend Rate	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019

Note 1 – The Teachers plan accounts for the Tier I subsidy funded by the State for Teachers electing to participate and retiring before October 1, 2008.

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 2011, 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, 2011 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	$ 19,855	$ 183,163	$ 186,947	$ 16,071

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

	Total Governmental Funds	Internal Service Funds	Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 35,879	$ 412	$ 36,291	$ (36,342)	$ (51)
Loans to other funds	15,937		15,937	(15,937)	
Total assets	$ 51,816	$ 412	$ 52,228	$ (52,279)	$ (51)
Liabilities					
Due to other funds	$ 34,439	$ 1,903	$ 36,342	$ (36,342)	$
Loans from other funds	13,227	2,710	15,937	(15,937)	
Total liabilities	$ 47,666	$ 4,613	$ 52,279	$ (52,279)	$
Program revenue					
General government	$	$ 263,215	$ 263,215	$ (263,215)	
Public safety		10,170	10,170	(10,170)	
Expenses					
General government		261,411	261,411	(261,411)	
Public safety		11,974	11,974	(11,974)	
Net revenue (expenses)	$	$	$	$	$
Transfers					
Operating transfers in	$ 545,229	$	$ 545,229	$ (214,043)	$ 331,186
Operating transfers out	(211,789)	(2,254)	(214,043)	214,043	
Operating transfers out considered other contributions by OPEB Trusts		(5,104)	(5,104)		(5,104)
Net transfers	$ 333,440	$ (7,358)	$ 326,082	$	$ 326,082

	Total Business-type Activities		Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 3,118	$	$ 3,118	$ (3,067)	$ 51
Total assets	$ 3,118	$	$ 3,118	$ (3,067)	$ 51
Liabilities					
Due to other funds	$ 3,067	$	$ 3,067	$ (3,067)	$
Total liabilities	$ 3,067	$	$ 3,067	$ (3,067)	$
Transfers					
Operating transfers in	$ 30,083	$	$ 30,083	$ (30,083)	$
Operating transfers out	(361,269)		(361,269)	30,083	(331,186)
Net transfers	$ (331,186)	$	$ (331,186)	$	$ (331,186)

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, 2011 were as follows:

Guaranteed loans outstanding at June 30, 2011	$	579,819,000
Guarantee claims paid during the year		16,458,000

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 and one-third to the State for all payments after September 2007. RIC will repay the State for the debt service paid on its behalf on a straight-line basis amortized over the remaining life of the bonds, which carry rates ranging from 3-5% and a life of nineteen years beginning in fiscal year 2009.

The Narragansett Bay Commission has approximately $334,000,000 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 97.4 percent of estimated general revenues. The remaining 2.6 percent is contributed to the Budget Reserve Account until such account equals 4.2 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

	(Revenue) Expense	Description
Governmental activities		
General		
R.I. Higher Education Assistance Authority	$ 7,320	Operating assistance
R.I. Economic Development Corporation	11,533	Operating and capital assistance
University of Rhode Island	56,859	Operating assistance
Rhode Island College	37,984	Operating assistance
Community College of Rhode Island	43,441	Operating assistance
R.I. Public Transit Authority	5,633	Operating assistance
IST		
R.I. Public Transit Authority	41,076	Operating assistance
Bond Capital		
University of Rhode Island	21,216	Construction, improvement or purchase of assets
R. I. Capital Plan		
University of Rhode Island	8,025	Construction, improvement or purchase of assets
Total Governmental Activities	$ 233,087	

E. Individual Fund Deficits

The following Internal Service Funds had cumulative fund deficits at June 30, 2011:

- Central Utilities ($253,000)
- State Telecommunications ($233,000)
- Records Center ($104,000)
- Capitol Police ($10,000)

The deficits will be eliminated through charges for services in fiscal year 2012.

F. Restatements – Net Assets and Fund Balances

		Governmental Activities	Discretely Presented Component Units	Governmental Funds (g)
Balances previously reported on June 30, 2010				
	Net assets	$ 972,714	$ 2,432,051	
	Fund balance			$ 883,711
Restatement to:				
(a)	Record federal reimbursement for expenditures incurred in prior years	5,504		5,504
(b)	Record disallowances of prior year federal program expenditures	(4,899)		(4,899)
(c)	Correct recording of capital assets owned by the State	3,233	(3,233)	
(d)	Change in reporting entity - Central Falls School District		(391)	
(e)	Expense previously recorded construction in progress	(16,483)		
(f)	Record depreciation on infrastructure assets placed into service in fiscal 2010	(1,673)		
	Other	(340)	(94)	
June 30, 2010 net assets/fund balance as restated		$ 958,056	$ 2,428,333	$ 884,316

(a) *Record federal reimbursement for expenditures incurred in prior years* - The State successfully submitted documentation supporting certain administrative costs associated with its Child Support Enforcement Program that were accepted by the U.S. Department of Health and Human Services' (DHHS) Division of Cost Allocation.

(b) *Record disallowances of prior year federal program expenditures* – The Centers for Medicare & Medicaid Services disallowed prior year transportation expenditures reimbursed through the State's Medicaid program based on a 2005 audit by the DHHS Office of Inspector General.

(c) *Correct recording of capital assets owned by the State* – The State recorded certain capital assets that were previously reported by the RI Public Telecommunications Authority, a discretely presented component unit. The underlying buildings and land were deemed to no longer qualify as capital assets of the component unit upon the expiration of the bargain purchase option stipulated in the entity's lease agreement with the State.

(d) *Change in reporting entity – Central Falls School District* - More fully described in Note 1(T).

(e) *Expense previously recorded construction in progress* – The State restated net assets for certain capital projects that were previously capitalized upon determination that they would not meet the State's capitalization threshold upon completion.

(f) *Record depreciation on infrastructure assets placed into service in fiscal 2010* – The State identified infrastructure assets substantially completed prior to June 30, 2010 that were not properly reflected as being placed into service at that date.

(g) *The State also restated fund balance between certain governmental funds to conform to the State's current year presentation. These restatements had no net effect on total fund balance reported for governmental funds in the State's financial statements.*

Note 18. Subsequent Events

Primary Government

Subsequent Events Related to Debt

In July 2011 the State issued $31,980,000 of Lease Participation Certificates. The proceeds will be used for a number of energy conservation projects at State facilities. The Certificates mature in 2012 through 2026.

In August 2011 the State issued $168,815,000 in General Obligation Bonds. The Series A bonds, in the amount of $145,035,000, mature in 2012 through 2031 and will be used for a variety of purposes including higher education facilities and transportation infrastructure projects. The Series B bonds, in the amount of $23,780,000, refunded previous general obligation issues.

The State sold $200 million of General Obligation Tax Anticipation Notes in October 2011. The notes bear interest at an effective interest rate of 0.3% and mature on June 29, 2012.

Subsequent Events Related to Pension Reform

The Rhode Island General Assembly enacted comprehensive pension reform legislation in November 2011. The objectives of the legislation include improving the funded status of the plans within the System and stabilizing the projected increase in required employer contributions.

The pension reform measures include:

- For General State and Municipal Employees and Teachers: changing the structure of the retirement program to a hybrid plan designed with a smaller defined benefit plan and a supplemental defined contribution plan.

- Changing the automatic cost of living adjustments (COLA) from a stated amount or CPI-based COLA to a formula contingent on the actual investment performance over time.

- Suspending COLA when the funded ratio is lower than 80%. The ERS, Judicial and State Police Plans will be aggregated to determine if the 80% funded ratio has been met. When the COLA is suspended based on funded status, potential periodic COLA are provided every five years.

- Reamortizing the unfunded actuarial accrued liability to 25 years from the current 19 year schedule.

- Preserving accumulated benefits earned by members (service credit multiplier) as of June 30, 2012.

- Aligning retirement eligibility ages to those for Social Security with a phased approach for those members who are vested (five years) as of June 30, 2012.

Changes in member benefit provision are effective on July 1, 2012.

Subsequent Events Related to Municipalities

The City of Central Falls, which was in State receivership, filed for federal bankruptcy protection in August 2011. On September 22, 2011, the bankruptcy counsel for the receiver filed a plan of debt adjustment and disclosure statement with the Court. The receiver is seeking to negotiate agreements with major affected parties. It is not known whether any consensus can be reached, how long the process will take, what the outcome will be or what impact the bankruptcy will have on the State as a whole.

A State fiscal overseer was appointed for the City of East Providence in November 2011, consistent with powers granted to the Department of Revenue by the RI General Laws. Subsequently, a budget commission was appointed in December 2011.

Subsequent Events - Other

In July 2011 the Governor signed into law an Act authorizing the sale of surplus property (real estate) created by the relocation of Interstate 195. The Act also creates the I-195 redevelopment district commission (the “Redevelopment Commission”). The seven-member commission is authorized to plan, implement, administer and oversee the redevelopment of the Interstate 195 surplus properties. The proceeds from the sale or lease of such surplus properties will be used to help finance the completion of the Interstate 195 relocation project. Also included in this legislation was authorization for RI Economic Development Corporation to issue bonds or other obligations not to exceed $42,000,000 to finance the acquisition by the Redevelopment Commission of the surplus land from the State. This financing, in combination with residual funds from the motor fuel proceeds, is expected to be sufficient to fund completion of the Interstate 195 relocation project and certain activities of the Redevelopment Commission. To the extent these resources are not sufficient to complete the project, other State and federal Transportation funds would be made available, which would impact the progress of other contemplated projects.

Legislation enacted during the 2011 General Assembly session created the Ocean State Investment Pool (Pool) which allows eligible governmental agencies to participate with the State in investing their liquid assets. The State Investment Commission has selected a vendor to administer and invest assets within the Pool. In subsequent fiscal years, the Pool will be reported as a fiduciary fund within the State's financial statements.

Subsequent to June 30, 2011, Standard & Poors Investors Service downgraded the rating assigned to direct obligations of the United States government from AAA to AA+. Direct United States government obligations held within the ERS and OPEB systems, were not considered to be exposed to credit risk based on ratings assigned as of that date.

Component Units

During September 2011, the Rhode Island Industrial-Recreational Building Authority (RIIRBA) was informed that the Obligor on a bond issue insured for $4.8 million as of June 30, 2011 had exceeded the authorized limit for its line of credit with its lender. As a result, the Obligor is in default under the terms of its agreement with RIIRBA. RIIRBA has approved the temporary subordination of collateral securing the debt to allow the lender to restructure the terms of its facility.

Subsequent to June 30, 2011, the R.I. Housing and Mortgage Finance Corporation (RIHMFC) issued and redeemed the following debt:

- On July 1, 2011 RIHMFC instructed its trustees to redeem the Homeownership Opportunity Bonds in the amount of $26,865,000.

- On September 29, 2011 RIHMFC issued Single Family Housing Bonds in the amount of $35,000,000.

- On September 29, 2011 RIHMFC issued Multi Family Housing Bonds in the amount of $19,140,000.

- On October 1, 2011 RIHMFC instructed its trustees to redeem the Homeownership Opportunity Bonds in the amount of $12,365,000 and Home Funding Bonds in the amount of $1,810,000.

- On December 1, 2011 RIHMFC instructed its trustees to redeem the Multi Family Housing Bonds in the amount of $3,420,000.

Subsequent to June 30, 2011 the Town of Johnston filed a Complaint against the Rhode Island Resource Recovery Corporation (RIRRC) alleging that odors emanating from RIRRC's Central Landfill located at 65 Shun Pike, in Johnston, Rhode Island have given rise to a public nuisance. Due to the recent filing of the Complaint, and the limited information currently available, management is unable to categorize the possibility of a future loss, if any, nor can management estimate the range of any possible loss with any reasonable accuracy. RIRRC has notified its pollution insurance carrier of a claim for loss under the policy and is awaiting notification from the carrier with respect to the extent of coverage available under said policy.

REQUIRED SUPPLEMENTARY INFORMATION

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, 2011
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Revenues:				
General Revenues:				
Personal Income Tax	$ 937,900	$ 1,003,600	$ 1,021,339	$ 17,739
General Business Taxes:				
Business Corporations	119,000	95,100	84,510	(10,590)
Public Utilities Gross Earnings	98,000	104,200	103,744	(456)
Financial Institutions	1,000	1,000	2,459	1,459
Insurance Companies	101,250	68,000	60,590	(7,410)
Bank Deposits	2,200	2,000	1,967	(33)
Health Care Provider Assessment	39,800	40,500	40,761	261
Sales and Use Taxes:				
Sales and Use	787,000	810,400	813,007	2,607
Motor Vehicle	48,500	51,500	47,655	(3,845)
Motor Fuel	1,000	1,100	1,055	(45)
Cigarettes	134,000	136,900	134,060	(2,840)
Alcohol	11,700	11,900	11,683	(217)
Other Taxes:				
Inheritance and Gift	27,600	49,700	46,855	(2,845)
Racing and Athletics	1,300	1,300	1,325	25
Realty Transfer Tax	6,900	6,400	6,371	(29)
Total Taxes *(1)*	2,317,150	2,383,600	2,377,381	(6,219)
Departmental Revenue	345,227	334,116	332,715	(1,401)
Total Taxes and Departmental Revenue	2,662,377	2,717,716	2,710,096	(7,620)
Other Sources:				
Other Miscellaneous	5,331	13,130	11,116	(2,014)
Lottery	346,939	353,037	354,861	1,824
Unclaimed Property	6,000	7,100	7,640	540
Total Other Sources	358,270	373,267	373,617	350
Total General Revenues	3,020,647	3,090,983	3,083,713	(7,270)
Federal Revenues	2,433,330	2,533,723	2,314,100	(219,623)
Restricted Revenues	178,105	179,307	174,192	(5,115)
Other Revenues	78,979	72,777	65,933	(6,844)
Total Revenues *(2)*	5,711,061	5,876,790	5,637,938	(238,852)
Expenditures *(4):*				
General government	711,180	751,906	670,655	81,251
Human services	3,106,097	3,091,597	3,009,098	82,499
Education	1,305,953	1,350,125	1,309,591	40,534
Public safety	414,836	458,578	428,687	29,891
Natural resources	94,466	107,805	71,812	35,993
Total Expenditures *(2)*	5,632,532	5,760,011	5,489,843	$ 270,168
Transfer of Excess Budget Reserve to RI Capital Fund			62,645	
Total Expenditures	$ 5,632,532	$ 5,760,011	5,552,488	
Change in Fund Balance			85,450	
Fund balance - beginning (as restated)			185,450	
Fund balance - ending			$ 270,900	

(continued)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Expenditures by Source:				
General Revenues	$ 2,942,119	$ 2,974,204	$ 2,956,153	$ 18,051
Federal Funds	2,433,329	2,533,723	2,315,558	218,165
Restricted Receipts	178,105	179,307	154,833	24,474
Other Funds	78,979	72,777	63,299	9,478
	$ 5,632,532	$ 5,760,011	$ 5,489,843	$ 270,168

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

Budgeted Surplus:

Total Revenue - Final Budget	$ 5,876,790	
Total Expenditures - Final Budget	5,760,011	
Final Budget - Projected Surplus (3)		$ 116,779
Final Budget and Actual - Results		
Total Revenues - Variance (Actual Revenue less than Budget)	$ (238,852)	
Total Expenditures - Variance (Actual Expenditures less than Budget)	270,168	
Surplus resulting from operations compared to final budget		$ 31,316
Total General Fund Surplus - Fiscal Year Ended June 30, 2011		$ 148,095
Less:Transfer of Excess Budget Reserve to RICAP Fund		(62,645)
Net Change in General Fund - Fund Balance		$ 85,450
Fund Balance, Beginning (as restated)		185,450
Fund Balance, Ending		$ 270,900

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 97.4% of estimated general revenue for the fiscal year ending June 30, 2011.

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

General government	$ 160,553
Education	22,042
	$ 182,595

(continued)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

Reconciliation of Fund Balance - Financial Reporting Perspective to Budgetary Perspective

	Fund Balance Reported in the Financial Statements	Budgetary Perspective: Fund Balance Not Available for Appropriation in Fiscal 2012		Budgetary Perspective: Fund Balance Available for Appropriation in Fiscal 2012	
Non-spendable	$ 53,353	$		$ 53,353	*(a)*
Restricted	197,885	197,885			
Committed	5,956	5,956			
Assigned	8,425	2,830	*(b)*	5,595	*(c)*
Unassigned	5,281			5,281	*(d)*
Total Fund Balance	$ 270,900	$ 206,671		$ 64,229	

(a) Prepaid expenses are considered nonspendable for financial reporting purposes but are a budgetary resource in the subsequent year.

(b) Assigned fund balance not available for appropriation in fiscal 2012 includes (1) centralized cost allocation surplus that requires offset through fiscal 2012 centralized charges and (2) general revenue appropriations carried forward by the Governor.

(c) Assigned fund balance available for appropriation in fiscal 2012 includes fiscal 2011 ending surplus amounts appropriated as resources in the 2012 enacted budget, and fund balance amounts encumbered at June 30, 2011.

(d) Remaining fund balance available for appropriation.

(concluded)

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, 2011
(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	$ 136,853	$ 137,363	$ 136,811	$ (552)
Departmental restricted revenue	1,000	1,000	371	(629)
Federal grants	318,808	347,775	227,235	(120,540)
Other revenues	13,732	2,600	2,317	(283)
Total revenues	470,393	488,738	366,734	(122,004)
Other financing sources:				
Operating transfers in			32,150	32,150
Total revenues and other financing sources	470,393	488,738	398,884	(89,854)
Expenditures:				
Central Management				
Gasoline Tax	1,305	695	781	(86)
Federal Funds	14,118	12,437	4,059	8,378
Total - Central Management	15,423	13,132	4,840	8,292
Management and Budget				
Gasoline Tax	1,653	705	425	280
Total - Management and Budget	1,653	705	425	280
Infrastructure - Engineering				
Gasoline Tax	51,869	51,857	53,109	(1,252)
State Infrastructure Bank	1,400			
Land Sale Revenue	18,206	2,000	1,368	632
Highway Logo Program	100			
Federal Funds	304,690	335,338	225,941	109,397
Restricted Receipts	1,000	1,000	188	812
Subtotal - Infrastructure - Engineering	377,265	390,195	280,606	109,589
State Match - FHWA			35,650	(35,650)
Total - Infrastructure - Engineering	377,265	390,195	316,256	73,939
Infrastructure - Maintenance				
Gasoline Tax	36,864	45,244	44,557	687
Outdoor Advertising	300	525		525
Radio System Upgrade	(6,304)			
Nonland Surplus	30	75		75
Total - Infrastructure - Maintenance	30,890	45,844	44,557	1,287
Total Expenditures	425,231	449,876	366,078	83,798
Other financing uses:				
Transfers to other funds				
Gas tax			39,857	
Other			15	
Total expenditures and other financing uses			405,950	
Net change in fund balance			(7,066)	
Fund balance - beginning			38,994	
Fund balance - ending (excluding GARVEE)			$ 31,928	

For financial statement presentation the GARVEE fund was merged into the IST fund. Only the IST fund is budgeted.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
Pension Trusts
June 30, 2011
(Expressed in Thousands)

Employees' Retirement System

Actuarial Valuation Date		Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2010	**	$ 6,405,209	$ 10,499,318	$ 4,094,109	61.0%	$ 1,619,484	252.8%
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%

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)
06/30/2010	**	$ 65,760	$ 73,049	$ 7,288	90.0%	$ 19,715	37.0%
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%

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)
06/30/2010	**	$ 38,074	$ 46,642	$ 8,567	81.6%	$ 7,461	114.8%
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%

* Restated

** Restated to reflect pension reform legislation enacted on November 18, 2011

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
Other Postemployment Benefits
June 30, 2011
(Expressed in Thousands)

State Employees Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2009	$ 0	$ 673,640	$ 673,640	0%	$ 574,569	117.2%
06/30/2007	0	679,538	679,538	0%	626,145	108.5%

Teachers Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2009	$ 0	$ 13,529	$ 13,529	0%	NA	NA
06/30/2007	0	10,243	10,243	0%	NA	NA

Judicial Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2009	$ 0	$ 8,665	$ 8,665	0%	$ 9,395	92.2%
06/30/2007	0	14,024	14,024	0%	9,888	141.8%

State Police Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2009	$ 0	$ 67,079	$ 67,079	0%	$ 16,725	401.1%
06/30/2007	0	54,620	54,620	0%	15,977	341.9%

Legislators Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2009	$ 0	$ 11,752	$ 11,752	0%	$ 1,612	729.0%
06/30/2007	0	29,764	29,764	0%	1,592	1869.6%

Board of Governors for Higher Education Health Care Insurance Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2009	$ 0	$ 47,704	$ 47,704	0%	$ 112,884	42.3%
06/30/2007	0	57,881	57,881	0%	110,092	52.6%

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

1. Actuarial Assumptions and Methods

The information presented in the required supplementary information schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation, June 30, 2010 (as restated to reflect the provisions of pension reform legislation enacted on November 18, 2011), follows:

	ERS			
	State Employees	Teachers	SPRBT	JRBT
Valuation Date	6/30/2010	6/30/2010	6/30/2010	6/30/2010
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	25 years	25 years	25 years	25 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	7.50%	7.50%	7.50%	7.50%
Projected Salary Increases	4.00% to 7.00%	4.00% to 12.75%	4.00% to 12.00%	4.00%
Inflation	2.75%	2.75%	2.75%	2.75%
Cost of Living Adjustments	COLA is equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% - the COLA is to be applied to the first $25,000 of benefits, indexed over time (see note 2 below). COLA is delayed until the later of Social Security eligibility age or 3 years after retirement except for State Police for which the COLA is delayed until the later of age 55 or 3 years after retirement.			

Note 1. Within the Entry Age Normal Actuarial Cost Method, the Individual Entry Age Cost Methodology is used.

Note 2. Cost of Living Adjustments (COLA) in member benefit provisions prior to the enactment of pension reform legislation on November 18, 2011 will remain in effect through June 30, 2012.

A COLA of 2% is assumed only every five years until the plans achieve an 80% collective funded status in accordance with the law. It is assumed that the plans will not achieve the targeted 80% funded status for 19 years.

2. Schedules of Funding Progress

Changes affecting the June 30, 2010 actuarial valuation *(as restated to reflect the provisions of pension reform legislation enacted on November 18, 2011)**:***

The June 30, 2010 valuations (as restated to reflect the provisions of pension reform legislation enacted on November 18, 2011) reflect comprehensive changes to plan member benefit provisions which are effective beginning July 1, 2012. The June 30, 2010 valuations also reflect material changes to certain actuarial assumptions.

The revised member benefit provisions become effective on July 1, 2012. These include changes in service period accrual rates, retirement eligibility age, and future cost of living adjustments. Additionally, the unfunded accrued liability is now amortized over a twenty-five year period from June 30, 2010 compared to the 30 year period from June 30, 1999 employed in prior actuarial valuations.

The Individual Entry Age Cost Method is used in the June 30, 2010 actuarial valuations. Prior valuations utilized the Ultimate Normal Cost methodology where normal cost was determined based on the benefits applicable to new hires under the replacement benefit structure resulting from prior pension reform measures.

The annual investment rate of return was lowered from 8.25% to 7.5%.

The post-termination mortality rates for non-disabled state employees and members of the MERS, State Police and Judicial plans were previously based on the 1994 Group Annuity Mortality Tables. New mortality tables have been constructed and adopted with adjustments for these employees using the RP-2000 Combined Healthy for Males and Females with White Collar adjustments, projected with Scale AA from 2000 for non-disabled individuals.

The post-termination mortality rates used for non-disabled teachers in the June 30, 2009 and June 30, 2010 valuations were both based on tables developed by ERSRI's actuary based on teacher experience. The rates used in the June 30, 2010 valuation for male teachers were lowered to 97% of the rates in these tables based on male teacher experience, projected with Scale AA from 2000 from 100% of the actuary's table based on male teacher experience used in the June 30, 2009 valuation. The rates used in the June 30, 2010 valuation for female teachers were lowered to 92% of the rates used in the actuary's tables based on female teacher experience, projected with Scale AA from 2000 from 95% of the actuary's table based on female teacher experience used in the June 30, 2009 valuation.

The post-termination mortality rates for disabled members of all ERSRI plans are based on the PBGC table Va for males and table VIa for females. The rates used in the June 30, 2010 valuation for disabled males eligible for social security disability benefits were lowered to 60% of PBGC table Va from 65% of this table in the June 30, 2009 valuation. The rates used in the June 30, 2010 valuation for disabled females eligible for social security disability benefits were lowered to 60% of PBGC table VIa from 100% of this table in the June 30, 2009 valuation.

The pre-retirement mortality rates for all members of the ERSRI plans were previously based on the 1994 Group Annuity Mortality Tables. The rates used in the June 30, 2010 valuation for these employees were based on the RP-2000 Combined Tables with white collar adjustment for males and females. The tables were adjusted for each individual plan.

The inflation assumption rate was decreased from 3% to 2.75% and the projected salary increase assumptions were also decreased compared to the prior valuation. The assumption for cost of living adjustments subject to the Consumer Price Index (for those not eligible to retire on September 30, 2009) was decreased from 2.5% to 2.35%.

Changes affecting the June 30, 2009 actuarial valuation:

The June 30, 2009 valuation for the Employees' Retirement System and the Judicial Retirement Benefit Trust reflects 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.

The changes enacted as a result of Article 16 of Chapter 23 of the 2010 Public Laws governing benefit provisions for the Employees' Retirement System and the Judicial Retirement Benefit Trust are reflected and were applied in determining the contributions rates for the fiscal years ended June 30, 2010 and June 30, 2011.

Changes affecting the June 30, 2008 actuarial valuation:

The June 30, 2008 valuation for the Employees' Retirement System and the Judicial Retirement 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 appointed after July 1, 2009.

The changes enacted as a result of Article 7 Substitute A to the laws governing benefits provisions for the Employees' Retirement System and the Judicial Retirement Benefit Trust are reflected and were applied in determining the contributions rates for the fiscal years ended June 30, 2009, June 30, 2010 and June 30, 2011.

Schedules of Funding Progress - Other Postemployment Benefits

1. Actuarial Assumptions and Methods

The information presented in the required supplementary information schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation, June 30, 2009, follows:

Summary of Actuarial Methods and Assumptions as of June 30, 2009 Valuations

	Plan					
	State Employees	**Teachers**	**Judicial**	**State Police**	**Legislators**	**Board of Governors**
Valuation Date	June 30, 2009	June 30, 2009	June 30, 2009	June 30, 2009	June 30, 2009	June 30, 2009
Plan Type	Cost sharing multiple employer	Single Employer (1)	Single Employer	Single Employer	Single Employer	Cost sharing multiple employer
Actuarial Cost Method	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age
Amortization Method	Level Percent of Payroll – Closed	Level Dollar	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	27 years	6 years	27 years	27 years	27 years	27 years
Asset Valuation Method	Market	Market	Market	Market	Market	Market
Actuarial Assumptions						
Investment Rate of Return	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Projected Salary Increases	9.00% to 4.50%	13.25% to 4.50%	4.50%	12.50% to 4.50%	9.00% to 4.50%	9.00% to 4.50%
Valuation Health Care Cost Trend Rate	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019

Note 1 – The Teachers plan accounts for the Tier I subsidy funded by the State for Teachers electing to participate and retiring before October 1, 2008.

2. Schedules of Funding Progress

Changes affecting the June 30, 2009 Actuarial Valuation:

With the creation of the trust effective July 1, 2010, the State Employees and Board of Governors plans met the requirements of cost-sharing multiple employer plans. These plans were previously considered agent multiple-employer plans absent the creation of the trust.

The following changes in actuarial assumptions were made between the June 30, 2007 and June 30, 2009 valuations. These changes include an increase in the investment return assumption from 3.566% to 5.00%, a change in the medical trend assumption from 10% decreasing to 4.5% in 7 years to 9% decreasing to 4.5% in 9 years. In addition, the wage inflation assumption was changed to 0% for two years before reverting to 4.5% to reflect the current economic environment.

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*

Federal Grantor Program Title	CFDA Number		Total Expenditures
U.S. Department of Agriculture			
Plant and Animal Disease, Pest Control, and Animal Care	10.025	$	194,319
Federal - State Marketing Improvement Program	10.156		7,682
Inspection Grading and Standardization	10.162		19,624
Market Protection and Promotion	10.163		230
Specialty Crop Block Grant Program	10.169		181,624
Grants for Agricultural Research, Special Research Grants	10.200		68,205
Very Low to Moderate Income Housing Loans (See Note 2)	10.410		2,317,287
Rural Housing Preservation Grants	10.433		43,995
State Mediation Grants	10.435		32,881
SNAP Cluster:			
Supplemental Nutrition Assistance Program (See Note 7)	10.551		263,761,763
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		10,217,946
ARRA - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		403,309
Child Nutrition Cluster:			
School Breakfast Program	10.553		7,123,975
National School Lunch Program (See Note 2)	10.555		29,378,021
Special Milk Program for Children	10.556		85,167
Summer Food Service Program for Children	10.559		835,430
Special Supplemental Nutrition Program for Women, Infants, and Children (See Note 4)	10.557		23,973,570
Child and Adult Care Food Program	10.558		7,321,837
State Administrative Expenses for Child Nutrition	10.560		971,380
Emergency Food Assistance Cluster:			
Emergency Food Assistance Program (Administrative Costs)	10.568		196,967
ARRA - Emergency Food Assistance Program (Administrative Costs)	10.568		191,995
Emergency Food Assistance Program (Food Commodities) (See Note 2)	10.569		1,473,748
WIC Farmers' Market Nutrition Program (FMNP)	10.572		105,204
Team Nutrition Grants	10.574		134,727
Senior Farmers Market Nutrition Program	10.576		25,446
WIC Grants To States (WGS)	10.578		164,087
ARRA - WIC Grants To States (WGS)	10.578		56,782
Child Nutrition Discretionary Grants Limited Availability	10.579		163,419
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579		201
Fresh Fruit and Vegetable Program	10.582		1,251,039
Cooperative Forestry Assistance	10.664		476,373
Forest Legacy Program	10.676		102,732
Wildlife Habitat Incentive Program	10.914		205
Emergency Watershed Protection Program	10.923		196,507
Total U.S. Department of Agriculture		$	351,477,677
U.S. Department of Commerce			
Personal Census Search	11.006	$	174
Economic Development - Support for Planning Organizations	11.302		116,599
Economic Development Cluster:			
Economic Adjustment Assistance (See Note 2)	11.307		12,647,013
ARRA - Economic Adjustment Assistance (See Note 2)	11.307		1,619,913
Interjurisdictional Fisheries Act of 1986	11.407		103,072
Sea Grant Support	11.417		82,862
Coastal Zone Management Administration Awards	11.419		1,561,194
Coastal Zone Management Estuarine Research Reserves	11.420		667,477
Marine Fisheries Initiative	11.433		753,601
Unallied Management Projects	11.454		6,554

Federal Grantor Program Title	CFDA Number		Total Expenditures
Habitat Conservation	11.463		256,294
ARRA - Habitat Conservation	11.463		1,095,660
Unallied Science Program	11.472		138,097
Atlantic Coastal Fisheries Cooperative Management Act	11.474		230,894
ARRA - State Broadband Data and Development Grant Program	11.558		695,702
Total U.S. Department of Commerce		$	19,975,106
U.S. Department of Defense			
Procurement Technical Assistance for Business Firms	12.002	$	139,606
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113		318,620
Basic and Applied Scientific Research	12.300		85,521
National Guard Military Operations and Maintenance (O&M) Projects	12.401		9,450,455
ARRA - National Guard Military Operations and Maintenance (O&M) Projects	12.401		89,487
Other Department of Defense Awards (See Note 9)	N/A		1,009,239
Total U.S. Department of Defense		$	11,092,928
U.S. Department of Housing and Urban Development			
Mortgage Insurance - Homes (See Note 2)	14.117	$	38,467,105
Home Equity Conversion Mortgages (See Note 2)	14.183		616,000
Qualified Participating Entities (QPE) Risk Sharing (See Note 2)	14.189		17,399,779
Section 8 Project-Based Cluster:			
Section 8 Housing Assistance Payments Program - Special Allocations	14.195		138,113,435
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856		651,739
CDBG - Entitlement Grants Cluster:			
Community Development Block Grants/Entitlement Grants	14.218		5,100,449
Emergency Shelter Grants Program	14.231		448,497
CDBG - State-Administered Small CDBG Cluster:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228		3,090,473
ARRA - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.255		320,199
Supportive Housing Program	14.235		3,297,130
Shelter Plus Care	14.238		1,294,255
HOME Investment Partnerships Program	14.239		12,250,740
Housing Opportunities for Persons with AIDS	14.241		627,654
ARRA - Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	14.257		1,568,422
ARRA - Tax Credit Assistance Program	14.258		6,798,046
Fair Housing Assistance Program - State and Local	14.401		97,531
Housing Voucher Cluster:			
Section 8 Housing Choice Vouchers	14.871		15,860,493
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		84,705
Total U.S. Department of Housing and Urban Development		$	246,086,652
U.S. Department of the Interior			
Fish and Wildlife Cluster:			
Sport Fish Restoration Program	15.605	$	2,908,121
Wildlife Restoration and Basic Hunter Education	15.611		2,312,082
Fish and Wildlife Management Assistance	15.608		10,107
Cooperative Endangered Species Conservation Fund	15.615		72,757
Clean Vessel Act	15.616		125,252

Federal Grantor Program Title	CFDA Number		Total Expenditures
Sportfishing and Boating Safety Act	15.622		(47)
State Wildlife Grants	15.634		268,756
Historic Preservation Fund Grants-In-Aid	15.904		574,578
Outdoor Recreation - Acquisition, Development and Planning	15.916		140,889
Save America's Treasures	15.929		257,080
Total U.S. Department of the Interior		$	6,669,575
U.S. Department of Justice			
State Domestic Preparedness Equipment Support Program	16.007	$	(35,550)
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202		51,010
Comprehensive Approaches to Sex Offender Management Discretionary Grant (CASOM)	16.203		75,421
Juvenile Accountability Block Grants	16.523		180,314
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540		636,590
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541		66,524
Missing Children's Assistance	16.543		168,759
Victims of Child Abuse	16.547		92,179
State Justice Statistics Program for Statistical Analysis Centers	16.550		40,223
National Criminal History Improvement Program (NCHIP)	16.554		105,424
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560		213,204
Crime Victim Assistance	16.575		1,591,255
Crime Victim Compensation	16.576		885,865
Edward Byrne Memorial Formula Grant Program	16.579		537,007
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		64,032
Drug Court Discretionary Grant Program	16.585		126,940
Violence Against Women Formula Grants	16.588		1,045,856
ARRA - Violence Against Women Formula Grants	16.588		482,265
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590		307,865
Residential Substance Abuse Treatment for State Prisoners	16.593		42,772
State Criminal Alien Assistance Program	16.606		1,026,129
Bulletproof Vest Partnership Program	16.607		6,960
Enforcing Underage Drinking Laws Program	16.727		366,970
JAG Program Cluster:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738		769,948
ARRA - Eward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803		2,671,146
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742		180,322
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745		12,050
Support for Adam Walsh Act Implementation Grant Program	16.750		12,370
Congressionally Recommended Awards	16.753		38,607
ARRA - Recovery Act - Internet Crimes against Children Task Force Program (ICAC)	16.800		146,100
ARRA - Recovery Act - State Victim Assistance Formula Grant Program	16.801		245,496
Second Chance Act Prisoner Reentry Initiative	16.812		1,781
John R. Justice Prosecutors and Defenders Incentive Act	16.816		78,032
Total U.S. Department of Justice		$	12,233,866
U.S. Department of Labor			
Labor Force Statistics	17.002	$	945,461
Compensation and Working Conditions	17.005		12,433
Registered Apprenticeship and Other Training	17.201		5,740
Employment Service Cluster:			

Federal Grantor Program Title	CFDA Number		Total Expenditures
Employment Service/Wagner-Peyser Funded Activities	17.207		2,165,454
ARRA - Employment Service/Wagner-Peyser Funded Activities	17.207		559,745
Disabled Veterans' Outreach Program (DVOP)	17.801		312,083
Local Veterans' Employment Representative Program (LVER)	17.804		332,684
Unemployment Insurance (See Note 5)	17.225		485,132,764
ARRA - Unemployment Insurance (See Note 5)	17.225		186,539,545
Senior Community Service Employment Program	17.235		792,325
ARRA - Senior Community Service Employment Program	17.235		(144)
Trade Adjustment Assistance	17.245		4,535,856
WIA Cluster:			
WIA Adult Program	17.258		3,837,575
ARRA - WIA Adult Program	17.258		934,650
WIA Youth Activities	17.259		5,363,393
ARRA - WIA Youth Activities	17.259		1,568,055
WIA Dislocated Workers	17.260		3,983,796
ARRA - WIA Dislocated Workers	17.260		5,359,568
WIA Dislocated Worker Formula Grants	17.278		2,358,988
WIA Pilots, Demonstrations, and Research Projects	17.261		123,575
Employment and Training Administration Evaluations	17.262		207,987
Consultation Agreements	17.504		468,580
Total U.S. Department of Labor		$	705,540,113
U.S. Department of Transportation			
Airport Improvement Program	20.106	$	8,129,004
Highway Planning and Construction Cluster:			
Highway Planning and Construction	20.205		153,619,128
ARRA - Highway Planning and Construction	20.205		54,097,962
National Motor Carrier Safety	20.218		1,104,651
Transportation Infrastructure Finance and Innovation Act (TIFIA) Program (See Note 2)	20.223		18,729,265
Performance and Registration Information Systems Management	20.231		6,007
Commercial Driver's License Program Improvement Grant	20.232		34,357
Federal Transit Cluster:			
Federal Transit - Capital Investment Grants	20.500		12,570,605
ARRA - Federal Transit - Capital Investment Grants	20.500		254,666
Federal Transit - Formula Grants	20.507		24,056,118
ARRA - Federal Transit - Formula Grants	20.507		31,785,171
Federal Transit Managerial Training Grants	20.503		176,608
Metropolitan Transportation Planning	20.505		266,875
Urban Mass Transportation Demonstration Grants	20.506		197,072
Formula Grants for Other Than Urbanized Areas	20.509		9,746,310
ARRA - Formula Grants for Other Than Urbanized Areas	20.509		864,972
State Planning and Research	20.515		208,297
Transit Services Programs Cluster:			
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513		1,253,861
Job Access - Reverse Commute Program	20.516		532,963
New Freedom Program	20.521		204,315
Clean Fuels	20.519		9,496,511
Highway Safety Cluster:			
State and Community Highway Safety	20.600		2,165,644
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601		284,662
Occupant Protection Incentive Grants	20.602		159,979
Safety Belt Performance Grants	20.609		84,187

Federal Grantor Program Title	CFDA Number		Total Expenditures
State Traffic Safety Information System Improvements Grants	20.610		192,642
Incentive Grant Program to Prohibit Racial Profiling	20.611		467,740
Incentive Grant Program to Increase Motorcyclist Safety	20.612		55,127
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608		1,071,500
National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	20.614		85,773
Pipeline Safety Program Base Grants	20.700		65,844
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		103,611
ARRA - Surface Transportation - Discretionary Grants for Capital Investment	20.932		920,132
Total U.S. Department of Transportation		$	332,991,559
Equal Employment Opportunity Commission			
Employment Discrimination - Title VII of the Civil Rights Act of 1964	30.001	$	14,001
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002		43,774
Total Equal Employment Opportunity Commission		$	57,775
General Services Administration			
Donation of Federal Surplus Personal Property (See Note 2)	39.003	$	271,147
Total General Services Administration		$	271,147
National Foundation on the Arts and the Humanities			
Promotion of the Arts - Grants to Organizations and Individuals	45.024	$	(150)
Promotion of the Arts - Partnership Agreements	45.025		954,515
Promotion of the Humanities - Federal/State Partnership	45.129		7,493
Museums for America	45.301		1,286,305
Grants to States	45.310		2,171
National Leadership Grants	45.312		59,692
Total National Foundation on the Arts and the Humanities		$	2,310,026
National Science Foundation			
Education and Human Resources	47.076	$	97,262
Office of Experimental Program to Stimulate Competitive Research	47.081		11,001
Total National Science Foundation		$	108,263
U.S. Department of Veterans Affairs			
Veterans Domiciliary Care	64.008	$	6,126,470
Veterans Housing - Guaranteed and Insured Loans (See Note 2)	64.114		955,178
All-Volunteer Force Educational Assistance	64.124		57,919
State Cemetery Grants	64.203		(34)
Total U.S. Department of Veterans Affairs		$	7,139,533
Environmental Protection Agency			
Air Pollution Control Program Support	66.001	$	770,809
State Indoor Radon Grants	66.032		323,253
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034		250,015

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Federal Grantor Program Title	CFDA Number		Total Expenditures
State Clean Diesel Grant Program	66.040		1,383
ARRA - State Clean Diesel Grant Program	66.040		685,793
State Public Water System Supervision	66.432		422,237
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	66.436		22,657
Water Quality Management Planning	66.454		66,663
ARRA - Water Quality Management Planning	66.454		97,285
National Estuary Program	66.456		134,871
Capitalization Grants for Clean Water State Revolving Funds	66.458		9,107,327
ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458		18,155,292
Capitalization Grants for Drinking Water State Revolving Funds	66.468		8,607,283
ARRA - Capitalization Grants for Drinking Water State Revolving Funds	66.468		11,974,962
Beach Monitoring and Notification Program Implementation Grants	66.472		228,726
Water Protection Grants to the States	66.474		56,055
Performance Partnership Grants	66.605		4,602,637
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701		156,175
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707		188,441
Multi-Media Capacity Building Grants for States and Tribes	66.709		149,298
Superfund State, Political Subdivision, and Indian Tribe Site - Specific Cooperative Agreements	66.802		156,051
Underground Storage Tank Prevention, Detection and Compliance Program	66.804		220,005
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805		665,438
ARRA - Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805		632,030
Solid Waste Management Assistance Grants	66.808		28,302
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809		134,315
State and Tribal Response Program Grants	66.817		1,029,193
Brownfields Assessment and Cleanup Cooperative Agreements	66.818		529,729
ARRA - Brownfields Assessment and Cleanup Cooperative Agreements	66.818		342,951
Environmental Policy and State Sustainability Grants	66.940		57,175
Total Environmental Protection Agency		$	59,796,351
U. S. Nuclear Regulatory Commission			
U. S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006	$	804
Total U.S. Nuclear Regulatory Commission		$	804
U.S. Department of Energy			
State Energy Program	81.041	$	135,369
ARRA - State Energy Program	81.041		7,633,966
Weatherization Assistance for Low-Income Persons	81.042		1,294,583
ARRA - Weatherization Assistance for Low-Income Persons	81.042		8,768,909
Renewable Energy Research and Development	81.087		566,598
University Nuclear Science and Reactor Support	81.114		13,263
Nuclear Energy Research, Development and Demonstration	81.121		62,567
ARRA - Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122		457,346
ARRA - Energy Efficient Appliance Rebate Program (EEARP)	81.127		91,121
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128		2,159,725
Total U.S. Department of Energy		$	21,183,447
U.S. Department of Education			
Adult Education - Basic Grants to the State	84.002	$	2,625,838
Student Financial Assistance Cluster: (See Note 6)			

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Federal Grantor Program Title	CFDA Number	Total Expenditures
Federal Supplemental Educational Opportunity Grants	84.007	2,452,378
Federal Family Education Loans (See Note 2)	84.032	4,750,190
Federal Work - Study Program	84.033	1,868,122
Federal Perkins Loan Program - Federal Capital Contributions (See Note 2)	84.038	15,137,392
Federal Pell Grant Program	84.063	51,277,095
Federal Direct Student Loans (See Note 2)	84.268	148,147,464
Academic Competitiveness Grants	84.375	1,183,037
National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	269,186
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	24,000
Title I, Part A Cluster:		
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010	49,051,073
ARRA - Title I Grants to Local Educational Agencies	84.389	16,257,575
Title 1 State Agency Program for Neglected and Delinquent Children and Youth	84.013	732,395
Special Education Cluster:		
Special Education - Grants to States (IDEA Part B)	84.027	42,772,734
ARRA - Special Education - Grants to States (IDEA Part B)	84.391	20,170,673
Special Education - Preschool Grants (IDEA Preschool)	84.173	1,540,397
ARRA - Special Education - Preschool Grants (IDEA Preschool)	84.392	649,497
Federal Family Education Loans (Guaranty Agency) (See Note 2)	84.032	1,422,172,458
TRIO Cluster:		
TRIO - Student Support Services	84.042	140,838
ARRA - TRIO-Student Support Services	84.042	428,166
ARRA - TRIO-Talent Search	84.044	490,869
TRIO - Upward Bound	84.047	554,837
ARRA - TRIO-Educational Opportunity Centers	84.066	770,639
Career and Technical Education - Basic Grants to States	84.048	5,828,038
Leveraging Educational Assistance Partnership	84.069	413,257
Fund for the Improvement of Postsecondary Education	84.116	104,964
Vocational Rehabilitation Cluster:		
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	10,749,594
ARRA - Rehabilitation Services -Vocational Rehabilitation Grants to States	84.390	1,242,124
National Institute on Disability and Rehabilitation Research	84.133	21,990
Independent Living Cluster:		
Independent Living - State Grants	84.169	290,797
ARRA - Independent Living - State Grants	84.398	1,397
Independent Living Services for Older Individuals Who Are Blind Cluster:		
Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	84.177	290,960
ARRA - Independent Living Services for Older Individuals Who are Blind	84.399	23,999
Early Intervention Services (IDEA) Cluster:		
Special Education - Grants for Infants and Families	84.181	3,270,302
ARRA - Special Education - Grants for Infants and Families	84.393	1,521,112
Safe and Drug-Free Schools and Communities - National Programs	84.184	144,131
Byrd Honors Scholarships	84.185	133,500
Safe and Drug-Free Schools and Communities - State Grants	84.186	681,898
Supported Employment Services for Individuals with the Most Significant Disabilities	84.187	339,836
Education of Homeless Children and Youth Cluster:		
Education for Homeless Children and Youth	84.196	226,689
ARRA - Education for Homeless Children and Youth	84.387	76,559
Even Start - State Educational Agencies	84.213	264,344
Assistive Technology	84.224	394,506
Tech-Prep Education	84.243	398,137
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265	33,139
School to Work Opportunities	84.278	3,758

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Federal Grantor Program Title	CFDA Number		Total Expenditures
Charter Schools	84.282		19,760
Twenty-First Century Community Learning Centers	84.287		6,046,068
State Grants for Innovative Programs	84.298		36,259
Educational Technology State Grants Cluster:			
Education Technology State Grants	84.318		872,987
ARRA - Education Technology State Grants, Enhancing Education Through Technology Program	84.386		1,663,419
Special Education - State Personnel Development	84.323		585,162
Research in Special Education	84.324		235,516
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326		82,711
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330		12,125
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331		68,798
Comprehensive School Reform Demonstration	84.332		110,868
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		2,614,520
Teacher Quality Partnership Grants Cluster:			
Teacher Quality Partnership Grants	84.336		555,209
Reading First State Grants	84.357		1,638,976
English Language Acquisition Grants	84.365		1,790,897
Mathematics and Science Partnerships	84.366		1,354,915
Improving Teacher Quality State Grants	84.367		13,571,910
Grants for Enhanced Assessment Instruments	84.368		3,300
Grants for State Assessments and Related Activities	84.369		3,167,610
Striving Readers	84.371		88,176
Statewide Data Systems Cluster:			
Statewide Data Systems	84.372		699,630
School Improvement Grants Cluster:			
School Improvement Grants	84.377		711,631
ARRA - School Improvement Grants	84.388		1,181,111
College Access Challenge Grant Program	84.378		4,385
State Fiscal Stabilization Fund (SFSF) Cluster:			
ARRA - SFSF - Education State Grants, (Education Stabilization Fund)	84.394		32,485,390
ARRA - SFSF - Government Services	84.397		404,915
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants	84.395		1,562,688
Education Jobs Fund	84.410		14,367,164
National Writing Project	84.928		57,777
Hurricane Education Recovery	84.938		(8,380)
Other Department of Education Awards (See Note 9)	N/A		273,375
Total U.S. Department of Education		$	1,896,180,756
Elections Assistance Commission			
Help America Vote Act Requirements Payments	90.401	$	122,869
Help America Vote Mock Election Program	90.402		20,484
Total Elections Assistance Commission		$	143,353
U.S. Department of Health and Human Services			
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006	$	124,757
Public Awareness Campaigns on Embryo Adoption	93.007		179,112
Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041		25,782

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Federal Grantor Program Title	CFDA Number	Total Expenditures
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042	84,567
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043	123,718
Aging Cluster:		
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	2,849,412
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	2,640,102
Nutrition Services Incentive Program	93.053	526,997
Special Programs for the Aging-Title IV - and Title II - Discretionary Projects	93.048	716,407
Alzheimer's Disease Demonstration Grants to States	93.051	87,534
National Family Caregiver Support, Title III, Part E	93.052	812,974
Centers for Genomics and Public Health	93.063	16,387
Public Health Emergency Preparedness	93.069	6,244,115
Medicare Enrollment Assistance Program	93.071	76,554
Lifespan Respite Care Program	93.072	103,720
Guardianship Assistance	93.090	111,454
ARRA - Guardianship Assistance	93.090	2,461
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	9,689
Food and Drug Administration - Research	93.103	369,075
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	1,055,824
Maternal and Child Health Federal Consolidated Programs	93.110	714,158
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	363,124
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118	15,000
Emergency Medical Services for Children	93.127	92,855
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130	99,367
Injury Prevention and Control Research and State and Community Based Programs	93.136	442,708
Projects for Assistance in Transition from Homelessness (PATH)	93.150	298,488
Grants to States for Loan Repayment Program	93.165	18
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	853,662
Family Planning - Services	93.217	1,251,763
Grants to States to Support Oral Health Workforce Activities	93.236	356,306
Mental Health Research Grants	93.242	15,543
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	2,338,562
Public Health Training Centers Grant Program	93.249	750
Universal Newborn Hearing Screening	93.251	134,397
Immunization Cluster:		
Immunization Grants (See Note 2)	93.268	15,079,118
ARRA - Immunization (See Note 2)	93.712	342,876
Substance Abuse and Mental Health Services - Access to Recovery	93.275	736,587
Drug Abuse National Research Service Awards for Research Training	93.278	5
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	7,652,196
Student Financial Assistance Cluster: (See Note 6)		
Health Professions Student Loans, Including Primary Care Loans / Loans for Disadvantaged Students (See Note 2)	93.342	1,863,868
Nursing Student Loans (See Note 2)	93.364	1,474,759
Advanced Nursing Education Traineeships	93.358	5,096
Cancer Detection and Diagnosis Research	93.394	75,136
ARRA - Health Careers Opportunity Program	93.416	1,148

Federal Grantor Program Title	CFDA Number	Total Expenditures
Affordable Care Act (ACA) – Consumer Assistance Program Grants	93.519	18,509
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	312,475
Abandoned Infants	93.551	134,191
Promoting Safe and Stable Families	93.556	1,203,850
TANF Cluster:		
Temporary Assistance for Needy Families	93.558	69,651,995
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	93.714	5,819,681
Child Support Enforcement	93.563	8,473,769
ARRA - Child Support Enforcement	93.563	841,666
Child Support Enforcement Research	93.564	128,167
Refugee and Entrant Assistance - State Administered Programs	93.566	468,980
Low-Income Home Energy Assistance	93.568	24,122,349
CSBG Cluster:		
Community Services Block Grant	93.569	3,750,037
ARRA - Community Services Block Grant	93.710	1,543,014
CCDF Cluster:		
Child Care and Development Block Grant	93.575	15,184,221
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	12,873,814
ARRA - Child Care and Development Block Grant	93.713	276,289
Refugee and Entrant Assistance - Discretionary Grants	93.576	46,154
State Court Improvement Program	93.586	471,492
Grants to States for Access and Visitation Programs	93.597	126,837
Chafee Education and Training Vouchers Program (ETV)	93.599	250,949
Head Start Cluster:		
Head Start	93.600	127,626
Adoption Incentive Payments	93.603	60,049
Family Connection Grants	93.605	18,600
Voting Access for Individuals with Disabilities - Grants to States	93.617	102,387
Developmental Disabilities Basic Support and Advocacy Grants	93.630	249
University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632	552,827
Children's Justice Grants to States	93.643	96,581
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1,004,524
Foster Care - Title IV-E	93.658	13,190,839
ARRA - Foster Care - Title IV-E	93.658	431,283
Adoption Assistance	93.659	8,281,897
ARRA - Adoption Assistance	93.659	444,009
Social Services Block Grant	93.667	13,276,579
Child Abuse and Neglect State Grants	93.669	358,689
Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671	803,075
Chafee Foster Care Independence Program	93.674	805,664
ARRA - Trans-NIH Recovery Act Research Support	93.701	30,365
ARRA - Preventing Healthcare-Associated Infections	93.717	78,563
ARRA - Prevention and Wellness - State, Territories and Pacific Islands	93.723	874,668
ARRA - Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	93.724	1,060,654
ARRA - Prevention and Wellness - Communities Putting Prevention to Work: Chronic Disease Self-Management Program	93.725	82,652
ARRA – Health Information Technology and Public Health	93.729	31,907
Children's Health Insurance Program	93.767	27,209,038
Medicaid Cluster:		

Federal Grantor Program Title	CFDA Number		Total Expenditures
State Medicaid Fraud Control Units	93.775		865,353
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777		2,629,826
Medical Assistance Program (See Note 4)	93.778		1,103,590,770
ARRA - Medical Assistance Program	93.778		164,905,784
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779		875,176
Alternate Non-Emergency Service Providers or Networks	93.790		2,458,913
Money Follows the Person Rebalancing Demonstration	93.791		308
Medicaid Transformation Grants	93.793		1,069,366
Child Health and Human Development Extramural Research	93.865		65,339
National Bioterrorism Hospital Preparedness Program	93.889		2,077,022
Grants to States for Operation of Offices of Rural Health	93.913		156,689
HIV Care Formula Grants	93.917		6,876,045
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938		408,867
HIV Prevention Activities - Health Department Based	93.940		1,728,600
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943		103,343
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944		189,147
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946		131,270
Block Grants for Community Mental Health Services	93.958		1,534,034
Block Grants for Prevention and Treatment of Substance Abuse	93.959		6,432,860
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977		431,011
Mental Health Disaster Assistance and Emergency Mental Health	93.982		1,691,913
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988		(584)
Preventive Health and Health Services Block Grant	93.991		402,845
Maternal and Child Health Services Block Grant to the States	93.994		1,847,305
Other Department Of Health and Human Services Awards (See Note 9)	N/A		695,408
Total U.S. Department of Health and Human Services		$	1,566,155,905
Corporation for National and Community Service			
Learn and Serve America - School and Community Based Programs	94.004	$	120,488
Foster Grandparent/Senior Companion Cluster:			
Senior Companion Program	94.016		424,549
Total Corporation for National and Community Service		$	545,037
Social Security Administration			
Disability Insurance/SSI Cluster:			
Social Security - Disability Insurance	96.001	$	8,425,691
Social Security - Research and Demonstration	96.007		160,711
Total Social Security Administration		$	8,586,402
U.S. Department of Homeland Security			
State and Local Homeland Security National Training Program	97.005	$	(863)
Non-Profit Security Program	97.008		83,099
Boating Safety Financial Assistance	97.012		1,209,655
Community Assistance Program - State Support Services Element (CAP-SSSE)	97.023		89,569

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Federal Grantor Program Title	CFDA Number		Total Expenditures
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		8,869,573
National Dam Safety Program	97.041		52,539
Emergency Management Performance Grants	97.042		2,923,666
State Fire Training Systems Grants	97.043		19,945
Cooperating Technical Partners	97.045		70,534
Pre-Disaster Mitigation	97.047		81,665
Emergency Operations Centers	97.052		64,886
Interoperable Emergency Communications	97.055		422,454
Port Security Grant Program	97.056		54,400
Port Security Research and Development Grant	97.060		(185)
Homeland Security Advanced Research Projects Agency	97.065		154,134
Homeland Security Cluster:			
Homeland Security Grant Program	97.067		9,883,504
National Explosives Detection Canine Team Program	97.072		150,500
Rail and Transit Security Grant Program	97.075		297,693
Buffer Zone Protection Program (BZPP)	97.078		363,072
Disaster Assistance Projects	97.088		831,535
Driver's License Security Grant Program	97.089		1,991
Law Enforcement Officer Reimbursement Agreement Program	97.090		193,092
ARRA - Port Security Grant Program	97.116		46,159
Advanced Surveillance Program (ASP)	97.118		874,533
Total U.S. Department of Homeland Security		$	26,737,150
Agency for International Development			
Global Development Alliance	98.011	$	12
Total for Agency for International Development		$	12
Research and Development Cluster:			
U.S. Department of Agriculture			
Agricultural Research - Basic and Applied Research	10.001	$	8,077
Plant and Animal Disease, Pest Control, and Animal Care	10.025		19,238
Grants for Agricultural Research, Special Research Grants	10.200		343,190
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203		2,623,608
Grants for Agricultural Research - Competitive Research Grants	10.206		339,065
Food and Agricultural Sciences National Needs Graduate Fellowship Grants	10.210		74,795
Sustainable Agriculture Research and Education	10.215		98,202
1890 Institution Capacity Building Grants	10.216		422
Integrated Programs	10.303		1,505,440
Homeland Security - Agricultural	10.304		26,304
International Science and Education Grants	10.305		48,308
Agriculture and Food Research Initiative (AFRI)	10.310		284,108
Trade Adjustment Assistance for Farmers Training Coordination Program (TAAF)	10.315		493
Crop Insurance Education in Targeted States	10.458		151,591
Cooperative Extension Service	10.500		442,361
Forestry Research	10.652		21,616
Soil and Water Conservation	10.902		52,358
Soil Survey	10.903		33,334
Environmental Quality Incentives Program	10.912		64,741
Other Research and Development - Department of Agriculture	N/A		47,079
U.S. Department of Commerce			

Federal Grantor Program Title	CFDA Number	Total Expenditures
Economic Development - Support for Planning Organizations	11.302	183,353
Economic Adjustment Assistance	11.307	13,051
Sea Grant Support	11.417	2,744,368
Coastal Zone Management Administration Awards	11.419	46,052
Coastal Zone Management Estuarine Research Reserves	11.420	37,649
Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	11.427	98,059
Climate and Atmospheric Research	11.431	544,883
National Oceanic and Atmospheric Administration Cooperative (NOAA) Institutes	11.432	61,196
Marine Fisheries Initiative	11.433	159,920
Cooperative Science and Education Program	11.455	7,636
Weather and Air Quality Research	11.459	115,396
Special Oceanic and Atmospheric Projects	11.460	30,169
Habitat Conservation	11.463	13,493
Meteorologic and Hydrologic Modernization Development	11.467	154,457
Unallied Science Program	11.472	554,977
Coastal Services Center	11.473	103,044
Center for Sponsored Coastal Ocean Research - Coastal Ocean Program	11.478	598,658
ARRA - State Broadband Data and Development Grant Program	11.558	40,961
Congressionally-Identified Projects	11.617	228,329
Other Research and Development - Department of Commerce	N/A	388,441
U.S. Department of Defense		
Basic and Applied Scientific Research	12.300	4,504,432
Military Medical Research and Development	12.420	195,030
Basic Scientific Research	12.431	256,310
Air Force Defense Research Sciences Program	12.800	965,762
ARRA - Air Force Defense Research Sciences Program	12.800	8,586
Other Research and Development - Department of Defense	N/A	327,627
U.S. Department of the Interior		
Fish, Wildlife and Plant Conservation Resource Management	15.231	890
Coastal Impact Assistance Program (CIAP)	15.426	22,191
Fish and Wildlife Management Assistance	15.608	54,416
Coastal Program	15.630	34,832
Assistance to State Water Resources Research Institutes	15.805	94,343
U.S. Geological Survey - Research and Data Collection	15.808	38,919
Natural Resource Stewardship	15.944	159
Other Research and Development - Department of the Interior	N/A	906,481
U.S. Department of Justice		
National Institute of Justice W.E.B. DuBois Fellowship Program	16.566	162,988
ARRA - Public Safety Partnership and Community Policing Grants	16.710	104,799
ARRA - Edward Byrne Memorial Justice Assistance Grant Program	16.738	36,171
Other Research and Development - Department of Justice	N/A	318,742
U.S. Department of State		
Professional and Cultural Exchange Programs - Citizen Exchanges	19.415	24,862
U.S. Department of Transportation		
Highway Research and Development Program	20.200	53,262
Highway Planning and Construction	20.205	66,999
Highway Training and Education	20.215	8,092
University Transportation Centers Program	20.701	105,609
University Transportation Centers	20.760	538,671
National Aeronautics and Space Administration		

Federal Grantor Program Title	CFDA Number	Total Expenditures
Science	43.001	19,878
Aeronautics	43.002	369,179
Other Research and Development - National Aeronautics and Space Administration	N/A	410,225
National Foundation on the Arts and the Humanities		
Promotion of the Humanities - Division of Preservation and Access	45.149	(808)
National Science Foundation		
Engineering Grants	47.041	786,860
Mathematical and Physical Sciences	47.049	116,579
Geosciences	47.050	7,501,465
Computer and Information Science and Engineering	47.070	167,768
Biological Sciences	47.074	396,656
Social, Behavioral, and Economic Sciences	47.075	63,266
Education and Human Resources	47.076	4,914,185
Polar Programs	47.078	296,637
International Science and Engineering (OISE)	47.079	318,129
ARRA - Trans-NSF Recovery Act Research Support	47.082	2,986,521
Other Research and Development - National Science Foundation	N/A	194,351
Department of Veterans Affairs		
Veterans Rehabilitation - Alcohol and Drug Dependence	64.019	30,421
Environmental Protection Agency		
Climate Showcase Communities Grant Program	66.041	51,040
National Estuary Program	66.456	299,927
Great Lakes Program	66.469	60,674
Science to Achieve Results (STAR) Research Program	66.509	1,009
Surveys, Studies, Investigations and Special Purpose Grants within the Office of Research and Development	66.510	87,125
Science To Achieve Results (STAR) Fellowship Program	66.514	12,896
Pollution Prevention Grants Program	66.708	94,762
Other Research and Development - Environmental Protection Agency	N/A	101,450
U. S. Nuclear Regulatory Commission		
U. S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006	110,402
U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008	32,500
U.S. Department of Energy		
ARRA - Office of Science Financial Assistance Program	81.049	351,079
Renewable Energy Research and Development	81.087	207,363
ARRA - Renewable Energy Research and Development	81.087	22,620
Defense Nuclear Nonproliferation Research	81.113	192,530
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	659,213
National Nuclear Security Administration (NNSA) Minority Serving Institutions (MSI) Program	81.123	76,666
Other Research and Development - Department of Energy	N/A	127,422
U.S. Department of Education		
Undergraduate International Studies and Foreign Language Programs	84.016	103,661
Magnet Schools Assistance	84.165	11,811
Safe and Drug-Free Schools and Communities National Programs	84.184	92,138
Education Research, Development and Dissemination	84.305	30,796
Education Technology State Grants	84.318	368,991
ARRA - Education Technology State Grants	84.318	82,144
Teacher Quality Partnership Grants	84.336	1,024,662
U.S. Department of Health and Human Services		

Federal Grantor Program Title	CFDA Number	Total Expenditures
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107	257,835
Environmental Health	93.113	556,449
Biometry and Risk Estimation - Health Risks from Environmental Exposures	93.115	15,512
Oral Diseases and Disorders Research	93.121	29,498
NIEHS Superfund Hazardous Substances - Basic Research and Education	93.143	197,653
Human Genome Research	93.172	9,317
Mental Health Research Grants	93.242	78,526
Rapid Expansion of Antiretroviral Therapy Programs for HIV-Infected Persons in Selected Countries in Africa and the Caribbean Under the President's Emergency Plan for AIDS Relief	93.266	16,492
Alcohol National Research Service Awards for Research Training	93.272	28,043
Alcohol Research Programs	93.273	676
Drug Abuse and Addiction Research Programs	93.279	2,712,622
Advanced Nursing Education Traineeships	93.358	38,705
Nursing Research	93.361	901,199
National Center for Research Resources	93.389	4,461,287
Academic Research Enhancement Award	93.390	7,491
Cancer Cause and Prevention Research	93.393	673,823
Cancer Detection and Diagnosis Research	93.394	1,065,140
Cancer Biology Research	93.396	306,453
Developmental Disabilities Basic Support and Advocacy Grants	93.630	461,619
ARRA -Trans - NIH Recovery Act Research Support	93.701	1,796,889
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	522,578
Cardiovascular Diseases Research	93.837	346,477
Blood Diseases and Resources Research	93.839	28,455
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	285,948
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	124,804
Allergy, Immunology and Transplantation Research	93.855	2,924,848
ARRA - Allergy, Immunology and Transplantation Research	93.855	35,894
Biomedical Research and Research Training	93.859	210,502
Child Health and Human Development Extramural Research	93.865	78,625
Aging Research	93.866	11,483
Health Care and Other Facilities	93.887	359,661
Geriatric Education Centers	93.969	442,138
Other Research and Development - Deparment of Health and Human Services	N/A	1,437
U.S. Department of Homeland Security		
Centers for Homeland Security	97.061	1,663,377
Homeland Security Advanced Research Projects Agency	97.065	58,915
Homeland Security Grant Program	97.067	47,034
Competitive Training Grants	97.068	221,109
Agency for International Development		
USAID Foreign Assistance for Programs Overseas	98.001	5,967,342
Other Research and Development - Agency for International Development	N/A	259,777
Total Research and Development Cluster		$ 71,118,421
Other Expenditures of Federal Awards (See Note 9)	N/A	$ 302,155
Total Expenditures of Federal Awards (See Note 2)		$ 5,346,704,013

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). For fiscal 2011, there was a change in the reporting entity – the Central Falls School District was previously reported as a discretely presented component unit but was determined during fiscal 2011 to legally be considered part of the City of Central Falls. Accordingly, its federal grant activity for fiscal 2011 will be reported as part of the City of Central Falls rather than the State of Rhode Island.

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. Additionally, all non-monetary assistance has been included in determining major programs as defined by OMB Circular A-133. None of the State's large loan programs met the criteria that would require such amounts to be excluded from the State's Type "A" major program threshold.

Non-monetary assistance included in the schedule is listed by federal program in Note 2 to this schedule.

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, 2011	Non-monetary Assistance June 30, 2011
10.410	Very Low to Moderate Income Housing Loans	$ 2,317,287	$ 2,317,287
11.307	Economic Adjustment Assistance	14,266,926	14,266,926
14.117	Mortgage Insurance – Homes	38,467,105	38,467,105
14.183	Home Equity Conversion Mortgages	616,000	616,000
14.189	Qualified Participating Entities (QPE) Risk Sharing	17,399,779	17,399,779
20.223	Transportation Infrastructure Finance and Innovation Act (TIFIA) Program	18,729,265	18,729,265
64.114	Veterans Housing - Guaranteed and Insured Loans	955,178	955,178
84.032	Federal Family Education Loans	4,750,190	4,750,190
84.032	Federal Family Education Loans (Guaranty Agency)	1,422,172,458	1,420,140,781
84.038	Federal Perkins Loan Program – Federal Capital Contributions	15,137,392	15,137,392
84.268	Federal Direct Student Loans	148,147,464	148,147,464
93.342	Health Professions Student Loans, Including Primary Care Loans/ Loans for Disadvantaged Students	1,863,868	1,863,868
93.364	Nursing Student Loans	1,474,759	1,474,759
	Other Non-Monetary Assistance		
10.555	National School Lunch Program	29,378,021	3,592,782
10.569	Emergency Food Assistance Program (Food Commodities)	1,473,748	1,473,748
39.003	Donation of Federal Surplus Personal Property	271,147	271,147
93.268	Immunization Grants (Vaccines)	15,079,118	13,374,626
93.712	ARRA – Immunization Grants	342,876	223,456
	Total Non-Cash Assistance	$ 1,732,842,581	$ 1,703,201,753

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

Loan, Loan Guarantee and Insurance Programs

- The following guaranteed/insured mortgage loan programs are reported at the value of loans originated or purchased during the fiscal year: Very Low to Moderate Income Housing Loans (CFDA 10.410); Mortgage Insurance-Homes (CFDA 14.117); 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).

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

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

NOTE 2. NON-MONETARY ASSISTANCE (continued)

- Federal Family Education Loans – (CFDA 84.032) and Federal Direct Student Loans – (CFDA 84.268) reported at the value of loans made during the fiscal year.

- Federal Perkins Loan Program – Federal Capital 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, 2011.

- Transportation Infrastructure Finance and Innovation Act (TIFIA) Program (CFDA 20.223) – reported at the amount of draws under a Secured Loan Agreement. In June 2006, the Rhode Island Airport Corporation, the Rhode Island Economic Development Corporation and the Rhode Island Department of Transportation executed a Secured Loan Agreement (TIFIA – No. 2006-1001), which provided 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 (TIFIA). As of June 30, 2011, Rhode Island Airport Corporation had approximately $23,830,000 in borrowings under this agreement.

Other Non-Monetary Assistance

- National School Lunch Program (CFDA 10.555) and Emergency Food Assistance Program (Food Commodities) (CFDA 10.569) – reported at the fair market value of food distributed.

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

- 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 $8.22 million. Of this amount, $8.17 million relates to the Research and Development Cluster of which all is unidentified as to the pass-through entity. The remaining amount, approximately $50,000, is unidentified as to either the CFDA number and/or the pass-through entity.

NOTE 4. REBATES OF PROGRAM EXPENDITURES

The State received the following program expenditure rebates during fiscal 2011:

Program	CFDA Number	Rebate Amount
Medical Assistance Program	93.778	$ 25,962,923
Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	10.557	$ 4,525,727

NOTE 4. REBATES OF PROGRAM EXPENDITURES (continued)

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 ($26 million) earned during fiscal year 2011. 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 $371.8 million funded from the State's account in the federal Unemployment Trust Fund, $89.8 million loaned to the State's account in the federal Unemployment Trust Fund, $23.5 million funded by federal grants, and $186.5 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 $228.4 million.

NOTE 7. BENEFITS UNDER THE SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP)

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 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 16.38 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2010.

NOTE 8. BUILD AMERICA BONDS INTEREST SUBSIDY

In accordance with guidance included in the OMB Compliance Supplement, federal interest subsidies received by the State under the Build America Bonds programs are not included in the Schedule of Expenditures of Federal Awards. The State received $1,688,447 in interest subsidy payments during fiscal year 2011, which were reported as federal revenue in the State's financial statements.

NOTE 9. EXPENDITURES OF OTHER AWARDS

Some expenditures of federal awards included in the Schedule are not specifically identified by Catalog of Federal Domestic Assistance number. When the federal funding agency is known, these amounts are included in the Schedule along with federal awards for that federal grantor agency. In some instances, a federal contract award number is available as follows:

- Other Department of Education Awards include $156,760 attributable to Contract ED-08-0068 and $116,615 unidentified awards from component units.

- Other Department of Health and Human Services Awards include $695,408 attributable to Contract 290-04-007.

Certain Research and Development expenditures of federal awards are similarly reflected in the accompanying Schedule when the federal awarding agency is known but not the specific Catalog of Federal Domestic Assistance number.

Auditor's Reports

Auditor's Reports

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DENNIS E. HOYLE, CPA
ACTING AUDITOR GENERAL
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STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

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

INDEPENDENT AUDITOR'S REPORT 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, 2011, which collectively comprise the State's basic financial statements and have issued our report thereon dated December 22, 2011. Our report includes 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 2% of the revenues of the aggregate remaining fund information;

- the Convention Center Authority, a major fund, which also represents 68% of the assets and 2% 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.

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

Internal Control Over Financial Reporting

Management of the State is responsible for establishing and maintaining effective 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 questioned costs, 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 questioned costs to be material weaknesses: Findings 2011-1, 2011-2, 2011-4, 2011-6, 2011-7, 2011-10, 2011-16, 2011-18, 2011-19, 2011-20, 2011-22, 2011-23, 2011-24, and 2011-35.

A *significant deficiency* is a deficiency, or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies: Findings 2011-3, 2011-5, 2011-8, 2011-9, 2011-11, 2011-12, 2011-13, 2011-14, 2011-15, 2011-17, 2011-21, 2011-25, 2011-26, 2011-27, 2011-28, 2011-31, 2011-32, 2011-33, 2011-34, 2011-36, 2011-37, and 2011-38.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests and those of the other auditors disclosed an instance of noncompliance required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 2011-30.

We noted a matter required to be reported under *Government Auditing Standards* that is included in the schedule of findings and questioned costs as Finding 2011-29.

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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, 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 22, 2011

DENNIS E. HOYLE, CPA
ACTING AUDITOR GENERAL
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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, 2011. 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 2011. Those audits were performed by other auditors whose reports on compliance with requirements applicable to the major federal programs were furnished to us, and this report, insofar as it relates to those programs that were audited by other auditors, is based solely on the reports of the other auditors. The State's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

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

As described in Finding 2011-63 in the accompanying schedule of findings and questioned costs, the State did not comply with the requirements regarding cash management that are applicable to its Low-

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Income Home Energy Assistance Program (CFDA 93.568). Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to that program.

As described in Finding 2011-70 in the accompanying schedule of findings and questioned costs, the State did not comply with the requirements regarding (1) special tests and provisions – provider eligibility and (2) suspension and debarment that are applicable to its Children's Health Insurance Program (CFDA 93.767) and Medicaid Cluster (CFDA 93.775, 93.777, and 93.778). Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to those programs.

As described in Finding 2011-77 in the accompanying schedule of findings and questioned costs, the State did not comply with the requirements regarding special tests and provisions – inpatient hospital and long-term care facility audits that are applicable to its Medicaid Cluster (CFDA 93.775, 93.777, and 93.778). Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to those programs.

In our opinion, 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, 2011. 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 2011-74 and 2011-82.

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 2011. 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

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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 2011-51, 2011-52, 2011-57, 2011-62, 2011-63, 2011-70, 2011-73, 2011-76, 2011-77, 2011-79, 2011-81, 2011-83, 2011-84 and 2011-85 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 2011-39, 2011-40, 2011-41, 2011-42, 2011-43, 2011-44, 2011-45, 2011-46, 2011-47, 2011-48, 2011-49, 2011-50, 2011-53, 2011-54, 2011-55, 2011-56, 2011-58, 2011-59, 2011-60, 2011-61, 2011-64, 2011-65, 2011-66, 2011-67, 2011-68, 2011-69, 2011-71, 2011-72, 2011-75, 2011-78, 2011-80, 2011-86, 2011-87, and 2011-88 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, 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 26, 2012

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
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 #**
Low-Income Home Energy Assistance	93.568
Children's Health Insurance Program	93.767
Medicaid Cluster:	
State Medicaid Fraud Control Units	93.775
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777
Medical Assistance Program	93.778

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

7) Major programs are listed in the table on the next page.

Major Programs

Program Title	CFDA Number
Supplemental Nutrition Assistance Program (SNAP) Cluster:	
Supplemental Nutrition Assistance Program (SNAP)	10.551
State Administrative Matching Grants for the SNAP Program	10.561
Child 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
Mortgage Insurance – Homes	14.117
Qualified Participating Entities (QPE) Risk Sharing	14.189
Section 8 Project-Based Cluster:	
Section 8 Housing Assistance Payments Program – Special Allocations	14.195
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856
Unemployment Insurance	17.225
WIA Cluster:	
WIA Adult Program	17.258
WIA Youth Activities	17.259
WIA Dislocated Workers	17.260
WIA Dislocated Worker Formula Grants	17.278
Highway Planning and Construction Cluster:	
Highway Planning and Construction	20.205
Transportation Infrastructure Finance and Innovation Act (TIFIA) Program	20.223
Federal Transit Cluster:	
Federal Transit – Capital Investment Grants	20.500
Federal Transit – Formula Grants	20.507
Capitalization Grants for Clean Water State Revolving Funds	66.458
Capitalization Grants for Drinking Water State Revolving Funds	66.468
Student Financial Assistance Cluster:	
Federal Supplemental Educational Opportunity Grants	84.007
Federal Family Education Loans	84.032
Federal Work-Study Program	84.033
Federal Perkins Loan Program – Federal Capital Contributions	84.038
Federal Pell Grant Program	84.063
Federal Direct Student Loans	84.268
Academic Competiveness Grants	84.375
National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342
Nursing Student Loans	93.364

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	84.389
Special Education Cluster:	
Special Education – Grants to States (IDEA Part B)	84.027
ARRA - Special Education – Grants to States (IDEA Part B	84.391
Special Education – Preschool Grants (IDEA Preschool)	84.173
ARRA - Special Education – Preschool Grants (IDEA Preschool)	84.392
Federal Family Education Loans (Guaranty Agency)	84.032
State Fiscal Stabilization Fund (SFSF) Cluster:	
ARRA - SFSF - Education State Grants	84.394
ARRA - SFSF - Government Services	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 (Title XVIII) Medicare	93.777
Medical Assistance Program Medicare	93.778
Research and Development Cluster	Various

8) The dollar threshold used to distinguish between Type A and Type B programs was $16,040,112.

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

Finding 2011-1

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. A centralized human resources module would eliminate the need to support 13 distinct departmental personnel systems. These supported systems all utilize an antiquated legacy account structure not recognized by the State's RIFANS system.

- *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. The State currently supports at least seven separate departmental cost allocation systems due to the lack of centralized grants management and human resources modules.

- *cash management* – this module is necessary to integrate the cash management, investing, and accounts payable functions 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.

In addition to the costs of supporting these legacy systems, deferred implementation of the complete RIFANS accounting system weakens rather than strengthens overall controls over financial reporting. Lastly, realization of the operational efficiencies and overall effectiveness anticipated with the implementation of RIFANS has been delayed.

<u>RECOMMENDATIONS</u>

2011-1a Complete installation of remaining modules necessary to achieve a comprehensive fully-integrated accounting system.

2011-1b Substantiate the cost/benefit relationship of completing the RIFANS implementation.

Finding 2011-2

<u>ACCOUNTING CONTROLS – SEGREGATION OF DUTIES WITHIN FUNCTIONS PERFORMED BY THE OFFICE OF THE GENERAL TREASURER</u>

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 2011-1). 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 funds transfer or to ensure that transactions generated by a myriad of subsidiary systems were recorded timely within the accounting system.

<u>Recording of Payments made from Subsidiary Accounting Systems</u>

Treasury posts expenditures to RIFANS for certain 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 execute the funds transfer but should not authorize the accounting entries as well.

In July 2011, in an effort to begin addressing this control deficiency, the State assigned responsibility for the posting of the electronic funds transfer (EFT) portion of Medicaid provider payments to the Department of Human Services. This improved controls by removing the General Treasurer as the initiator and approver of these transactions allowing for improved segregation of duties over this transaction class.

The State should continue to evaluate the types of transactions that are currently recorded through this process and restore appropriate segregation without disrupting the required timely movement of funds. Moving the initiation and approval function for these transactions from the General Treasurer's office, as was done for the Medicaid provider payments made via EFT, is one possible solution.

RECOMMENDATION

2011-2 Improve controls over cash receipts and disbursements by completing the process of analyzing transactions and better segregating certain duties currently performed by the Office of the General Treasurer.

Finding 2011-3

PAYROLL ACCOUNTING SYSTEM – SYSTEMS DOCUMENTATION AND MONITORING

The State's payroll information system, for fiscal 2011, calculated payroll expenditures for 14,000 employees totaling more than $920 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.

During fiscal 2011, in response to prior recommendations, the Office of Accounts and Control implemented monitoring procedures designed to detect coding errors of certain payroll fields. While this provided additional monitoring over payroll processing, the State still needs to:

- Formalize the documentation of the State's payroll system;
- Ensure that the Office of Accounts and Control receives documentation regarding changes made to the State's payroll system; and
- Further expand monitoring procedures relating to data inputs (i.e., employee additions and terminations) and payroll processing changes.

Implementation of the above would improve control over payroll processing, allow for more comprehensive monitoring of payroll processing by the Office of Accounts and Control, and better prepare the State in the event of employee turnover and/or future systems upgrades. Monitoring procedures should ensure that only authorized changes to payroll coding are made within the system.

RECOMMENDATIONS

2011-3a Improve formalized documentation of the State's payroll system.

2011-3b Ensure that all payroll programming modifications are communicated to the Office of Accounts and Control and ensure that monitoring procedures include testing of these modifications.

Finding 2011-4

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 susceptible to error.

We noted misstatements that required adjustment within the government-wide financial statements. Most misstatements were caused by formula errors, failure to update prior year data, or incorrect computations in the spreadsheets supporting the government-wide accounting entries. Controls over the preparation of the government-wide financial statements would be improved by enhanced supervisory review of the government-wide accounting entries including 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

2011-4a Improve controls over the preparation of the government-wide financial statements by implementing enhanced supervisory review of government-wide accounting entries and supporting documentation.

2011-4b Consider whether more automated processes can be utilized within the preparation of the government-wide financial statements.

Finding 2011-5

CONTROLS OVER VENDOR REGISTRATION

The Division of Purchasing in conjunction with the Office of Accounts and Control is responsible for maintaining the State's list of approved vendors. Prior to the enrollment of new vendors, the State requires submission of a W-9 form, signed by authorized vendor personnel and containing the vendor's federal identification or social security number. Vendor information should also be periodically updated to ensure that data is current and valid.

We tested 57 vendor files to assess compliance with vendor registration procedures. We were unable to obtain vendor registration documentation for 21 vendors (37% of our sample). Additionally, we were unable to obtain vendor banking documentation for four of the 19 vendors in our sample which had opted to be paid through ACH (electronic payment - automated clearing house).

In fiscal 2011, the State's compliance with required vendor registration documentation procedures deteriorated due to the related staff position being vacant during part of the year. Validating vendor registration information is an important control over procurement and vendor disbursements and the State should ensure that current documentation is maintained for all registered vendors.

RECOMMENDATION

2011-5 Ensure that current vendor documentation is maintained for all active vendors paid through RIFANS.

Finding 2011-6

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 2011.

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

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

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

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

- 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 2011, 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. We found that although most agencies completed the form, many were unable to fully reconcile their federal reports to amounts reported in the State's accounting system. In addition, the Office of Accounts and Control did not validate the accuracy of the information reported through the FGIS process. The State should improve its FGIS 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 is reconciled with amounts reimbursed or reimbursable; and
    - deferred revenue or federal receivable balances recorded at year-end by the Office of Accounts and Control utilizing revenue and expenditure amounts recorded for the fiscal year.

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

- The Office of Accounts and Control has established natural accounts to be used specifically to record prior period adjustments; however, departments rarely use 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

2011-6a Improve the effectiveness of the Federal Grants Information Schedule (FGIS) reconciliation process by validating revenue and expenditure amounts reported on federal reports and ensuring that these amounts are consistent with amounts recorded within the State accounting system and available federal award limitations.

2011-6b	Ensure that variances identified on the FGIS are fully resolved prior to the preparation of draft financial statements.
2011-6c	Enforce accounting procedures that distinctly identify adjustments to prior period federal activity in the State's accounting system.
2011-6d	Allocate additional personnel resources needed to enhance statewide control over the financial reporting aspects of federal programs.

Finding 2011-7

ACCOUNTING AND PHYSICAL CONTROL OVER CAPITAL ASSETS

During fiscal 2011, 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 have 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 manually outside of RIFANS for project-related capital additions.

Capital assets, excluding transportation infrastructure reporting which is detailed in Finding 2011-24, approximating $8 million, most of which were building and infrastructure improvement projects in the construction phase at June 30, 2011, were not recorded in the capital asset accounting records. In some of these instances, significant project expenditures were not capitalized because the magnitude and scope of the project was not sufficiently understood based on analysis of the current period's expenditures or because the project was divided into smaller subcomponents that did not individually meet the State's capitalization threshold.

The State's ability to accumulate expenditures for project-based capital assets needs to be improved within the State accounting system. The Office of Accounts and Control should work closely with the State's Budget Office to identify authorized projects meeting the State's capitalization criteria. This process would allow the State to identify projects that are expected to meet the State's capitalization threshold prior to their start-up rather than attempting to make that identification through later analysis. Once identified, the Office of Accounts and Control should continue to utilize unique project numbers that will allow the State to track all related project expenditures regardless of how many fiscal periods the project spans. The State may need to develop a standard report in RIFANS that details cumulative project expenditures by fiscal year as a means of periodically reconciling reported construction in progress for all active but incomplete capital projects. This report would also provide the State with a resource for evaluating agency compliance with appropriated funding for capital projects.

Periodic Physical Inventories

The State has increased efforts devoted to performing physical inventories of capital assets. This important control measure can be further enhanced by ensuring all departments and agencies have a physical inventory at least every three years and prioritizing larger departments which have significant investments in capital assets.

During fiscal 2011, the State completed physical inventories of eleven State agencies. Inventories of these agencies resulted in the removal of a significant number of capital assets (mostly office equipment) from the State's accounting records. Most of the inventory exceptions related to older equipment which was disposed but not reported to the Office of Accounts and Control as required by State policy.

We noted that the Departments of Environmental Management, Transportation, and Behavioral Health, Developmental Disabilities, and Hospitals, all of which have significant amounts of capital assets, have not been inventoried since the initial recording of capital assets in fiscal 2002. Physical inventories should be performed on a cyclical basis such that each agency is visited at least every three years.

The State should also address missing data elements (e.g., asset location) in the capital asset records to improve the accuracy of the database and enhance the efficiency of physical inventories when conducted. The timeliness of recording the results of the physical inventories could also be enhanced.

Departments and agencies do not have direct access to the capital asset module of the State's accounting system. Enhanced access to system information should be provided to the departments and agencies to engage their assistance in maintaining the accuracy of the capital asset data and to allow them to perform interim departmental inventories in between the Accounts and Control cyclical inventories.

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. During fiscal year 2011, the State developed a RIFANS report to identify capital assets by funding source. Additionally, the State's weaknesses in accounting and physical controls over capital assets acquired prior to fiscal year 2007, coupled with delays in performing physical inventories of all State agencies, 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.

RECOMMENDATIONS

2011-7a Enhance procedures to improve the tracking and monitoring of capital projects within RIFANS. Implement procedures to identify capital projects that qualify for capitalization upon project approval rather than a subsequent analysis of project expenditures incurred.

2011-7b Continue improvement of 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.

2011-7c Improve accounting controls to ensure the identification of federal funds utilized to purchase or construct capital assets.

Finding 2011-8

DOCUMENTATION AND MONITORING OF CHANGES TO RIFANS ACCESS AND APPROVAL HIERARCHIES

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

When departments and agencies require modifications to a user's RIFANS access, these changes are initiated through the completion of a form routed for approval by the Office of Accounts and Control. These forms are not retained to support the authorization for changes in the design of the agency approval hierarchies. The Office of Accounts and Control is responsible for updating its documented agency hierarchies to reflect the authorized design of the structure at each agency for general ledger, accounts payable and purchase requisition functions. This current process is manually intensive, difficult to keep updated, and deficient in documenting changes in user access over a period of time.

Additions, deletions and changes in authorization are subsequently entered into the RIFANS system by programmers within the Division of Information Technology (DoIT). There is no current system capability that preserves a clear audit trail of modifications made to system access. RIFANS does not have an adequate reporting function capable of identifying and summarizing additions, deletions, and changes to system access for a period of time upon request. Further, the RIFANS system exists without a "versioning" functionality, the storing of data at a series of snapshots in time, rather than overwriting updates to the previous version. As such, the system cannot retroactively access the data tables that existed at a prior point in time, nor does it log the changes made in a form that allows for monitoring of system changes.

The State should explore a more automated manner within RIFANS to document changes in system access. This will not only allow for an improved audit trail of transactions processed through the system but also provide a monitoring tool to ensure that only authorized changes are being made to employee access within RIFANS. The State should develop reports that show when individuals have delegated their authority to other employees, a functionality that RIFANS allows in certain situations. Currently, no policy or restrictions exist to limit employees from delegating their authority to others and this functionality could be utilized to circumvent the agency hierarchy controls established within RIFANS. Such monitoring is required to ensure that unauthorized changes in system access are not being made in RIFANS and to ensure that individuals are only delegating their authority in limited and acceptable situations.

RECOMMENDATIONS

2011-8a Institute a state-wide policy regarding the assignment, delegation or granting of approval authority. This policy should include specific requirements and limitations, and prohibit long-term arrangements without express authorization from the Office of Accounts and Control. Develop procedures to monitor delegated access within RIFANS.

2011-8b Design procedures and reports to enhance the documentation and monitoring of all changes to agency hierarchies in RIFANS.

Finding 2011-9

MEDICAL ASSISTANCE PROGRAM – MANUAL PAYMENTS BY FISCAL AGENT

As described in Finding 2011-87 (Section III – Federal Award Findings and Questioned Costs), manual payments, which approximated $200 million in fiscal 2011, were issued by the State's fiscal agent in conjunction with the State's Medical Assistance Program (Medicaid). Although authorizations for manual payments are tracked with unique control numbers, manual payments essentially allow EOHHS personnel the ability to authorize payments outside control measures in place for other State disbursements. In contrast, program payments made through regular MMIS cycles are system-determined amounts subject to the processing controls of the system. Similarly, payments made through the State's accounting system are subject to procurement and disbursement controls as well as multiple levels of authorization and review. EOHHS should limit manual payments by the fiscal agent by utilizing the State's accounting system or other enhanced control mechanisms.

Finding 2011-10

MEDICAL ASSISTANCE PROGRAM – PROGRAM OVERSIGHT AND MONITORING

As described in Finding 2011-85 (Section III – Federal Award Findings and Questioned Costs), the Executive Office of Health and Human Services (EOHHS) is mainly responsible for the administration and oversight of the State's Medical Assistance program (Medicaid). The administration and oversight of Medicaid is dependent on EOHHS having sufficient personnel resources to discharge this responsibility. Various program operations have been delegated to the State's fiscal agent or other contractors over time as departmental resources have declined. The State does not have sufficient personnel dedicated to the consideration and documentation of internal controls, including related monitoring procedures performed to ensure the proper administration of significant program areas. Considering the Medicaid program's size and complexity (program expenditures exceeded $2 billion in fiscal 2011), documenting and considering internal control over program operations requires more attention. Federal regulations require non-federal entities to establish and maintain internal control designed to ensure compliance with federal laws, regulations, and program compliance requirements. The State should consider additional personnel resources dedicated to monitoring and documenting internal control over Medicaid program operations.

Finding 2011-11

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

2011-11a Complete an initial assessment of compliance with recently promulgated systems security standards for the State's mission critical systems.

2011-11b 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.

2011-11c Require systems security certification procedures to be performed by DoIT prior to any significantly modified application systems becoming operational.

2011-11d Consider additional information system security personnel resources to assist in the daily information systems security operational and monitoring procedures.

Finding 2011-12

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

2011-12 Review activities of privileged users (system administrators) on a scheduled basis to ensure that additions, modifications, and deletions initiated by them are appropriate.

Finding 2011-13

LEGACY SYSTEMS – ACCOUNT STRUCTURE CONVERSION

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

RECOMMENDATION

2011-13 Complete conversion of subsidiary accounting systems using the legacy account structure to the new RIFANS account structure.

Finding 2011-14

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

2011-14 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 2011-15

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.

Program Change Management Control - Policy Directives

Division of Information Technology (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.

Program Change Management Control - Procedural Guidance

Procedural guidance provides detailed information pertaining to the specific activities requiring implementation 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 should 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, DoIT acquired 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 2011, ClearQuest continued to function effectively; however, operational issues relating to ClearCase had not been addressed. Instead of making the program change process more efficient and productive, the process continued to be cumbersome and time-consuming. Software/hardware problems, improper installation/configuration and slow download speeds contributed to product dissatisfaction and resulting non-use. 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 the appropriate combination of operational, procedural and/or technical adjustments required to use the package in a manner that results in adequate program change control. Further, DoIT should implement a formal program change control process for its mainframe applications.

RECOMMENDATIONS

2011-15a DoIT needs to design, develop, formalize and implement procedural guidance manuals detailing specific requirements for program change control.

2011-15b Re-assess the use of the ClearCase software package to determine the appropriate combination of operational, procedural and/or technical adjustments required to use the package in a manner that results in adequate program change control.

Finding 2011-16

DEPARTMENT OF REVENUE – CONTROLS OVER ELECTRONIC TRANSMISSION OF TAX PAYMENTS AND OTHER INFORMATION

Electronic transmission of tax payments and tax information for uploading to the Division of Taxation's (Taxation) systems represents the majority of taxes collected and data received by Taxation.

Ensuring the security and integrity of this data from transmission through posting to taxpayer records is critical.

The majority of the State's tax revenues (approximately $2.5 billion) is received electronically. Funds are deposited automatically into the State's bank accounts and electronic files, which contain abbreviated tax payment data (taxpayer identification number, payment amount, tax type, tax period), are transmitted by the State's financial institutions. Through a lockbox arrangement with a financial institution, other returns and payments that are mailed to Taxation are processed and converted to electronic data files. Other initiatives have increased the receipt of data in electronic form. For example, Taxation began accepting electronic returns and payments for insurance taxes through a system called OPTins - OPTins is operated and maintained by the National Association of Insurance Companies (NAIC).

Generally, these electronic files are in an open text format that allows, rather than restricts, manipulation of data prior to recording in Taxation's mainframe systems. Additionally, the files reside in an unprotected network folder prior to and after upload. These electronic files should be in a file format that is secure and configured to facilitate an efficient upload to Taxation's systems without need for manual intervention.

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

To ensure that the proper level of data protection is in place, Taxation, working with the Division of Information Technology (DoIT), should perform a "data classification" review of these files. DoIT has polices requiring that all State data being captured, maintained and reported by any agency or department 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, the data must be protected by an acceptable method of data encryption.

Ideally, electronic data received by Taxation should be encrypted and then be uploaded to Taxation's systems through automated processes which do not require manual intervention or present an opportunity for manipulation. If changes are required to data files, tracking of the specific changes and the individual performing the changes should be controlled and documented.

<u>RECOMMENDATIONS</u>

2011-16a Perform a "data classification" review consistent with DoIT policy to ensure the proper level of data protection (e.g. encryption) is in place.

2011-16b Secure all electronic files containing taxpayer information residing on the Division of Taxation's network to ensure data integrity.

2011-16c Control all electronic files that contain taxpayer information by requiring the file format to be secure and configured to the computer system in order to allow automatic transmission without any manual intervention.

2011-16d Develop monitoring and reporting procedures to ensure the proper upload of data files.

2011-16e Improve controls over the processing of electronic insurance tax returns by better segregating certain duties performed by Taxation.

Finding 2011-17

DEPARTMENT OF REVENUE – PERSONAL INCOME TAX ADMINISTRATION

W-3 Reconciliations

Employers are required to file an annual W-3 reconciliation return comparing withholding payments due to actual amounts paid to the Division of Taxation (Taxation). While some employers file paper W-3 reconciliation returns, in most instances the reconciliation is calculated electronically by Taxation's mainframe 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 reconciliation returns for tax year 2010 were due February 28, 2011. During fiscal 2011, W-3 paper returns for tax years 2000 through 2010 were posted to the mainframe system. However, as of June 30, 2011, the system-generated W-3 reconciliation returns for tax years 2009 and 2010 had not yet been posted. The backlog in posting W-3 reconciliation returns delays identifying potential overpayments and underpayments of employer withholding taxes.

RECOMMENDATION

2011-17a Process W-3 reconciliation returns timely to identify any underpayment of employer withholding taxes.

Management Review of Overpayment Carry-forwards

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. The lack of such a review could result in an unidentified overstatement of the refund/carry-forward amount.

RECOMMENDATION

2011-17b 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 or taxpayer errors) 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, 2011, there were 49,429 returns dating from 1994 through 2011. Approximately, 26,000 returns include requests for refunds totaling more than $13.5 million.

This backlog results in an 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

2011-17c Investigate and resolve returns on the error register in a timely and efficient manner. Apply refund offsets and bill taxpayers amounts owed.

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 updated taxpayer information by running specific reports (WT9074 and WT9075) since March 2009 to 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

2011-17d Review and update taxpayer information to ensure taxpayers are remitting tax withholdings on the required frequency.

Finding 2011-18

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 did not require supervisory review prior to posting until May 2011 when a new policy was established. From July 1, 2010 to May 1, 2011 over $68 million in ARC transactions were posted to the personal income tax system. There were six individual ARC transactions over $1 million each, totaling $18.9 million. Even though Taxation established a new approval procedure, ARC transactions prepared by certain section heads (corporate and e-government sections) are not required to be reviewed and no additional Taxation approval is required.

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.

RECOMMENDATIONS

2011-18a Subject all accounts receivable corrections to supervisory review including those created by the corporate tax and e-government section heads.

2011-18b Improve data entry controls over ARC transactions.

Finding 2011-19

DEPARTMENT OF REVENUE - CONTROLS OVER TAX REVENUE RESULTING FROM DATA WAREHOUSE BILLINGS

The Department of Revenue – Division of Taxation (Taxation) utilizes a data warehouse to (1) collect data from 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 2011, 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 2011.

"Notices" are generated from the data warehouse, which operates independently of the 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 results in recognition of a tax receivable balance within the tax systems. 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 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.

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 August 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 these notices versus 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 2011, 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, Taxation 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 would result in Taxation's compliance with their established accounts receivable control policies.

RECOMMENDATIONS

2011-19a Identify corrected and adjusted tax amounts for transactions emanating from the data warehouse within the mainframe systems with unique codes to allow separate identification for analysis and collection purposes.

2011-19b Establish an allowance for uncollectible taxes receivable, which reflects the unique collection characteristics of the data warehouse notices/billings.

2011-19c 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 2011-20

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 2011-21

DEPARTMENT OF REVENUE – INFORMATION TECHNOLOGY (IT) GOVERNANCE AND SECURITY– CONFIDENTIAL COMMUNICATION

A finding concerning the IT Governance and Security of Taxation's Information Systems was communicated confidentially due to the potential impact on taxpayer compliance.

Finding 2011-22

FINANCIAL REPORTING – INTERMODAL SURFACE TRANSPORTATION FUND – USE OF RIDOT FMS AND RIFANS ACCOUNTING SYSTEMS

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

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

- RIDOT FMS and RIFANS each utilize separate and distinct account structures, which 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 for certain financial reporting purposes. When the project-level RIDOT FMS data is used, it must be reconciled and adjusted to conform to RIFANS accounting conventions. "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 fund. 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

2011-22 Reevaluate the continued operation of two separate accounting systems to support financial reporting for the IST fund. Establish short and long-term goals to ensure reliable information is available to support timely financial reporting.

Finding 2011-23

INTERMODAL SURFACE TRANSPORTATION FUND - FINANCIAL REPORTING

The Intermodal Surface Transportation (IST) Fund, a special revenue fund, includes financial reporting for transportation related activities of the State, including highway construction programs, and 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.

Controls over the Preparation of Financial Statements

Controls can be improved over the preparation of financial statements to ensure consistent and accurate reporting of fund activity in accordance with generally accepted accounting principles. Several account balances reflected in the fiscal 2011 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. RIDOT's current processes to identify accounts payable are manually intensive and therefore susceptible to omitting or duplicating payables. RIDOT's process to record legal claims and settlements should also be improved to better identify those amounts that are current fund liabilities based on amounts to be liquidated within the next year.

Classification of fund balance components – Weaknesses in control over financial reporting resulted in the following misstatements in the reported IST Fund balance amounts:

- RIDOT was unable to explain changes in fund balance components tied to specific funding sources when those changes were different than expectations. For example, our analysis of fund balance highlighted unrecorded federal receivables in the draft financial statements. RIDOT should improve its controls over the reporting of fund balance by analyzing its components more frequently during the fiscal year.

- RIDOT did not include the unspent portion of gas tax proceeds dedicated for repayment of the Motor Fuel Bonds as restricted fund balance. In accordance with GARVEE and Motor Fuel bond covenants, any amounts available from the dedicated portion of the State's gas tax are restricted for future debt service.

- Additionally, fund balance did not properly reflect all accruals recorded at year-end.

The above misstatements were corrected through audit adjustments in the fiscal 2011 IST Fund financial statements.

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

2011-23a Strengthen control procedures over financial reporting to ensure accurate identification of accounts payable, amounts due from the federal government, and categories of fund balance within the general ledger.

2011-23b Analyze the change in fund balance by funding source to ensure that results are consistent with the programs and activities being accounted for within the IST Fund.

2011-23c 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 2011-24

TRANSPORTATION INFRASTRUCTURE REPORTING

Transportation infrastructure is the most material capital asset category reported on the State's financial statements. Controls should be improved over the process used to accumulate reported transportation infrastructure amounts to ensure accurate reporting of such investments.

Process to Accumulate Infrastructure Outlays

The process performed by RIDOT to determine capitalized infrastructure outlays is manually intensive and requires reconciliation to the State's accounting system. Amounts reported as capitalized infrastructure are derived from project-level data contained in the RIDOT Financial Management System (FMS). The project information obtained from the FMS includes large amounts of data that must be sorted, subtotaled, categorized and reconciled. This significant volume of transactions and required data analysis increases the risk of error.

RIDOT's process to accumulate capital outlays utilizes actual construction expenditures but includes estimated amounts for design costs for some projects. Estimates are currently utilized, in certain instances, because RIDOT's system does not report design costs as part of project expenditures. Design expenditures, which are normally contracted separately from project construction, must be manually allocated or estimated. RIDOT should implement more effective systemic controls to accurately account for actual design costs relating to infrastructure projects.

Significant misstatements relating to the State's reporting of infrastructure were noted during fiscal 2011. The most significant related to the State's failure to recognize the completion of certain projects totaling $108 million from previously reported construction in progress. The State did not recognize an additional $22.2 million in expenditures that required capitalization as construction in progress during fiscal 2011. Although the above misstatements were corrected through audit adjustment in the State's financial statements, the significant number of issues noted during fiscal 2011 indicates that the State needs to improve controls over its recording of infrastructure outlays. Controls can also be improved to more accurately identify when infrastructure assets are placed in service.

Infrastructure Disposals and Asset Impairments

Identifying and recording infrastructure disposals continues to be a significant weakness in RIDOT's financial reporting. RIDOT has not disposed of any infrastructure assets since their initial recording which includes approximately 30 years of infrastructure investments by the State. Although disposed infrastructure was mostly fully depreciated and therefore not material in impact to the State's financial statements at June 30, 2011, RIDOT must develop policies and procedures to identify and record infrastructure asset disposals. For example, as a result of the recently completed I-WAY project, various sections of interstate highway, previously in use, were demolished. Although this occurred largely during fiscal 2011 no infrastructure disposals were recorded. Failure to fully quantify infrastructure disposals could impact the accuracy of the State's financial statements in future years.

Generally accepted accounting principles for governmental entities require that capital assets be evaluated for impairment when events or changes in circumstances suggest that the service utility of a capital asset may have significantly and unexpectedly declined. These standards also require adjustment of the carrying value of capital assets that meet certain impairment criteria. RIDOT was unable to document its consideration of transportation infrastructure assets that may meet the impairment criteria and provide such documentation to the Office of Accounts and Control for the purpose of preparing the State's financial statements.

Explore an Automated Approach to the Accumulation of Capitalized Infrastructure Outlays

The control deficiencies noted here are significantly interrelated to the issues detailed in Finding 2011-21 which describes the use of two incompatible accounting systems to prepare financial statements for the IST Fund. Due to the use of the two systems, accumulation of infrastructure outlays meeting the State's capitalization criteria is performed independent of either system. Data is drawn from both systems into massive spreadsheets which eventually yield the amounts needed for financial reporting purposes. The design of RIDOT's FMS envisioned that system providing capital asset (infrastructure) financial reporting information; however, the use of the two systems in the current configuration necessitates the inefficient and error-prone spreadsheet approach.

The Department of Transportation and Office of Accounts and Control should explore whether there may be a less cumbersome and more efficient means, ideally through an automated systems approach, to accumulate infrastructure investments for inclusion in the financial statements.

RECOMMENDATIONS

2011-24a Improve controls over the recording of infrastructure investment and disposal in the State's financial statements.

2011-24b Improve controls for determining when infrastructure assets are placed in service.

2011-24c Accumulate and link actual design as well as construction costs related to a project. Include all project costs from design through project completion in the amounts capitalized as infrastructure.

2011-24d Explore ways that capitalized infrastructure outlays could be accumulated through an automated systems approach rather than the inefficient and error-prone spreadsheet approach currently used.

2011-24e Evaluate and document the consideration of whether any of the State's transportation infrastructure has been impaired consistent with the criteria outlined in generally accepted accounting principles applicable to governmental entities.

Finding 2011-25

RIDOT - DISASTER RECOVERY AND CONTINGENCY PLAN

The RI Department of Transportation (RIDOT) relies on two mission critical application systems to manage its business operations: the Project Management Portal (PMP) and Financial Management System (FMS). Both systems are periodically backed up and able to be restored in the event of a localized system failure. However, maintaining backups of system data only addresses part of the disaster recovery equation. To address this, RIDOT formally documented and tested a disaster recovery and contingency plan for its IT infrastructure during fiscal 2011; however, this plan did not include the PMP.

An appropriate disaster recovery and 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. DoIT has published security policies stating that all State IT systems require contingency plans *(Policy 10-05: Management Controls, §5)*. RIDOT should coordinate with the Division of Information Technology for assistance in developing a formal written disaster recovery and contingency plan that includes the PMP. Upon development, the 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

2011-25 Develop and implement a comprehensive disaster recovery and contingency plan for all RIDOT systems. Upon approval, periodically test and review the plan in accordance with DoIT published policies.

Finding 2011-26

RIDOT – CONTROLS OVER PROGRESS PAYMENT DATA FILES

There are instances where payment data is manually verified prior to progress payment data files being transmitted from the Project Management Portal (PMP) to the Financial Management System (FMS). In addition, some data elements are manually altered after being transmitted from the PMP but prior to posting to the FMS accounting system.

While the need to manually verify and modify data was explained, the lack of adequate compensating controls increases the risk of inaccurate payments and unauthorized changes. A review of the entire file transfer process, from progress payment file creation in PMP to invoice creation in FMS to vendor disbursement in RIFANS (the State's accounting system), should be performed to identify critical points where automated controls should be implemented to eliminate all instances of manual involvement.

Upon posting to FMS, a hold is automatically placed on progress payments pending supervisory approval. RIDOT Finance Office policy forbids approving and releasing holds of self-initiated progress payments. However, the FMS allows such actions - no automated control is in place to prevent an individual from doing so. An actively enforced FMS approval hierarchy would reduce separation of duties concerns.

Approved progress payment invoices are transmitted to RIFANS for final processing and to make vendor payments. Daily, FMS receives a RIFANS file containing all progress payments paid the previous day in order to record the payment in its database. Although some reviews are conducted (i.e. identify unpaid progress payments), there are no automated controls in place to identify RIFANS payments that do not agree with the original FMS invoice. Automatically identifying such payment discrepancies for review by appropriate personnel would reduce the risk of an improper payment being made.

RECOMMENDATIONS

2011-26a Review the progress payment file transfer process to identify critical points where automated controls could be implemented to eliminate the need for manual intervention.

2011-26b Create and implement appropriate approval hierarchies. Automatically identify RIFANS/FMS payment discrepancies for review.

Finding 2011-27

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.

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

2011-27 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 2011-28

TRANSMISSION OF TEMPORARY DISABILITY INSURANCE (TDI) PROGRAM DISBURSEMENT DATA FILE

Three data files representing TDI program disbursements (direct deposit benefits data, positive pay data, and refunds positive pay data) are transmitted by the Department of Labor and Training (DLT) to a financial institution. We found that the data files are transmitted in an open text rather than encrypted format. The major risk in transmitting sensitive data in this manner is that if the transmission was received or intercepted by anyone other than the intended recipient, the data may be 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 data corruption or interception since this computer is also used for other internet access.

This finding was initially reported in our fiscal 2010 audit results. DLT's IT personnel indicated they were planning to resolve this weakness in fiscal 2011 by implementing the needed software and operational changes; however, this did not occur.

RECOMMENDATION

2011-28 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.

Finding 2011-29

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

In May 2011, the Rhode Island Lottery (the Lottery) became aware of a potential fraud involving the bonus play rewards program ("bonus play program") at Twin River, a licensed video lottery facility. An employee with access to the bonus play system allegedly awarded bonus play credits to themselves and family members for unauthorized gain. This potential fraud, which was discovered by compensating controls employed at the facility, was investigated by the Lottery and the State Police and led to the arrest and arraignment of the employee. The Lottery plans to seek reimbursement from Twin River for the amount of any loss attributable to this unauthorized bonus play activity.

Twin River is currently planning to install a new version of their bonus play rewards software. This updated version of the software is expected to address the current system access design limitations that facilitated the potential fraud described above.

Finding 2011-30

CONVENTION CENTER AUTHORITY – MATERIAL NONCOMPLIANCE - FUNDING OF THE OPERATING RESERVE, DEBT SERVICE RESERVE, AND RENEWAL AND REPLACEMENT COMPONENTS OF ITS RESTRICTIVE COVENANTS

During the fiscal year ended June 30, 2011, the Convention Center Authority was unable to fund the Operating Reserve, Debt Service Reserve, and Renewal and Replacement components of its restrictive covenants pursuant to the bond indentures.

Finding 2011-31

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

As noted in the prior year audit, the CFO has the authority to initiate, process, and record in the general ledger a wire transfer from the Turnpike and Bridge Authority's (the Authority) operating cash accounts. A person independent of the CFO does not review and authorize the wire transfer transaction before it is executed by the bank. Also, the CFO prepares the Authority's bank reconciliations; however, a person independent of the CFO does not review and approve the bank reconciliations.

RECOMMENDATION

2011-31 We understand that the Authority's Board of Directors and Executive Director review monthly financial reports prepared by the CFO. 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 (for example, the Executive Director, Chairperson of the Board of Directors), to verify and authorize the wire transfer request initiated by the CFO before the wire transfer is executed.
- Assign to a person independent of the CFO 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.

Finding 2011-32

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY – RECONCILIATION OF INVESTMENTS

As part of our audit procedures, we requested confirmation of the dollar amount of investments at year-end from entities holding the Turnpike and Bridge Authority's (the Authority) investments. As a result of the confirmation process, we noted that the confirmed dollar amount of certain investments at year-end did not agree to amounts recorded in the general ledger. We proposed and management reviewed, approved, and accepted an audit adjustment to record certain investment activities not previously recorded.

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RECOMMENDATION

2011-32 We recommend that a person independent of the person posting investment activity in the Authority's general ledger prepare a detailed investment reconciliation for each investment account at the end of each month, and compare the reconciled balance to the amount recorded in the general ledger to determine whether all transactions occurring within all investment accounts have been recorded completely and accurately.

Finding 2011-33

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY – RECONCILIATION OF TOLL REVENUE AND RELATED ACTIVITIES

The Turnpike and Bridge Authority (the Authority) receives monthly reports from ACS summarizing, among other information, the dollar amount of toll activities resulting from the use of the E-ZPass system. Information reported in the monthly reports produced by and received from ACS is used to record certain toll activities in the Authority's general ledger, including, but not limited to, recording toll revenue earned during the month, the electronic toll liability (prepaid toll payments received from customers) at the end of each month, and amounts due to other states at the end of each month as a result of passengers using a Rhode Island transponder to pay tolls when traveling in other states. During our audit, we noted that certain amounts summarized and reported by ACS did not agree to amounts reported in the general ledger. We proposed and management reviewed, approved and accepted audit adjustments to reconcile toll revenue, the electronic toll liability and amounts payable to other states.

RECOMMENDATION

2011-33 We recommend that a person independent of the person recording toll-related financial activity in the Authority's general ledger reconcile recorded amounts to the amounts summarized and reported by ACS at the end of each month and investigate and correct any differences on a timely basis.

Finding 2011-34

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY – CUT-OFF AND CLASSIFICATION OF CONSTRUCTION COSTS

During our audit, we noted that the Turnpike and Bridge Authority (the Authority) did not record estimated liabilities for construction work completed from the date through which work was complete as reported on the last certified AIA document (or similar document) through the year-end date.

RECOMMENDATION

2011-34 We recommend that the CFO and the Chief Engineer work cooperatively to estimate liabilities for construction work completed from the date through which work was complete as reported on the latest certified AIA document through each month-end date so that construction-related costs are appropriately capitalized, and construction-related liabilities are recognized in the period incurred.

Finding 2011-35

RHODE ISLAND PUBLIC TELECOMMUNICATIONS AUTHORITY – RESTATEMENT OF NET ASSETS

The Public Telecommunications Authority's (the Authority) 2010 consolidated statement of net assets, as previously reported, included assets capitalized under the terms of a bargain purchase option contained within a sublease with the State of Rhode Island for the land and building located at 50 Park Lane, Providence, Rhode Island. This sublease expired in 2009; the bargain purchase option was not exercised. Accordingly, the asset and related accumulated depreciation as reported in the June 30, 2010 consolidated financial statements, which net to $3,213,187, have been removed from the 2010 consolidated statement of net assets as a prior period adjustment.

Additionally, due to a calculation error, the amount reported as due to the State of Rhode Island at June 30, 2010 was understated by $68,282. This amount has been adjusted to the actual amount of $107,781 as a prior period adjustment.

Additionally, due to a change in Broadcasting format, the Authority no longer uses an analog antenna located on a tower in Johnston, Rhode Island. The antenna was located on the tower under the terms of a lease which expired in 2009. The owners of the tower have demanded the antenna be removed. Costs associated with the removal of the antenna are estimated at $45,000. The liability for $45,000 has been recognized as a prior period adjustment.

RECOMMENDATION

2011-35 We recommend that the Authority revise its policies and procedures to include a review, performed by the Board of Directors, of the calculations and the amounts used in the consolidated financial statements.

Finding 2011-36

RHODE ISLAND PUBLIC TELECOMMUNICATIONS AUTHORITY – BANK RECONCILIATION

During our audit procedures, we noted that checks written during the last week of June 2011 were dated July 2011. The checks were sent to vendors prior to July 2011 and, of those checks, $44,472 cleared the banks before June 30, 2011. The Public Telecommunications Authority (the Authority) included the amount as negative outstanding checks on the June 2011 reconciliation, resulting in a reported overstatement of cash and understatement of prepaid expenses.

RECOMMENDATION

2011-36 We recommend that the Authority date checks on the date they are written to accurately report the cash balance at month's end.

Finding 2011-37

RHODE ISLAND PUBLIC TELECOMMUNICATIONS AUTHORITY – RECORDING OF DEPOSIT

During our audit procedures, we noted that an amount given to the Public Telecommunications Authority (the Authority) by a not-for-profit foundation was recorded as a deposit; the amount was subsequently forwarded to a for-profit entity. Source documentation stated that the amount was a contribution to the Authority by the Foundation. The Authority stated that the amount was given to the Authority by the Foundation with instructions to forward to the for-profit entity.

RECOMMENDATION

2011-37 We recommend that the Authority put in place procedures that would require sufficient documentation of transactions of this nature to support its treatment as a deposit payable to a third party.

Finding 2011-38

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY – SEGREGATION OF DUTIES - FINANCE

During the fiscal year ended June 30, 2011, the Higher Education Assistance Authority (the Authority) experienced turnover in its finance department. Thus, certain duties that were previously segregated are performed by the chief financial officer (CFO). As a result, the CFO prepares, reviews, and approves bank and investment account reconciliations; has access to blank check stock; and can transfer cash between financial institutions. Properly segregated duties minimize the risk of potential material financial statement misstatement, whether due to error or fraud.

RECOMMENDATION

2011-38 We recommend that the Authority evaluate its current human resources and segregate the above functions such that the CFO can independently exercise his review responsibilities.

Table of Findings by Federal Program

Program Title	CFDA	Applicable Findings
Supplemental Nutrition Assistance Program (SNAP) Cluster:		
Supplemental Nutrition Assistance Program (SNAP)	10.551	11-42
State Administrative Matching Grants for the SNAP Program	10.561	11-40, 11-43, 11-44
Child Nutrition Cluster:		
School Breakfast Program	10.553	11-41
National School Lunch Program	10.555	11-39, 11-41
Special Milk Program for Children	10.556	11-41
Summer Food Service Program for Children	10.559	11-41
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	11-39, 11-40, 11-41
Mortgage Insurance – Homes	14.117	None
Qualified Participating Entities (QPE) Risk Sharing	14.189	None
Section 8 Project-Based Cluster:		
Section 8 Housing Assistance Payments Program – Special Allocations	14.195	None
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	None
Unemployment Insurance	17.225	11-39, 11-40, 11-45, 11-46
WIA Cluster:		
WIA Adult Program	17.258	11-41, 11-47, 11-48, 11-49
WIA Youth Activities	17.259	11-41, 11-47, 11-48, 11-49
WIA Dislocated Workers	17.260	11-41, 11-47, 11-48, 11-49
WIA Dislocated Worker Formula Grants	17.278	11-41, 11-47, 11-48, 11-49
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	11-40, 11-41, 11-50, 11-51, 11-52, 11-53, 11-54
Transportation Infrastructure Finance and Innovation Act (TIFIA) Program	20.223	None
Federal Transit Cluster:		
Federal Transit – Capital Investment Grants	20.500	11-41, 11-50, 11-55, 11-56
Federal Transit – Formula Grants	20.507	11-41, 11-50, 11-55, 11-56
Capitalization Grants for Clean Water State Revolving Funds	66.458	None
Capitalization Grants for Drinking Water State Revolving Funds	66.468	None
Student Financial Assistance Cluster:		
Federal Supplemental Educational Opportunity Grants	84.007	None
Federal Family Education Loans	84.032	None
Federal Work-Study Program	84.033	None
Federal Perkins Loan Program – Federal Capital Contributions	84.038	None
Federal Pell Grant Program	84.063	None
Federal Direct Student Loans	84.268	None
Academic Competitiveness Grants	84.375	None
National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	None
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	None

Program Title	CFDA	Applicable Findings
Student Financial Assistance Cluster (continued):		
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	None
ARRA - Title I Grants to Local Educational Agencies	84.389	None
Special Education Cluster:		
Special Education – Grants to States (IDEA Part B)	84.027	None
ARRA - Special Education – Grants to States (IDEA Part B), Recovery Act	84.391	None
Special Education – Preschool Grants (IDEA Preschool)	84.173	None
ARRA - Special Education – Preschool Grants (IDEA Preschool), Recovery Act	84.392	None
Federal Family Education Loans (Guaranty Agency)	84.032	None
State Fiscal Stabilization Fund (SFSF) Cluster:		
ARRA - SFSF - Education State Grants, Recovery Act	84.394	None
ARRA - SFSF - Government Services, Recovery Act	84.397	None
TANF Cluster:		
Temporary Assistance for Needy Families	93.558	11-39, 11-40, 11-41, 11-42, 11-44, 11-57, 11-58, 11-59, 11-60, 11-61
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families – State Programs	93.714	11-39, 11-40, 11-42, 11-44, 11-57, 11-58 ,11-59, 11-60, 11-61
Low-Income Home Energy Assistance	93.568	11-39, 11-41, 11-62, 11-63, 11-64, 11-65, 11-66
CCDF Cluster:		
Child Care and Development Block Grant	93.575	11-41, 11-42, 11-44, 11-57, 11-58, 11-67
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	11-41, 11-42, 11-44, 11-57, 11-58, 11-67, 11-68, 11-69
ARRA - Child Care and Development Block Grant	93.713	11-42, 11-44, 11-57, 11-58
Children's Health Insurance Program	93.767	11-41, 11-42, 11-57, 11-60, 11-70, 11-71, 11-72
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	11-41
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777	11-41
Medical Assistance Program	93.778	11-41, 11-42, 11-44, 11-57, 11-60, 11-70, 11-72, 11-73, 11-74, 11-75, 11-76, 11-77, 11-78, 11-79, 11-80, 11-81, 11-82, 11-83, 11-84, 11-85, 11-86, 11-87
Research and Development Cluster	93.701	11-88

Finding 2011-39

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.

Each department is responsible for drawing federal funds for the programs it manages. Improvements have been made in fiscal 2010 and 2011 to improve statewide controls over federal cash management requirements. Further improvements can be made to enhance controls over cash management by (1) ensuring all agencies follow the standardized control procedures and (2) continuing to refine the draw techniques for certain programs to conform to the unique aspects of those programs.

In fiscal 2010, a new state accounting system (RIFANS) report was developed to assist departments in drawing cash for federal programs. The report effectively isolates cash disbursements by CFDA number, deriving data directly from the accounting system. The report is the State's primary control procedure to ensure departmental compliance with the Treasury-State Agreement. Many, but not all, agencies are using the RIFANS report which weakens statewide controls to ensure compliance with federal cash management requirements. Some agencies continue to use different methods to support drawdown amounts – in some cases this is due to unique program provisions or when certain activity is posted to the RIFANS accounting system. Centralized monitoring procedures can be enhanced to ensure consistent use of the RIFANS report thereby improving controls over compliance.

Draw techniques were modified in the fiscal year Treasury/State Agreement to streamline and more accurately reflect program disbursement patterns and actual practice. However, some of these changes may require refinement to reflect the specific systems and circumstances of some benefits programs. For example, the Treasury/State Agreement reflects one technique when two funding techniques may be more appropriate to better reflect the disbursement patterns for benefits and administration.

The following table summarizes major programs administered by the primary government.

Fiscal 2011 major programs/clusters administered by the primary government	15
Fiscal 2011 major programs included in the Treasury/State agreement	13
Total number of components/funding techniques utilized for programs included in the Treasury/State Agreement	14
Total number of components/funding techniques in compliance with the agreement	9
Instances where the funding technique should be refined to better reflect actual practice or program disbursement patterns	3

Ultimately, compliance, efficiency, and control could be best enhanced through automation of federal draws through the State's centralized accounting system. Some states have moved to an automated process for drawing federal funds. This could be accomplished by programming the RIFANS accounting system to accumulate expenditure transactions meeting certain criteria on a daily basis and use that data to initiate an automatic draw of federal funds through the federal government's automated funds management systems.

Questioned Costs: None

RECOMMENDATIONS

2011-39a Reinforce the 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.

2011-39b Investigate automating all draws of federal funds through and interface between the RIFANS accounting system and federal government's automated funds management systems.

Finding 2011-40

VARIOUS PROGRAMS – refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

MANAGEMENT OF EQUIPMENT ACQUIRED WITH FEDERAL FUNDS

As described in Finding 2011-7 (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. The State needs to instruct agencies regarding the use of newly designed RIFANS report to identify capital assets by funding source. Agencies administering federal programs will need to utilize the report to determine when capital assets were acquired with federal funds. Any remaining book value or gain attributable to federal funding should be credited to the federal grantor when the capital asset is sold or disposed.

Finding 2011-41

VARIOUS PROGRAMS – refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

FEDERAL FUNDING ACCOUNTABILITY AND TRANSPARENCY ACT – REPORTING REQUIREMENTS

The Federal Funding Accountability and Transparency Act (FFATA) requires prime recipients of federal awards made on or after October 1, 2010, to accumulate and report subaward and executive compensation data regarding their first-tier subawards that exceed $25,000. The prime recipient is required to report subaward information through the Federal Funding Accountability and Transparency Subaward Reporting System (FSRS) by the end of the month following the month in which the subaward is granted (date contract or subaward was finalized). Prime recipients also must report all required elements established in the *Office of Management and Budget's Open Government Directive – Federal Spending Transparency and Subaward and Compensation Date Reporting* issued August 27, 2010.

The State did not administer compliance with FFATA through a state-wide centralized process. Instead, compliance with FFATA reporting requirements was required by the State agency responsible for the administration of each federal program. We evaluated compliance for the twelve (12) major programs (administered by the primary government) where FFATA reporting requirements were applicable. Major programs reviewed for material compliance were categorized as follows at June 30, 2011:

1) Eight (8) programs attempted a "good faith effort" to comply by seeking guidance from the federal grantor and/or by successfully reporting limited subaward data during fiscal 2011;

2) Two programs could not comply because federal grantor agencies had not assigned and reported federal award identification numbers (FAIN) to the FSRS or because fiscal 2011 grant awards preceded October 1, 2010; and

3) Two programs, the WIA Cluster and Low-income Home Energy Assistance Program, were <u>not</u> found to have made a reasonable effort to comply with FFATA during fiscal 2011.

While the State made efforts to comply with FFATA during fiscal 2011, significant progress is still needed to ensure material compliance in fiscal 2012. The State can best ensure compliance with FFATA reporting requirements by ensuring that all agencies administering applicable federal programs maintain the following documentation:

- An inventory of all federal programs where transparency reporting is applicable, identifying the agency or department responsible for compliance,
- A listing identifying all contracts and subawards meeting FFATA's requirements for reporting,
- Identification of the specific data elements required to be reported to the FSRS, including whether reporting of awardee executive compensation is applicable, and
- Communications with the federal grantor clarifying the applicability of FFATA reporting requirements specific to their program.

Failure to report all required subawards to FSRS or reporting inaccurate information decreases the reliability and completeness of information provided to awarding agencies and other users of the information.

<u>Questioned Costs</u>: None

<u>RECOMMENDATIONS</u>

2011-41a Standardize agency documentation requirements for compliance with FFATA reporting.

2011-41b Ensure that FFATA-applicable subawards are reported to FSRS in a complete and timely manner.

Finding 2011-42

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
Administered by: Department of Human Services (DHS)
CHILDREN’S HEALTH INSURANCE PROGRAM – CFDA 93.767
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Executive Office of Health and Human Services (EOHHS)

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 preventing 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

2011-42a Finalize, document and implement standard monitoring and tracking security reports that will supply the DHS systems security administrator with required details pertaining to the activities of all INRHODES users.

2011-42b Develop policies and procedures detailing appropriate investigation of issues identified by the department's monitoring procedures.

Finding 2011-43

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 final Financial Status Report (SF 269) for the federal fiscal year ended September 30, 2010 grant reported non-federal matching expenditures totaling $993,290 (in-kind match) for nutrition education and $534,041for 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 for the Nutrition Education and Outreach projects until after the end of the grant year. During the fiscal year, DHS reported an equal amount paid to URI as in-kind services without any documentation that the services promised were actually performed. In order to be considered an allowable matching cost contribution, costs must be verifiable in accordance with 7 CFR 277.4(d).

In addition, the amount of in-kind match recently reported by 3rd parties as actually provided for Nutrition Education for the federal fiscal year ended September 30, 2010 totals only $809,731 which is $183,559 less than reported in the final Financial Status Report. The difference principally occurred because the University and certain other third parties did not submit a report of in-kind match actually provided. DHS should investigate the differences between these actual reports and the amounts reported in the final Financial Status Report and amend the final Financial Status Report, if necessary.

Also, the DHS form used by entities to report actual in-kind matching expenditures provides for entry of expenditure information, completion of certain certifications about the match, and the signature of the entity's official completing the report. We found that the reports of actual in-kind match totaling $809,731 submitted by third parties for the Nutrition Education grant had the following deficiencies:

- All submissions reported total in-kind expenditures actually provided but did not submit supporting documentation such as time cards and payroll records which could be used to verify that such expenditures were actually provided.

- Six reports with in-kind match totaling $181,620 were submitted without completing the required certifications and signature.

- One report with in-kind match of $5,146 had no certifications.

DHS should develop controls to ensure that these contract costs are properly documented to support amounts reported to the federal government. Beginning in FFY 2011 (October 1, 2010), Nutrition Education costs were no longer required to be matched, but federal expenditures for Outreach are still required to be matched by the state.

Questioned Costs: None

RECOMMENDATION

2011-43 Develop control procedures to ensure that adequate supporting documentation is maintained for in-kind matching expenditures reported in the SNAP Federal Financial Status Report.

Finding 2011-44

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) CLUSTER:
State Administrative Matching Grants for SNAP – CFDA 10.561
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
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778

ALLOWABLE COSTS/COST PRINCIPLES

Cost Allocation Plan (Cap) – Quarterly Adjustments

The Department of Human Services accounts for administrative expenditures relating to various activities, objectives and programs administered by the department in accordance with a federally approved Cost Allocation Plan (CAP). The cost allocation system, which incorporates the concepts approved in the plan, accounts for direct program costs, as well as, distributes administrative and indirect costs to the appropriate programs. The various methods of allocating expenditures within each cost center are federally approved and documented. Some methods of allocating, such as time studies and statistical data methods, utilize reports from sub-systems within the Department's InRhodes computer system. Each quarter's analysis from these sub-systems is then manually input into the cost allocation system to allocate expenditures for each particular quarter.

The Department uses the cost allocation system reports as the basis for reporting expenditures on the federal financial reports of various programs. The transactions processed through the system are a result of expenditures already processed through the State accounting system. Therefore, a quarterly reconciliation is performed to show that the cost allocation system agrees with the State accounting system.

We found one instance of costs totaling $28,972 were allocated to the wrong program. For one cost center for which costs are allocated based on a time study, the results of the time study indicated that 100% of the quarter's expenditures of $28,972 should be charged to the SNAP program but were instead charged to TANF due to a manual data entry error. The adjustment was brought to the Department's attention and adjusted in a subsequent period.

We also noted that the quarterly reconciliation between the cost allocation system and the State's accounting system had not been done in a timely manner. The final year-end reconciliation was not completed until eight months after the close of the fiscal year.

Payroll Certifications

OMB Circular A-87 requires that charges for salaries and wages for employees who are expected to work solely on a single Federal award or cost objective will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications are to be prepared at least semi-annually and should be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. DHS did obtain certification covering the first half of FY 2011 (July 1 to December 31, 2010) but did not obtain any certifications from required employees for the period January 1 to June 30, 2011 until February 2012. There were 305 total certifications obtained at that time including 59 SNAP employees, 20 Child Care and TANF employees and 80 medical services employees.

Questioned Costs: None

RECOMMENDATIONS

2011-44a Require supervisory/management review of cost allocation supporting documents each quarter.

2011-44b Strengthen control procedures to ensure that quarterly reconciliations are performed in a timely manner to identify and resolve discrepancies as they occur.

2011-44c Obtain semi-annual certifications from employees who charge all of their time to a single federal program within a reasonable period.

Finding 2011-45

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

FEDERAL 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 should be enhanced by timely reconciliation to the State's RIFANS accounting system from which program expenditures are disbursed.

We noted an inadequately supported difference of $3.3 million between the amount reported in the State accounting system and the amount included on federal financial reports for the Unemployment Insurance Program {ETA 9130, *Financial Status Report, UI Programs (OMB No. 1205-0461080}.* DLT attributed the variance to timing differences but the variances involved multiple years and adjustments and were not fully documented.

Questioned Costs: None

RECOMMENDATIONS

2011–45a Resolve and document the difference for SFY 2011 and adjust the federal reports if required.

2011-45b Strengthen controls to ensure that federal reports are adequately reconciled to the state accounting system.

ETA 227 Overpayment Detection and Recovery Activities

The ETA 227 Overpayment Detection and Recovery Activities (OMB No. 1205-0173) provides quarterly information on results of the State Workforce Agency's accomplishments in principal detection areas of benefit payment control (ETA Handbook 401).

Basic controls have not been implemented to ensure the accuracy and completeness of these reports and that amounts are supported by and reconciled to the State's accounting system. Additionally, the financial related information in these reports is not reviewed by a supervisor in the fiscal unit for propriety.

Questioned Costs: None

RECOMMENDATIONS

2011-45c Reconcile report information to the state accounting system.

2011-45d Perform and document a fiscal unit supervisory review of the financial related information in the ETA 227 report on a timely basis.

Trade Act Participant Report

The Revised Trade Act Participant Report (TAPR) includes employment and wage information of recipients of assistance and is submitted 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).

We noted missing data or 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 September 30, 2010 was submitted with the majority of the required information missing. The reports submitted for December 31, 2010 and March 31, 2011 were also submitted with significant information missing.

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". No comparisons were performed between the TAPR information and the ETA 9130 reports before the TAPR was submitted, as personnel in different divisions within the department complete the two reports. We attempted performing a reconciliation between the TAPR and the corresponding ETA 9130's and found the TAPR significantly understated. Reporting could be improved with increased communication between divisions within the department.

Participant wage data is also reported in the TAPR. We found that wage information was reported in all four quarters but that the underlying detailed wage data was not retained (see related Finding 2011-47 regarding the ETA 9091 WIA Annual Report). As a result, we were unable to determine the propriety of the wage data included in the TAPR reports submitted to the federal government.

Questioned Costs: None

RECOMMENDATIONS

2011–45e Review reports prior to submission to ensure data agrees to supporting information systems and is reasonable.

2011–45f Coordinate reporting efforts across divisions to ensure consistent reporting and proper reconciliations of the TAPR to the 9130 reports.

2011-45g Implement controls to ensure that detailed data utilized in preparing federal reports is saved and maintained by the department.

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 tested a sample of petition numbers from two quarterly TAPR reports for accuracy. We found that three petition numbers were incorrect - two of these were clearly incorrect as they were outside of the known range of approved petition numbers and another contained an inappropriate extra digit. In the prior year, we reported that petition numbers are routinely carried forward from one report to the next without verification.

Questioned Costs: None

RECOMMENDATION

2011–45h Verify petition numbers reported on the TAPR report prior to submission to the federal government.

Finding 2011-46

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

ELIGIBILITY AND 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 BAM case file. Registration is supposed to be completed before the first benefit payment is made to any individual who is not exempt from the requirement and who is otherwise eligible for UI, regardless of whether they are selected for BAM investigation or not. If selected for BAM investigation, the investigation summary is the source of information used to compile the BAM annual report including the State's error rate. Registration with RI Job Service should be done by UI claimants prior to first payment and this registration should be properly verified during the Benefit Accuracy Measurement (BAM) Unit's subsequent review of UI claims.

The RI Job Service was converted from one computer system (AOSOS) to another, (GEOSOL) during the summer of 2009. Some subsequent claims reviewed by the BAM unit which had claims previous to this conversion contained notes in the case files that said that registration could not be confirmed in some cases. The corresponding BAM investigation summary indicated the job service registration information was missing, but since it was required at the time the claim was filed, they should be considered registered, as the job service registration information did not transfer over properly during the conversion.

We tested samples of UI benefit cases (combined sample size of 106 cases) for compliance with controls over eligibility determination and some for compliance with BAM quality control procedures. We found that for seven clients in the combined sample, registration with RI Job Service at the time of their UI claim was uncertain. In five other cases, the department could not provide any documentation that these claimants were registered with R.I. Job Service. In one of these five cases, the Investigation Summary indicated that they were registered without supporting evidence. In another BAM case, the investigation summary noted the information was missing but did not reference to the data conversion issue. If a claimant was required to be registered but was not, the claim for that week could be deemed an overpayment. For BAM cases this would also affect results reported in the annual report of BAM review results.

The majority of these cases appear to have been cases which were initially denied eligibility for UI benefits and the cases were further adjudicated and subsequently determined to be eligible. However, these adjudicated cases were inadvertently not referred for registration with R.I. Job Services as are the routine UI benefits which are not adjudicated.

The Department should enhance controls to ensure that all eligible UI cases are registered with R.I. Job Services prior to the first UI payment.

Questioned Costs: None

RECOMMENDATIONS

2011-46a Enhance controls to ensure that all eligible UI cases are registered with R.I. Job Services prior to first UI benefit payment.

2011-46b Properly complete the investigation summary to reflect whether or not the client (claimant) is required to be registered with RI Job Service and was properly registered or not. Maintain evidence of registration in the BAM claim review file.

The CY 2010 BAM Annual Report identified that all 480 paid claims investigations were completed but timely investigation requirements were not met as follows:

- 70% of the investigations are required to be completed within 60 days – the department only completed 56.04% within that timeframe.
- 95% of the investigations are required to be completed within 90 days - the department completed 90.62%.

The federal government subsequently reviewed the R.I. BAM Annual Report and indicated that for CY 2010, R.I. did not meet its completion targets for the timeliness of paid claims investigations within 60 or 90 days nor did it meet its target for completion within 60 days for denied claims. The department informed us that they missed these targets due to a reduction in the number of BAM investigators during the period reported.

Questioned Costs: None

RECOMMENDATION

2011-46c Strengthen controls to ensure that BAM investigations are completed within the required federal timeline targets.

Finding 2011-47

WIA CLUSTER
WIA Adult Program – CFDA 17.258
WIA Youth Activities – CFDA 17.259
WIA Dislocated Workers – CFDA 17.260
WIA Dislocated Worker Formula Grants – CFDA 17.278
Administered by: Department of Labor and Training (DLT)

FEDERAL REPORTING

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 103 RIFANS accounts and 35 ledgers active during any given 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. As noted in our prior year report, we find that when ledgers are closed, the total expenditures recorded may not match with the amount authorized.

Further complicating the process, 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. Accumulating the data and preparing these reports is extremely complex at best.

Establishing fund ledgers in amounts equal to grant awards would simplify reporting while strengthening internal controls over grant accountability.

Questioned Costs: None

RECOMMENDATION

2011-47a Establish authorized balances within FARS ledgers consistent with grant award documentation.

Special Reporting – Subtitle B Youth Activities

The ETA-9149, *WIA Youth Monthly Supplemental ARRA Report (OMB number 1205-0474)* tracks performance data specific to youth served with Recovery Act Funds.

We noted variances when reconciling certain data reported for SFY 2010 to SFY 2011 on the ETA 9149. Various data extracts yielded different totals for new participants reported for SFY 2011. For example, different reports identified both 560 and 552 new SFY participants. However, a comparison of total participants for SFY 2011 and 2010 indicates 512 new participants in SFY 2011. Similarly, summer employment participants increased by 349 on the SFY 2011 cumulative report, but a department extract report number new summer employment participants at between 286 and 312 participants.

The department provided information that during SFY 2011 the USDOL made various changes and clarifications regarding data to be included in the report and methods of accumulating and reporting. As a result, we were informed the year-end cumulative reports and individual months are not comparable and cannot be reconciled. We requested data supporting amounts reported on selected monthly ETA 9149's but were informed the detailed data transaction extract reports were not archived. As a result, we were unable to adequately determine the propriety of the information reported on the ETA 9149 reports during SFY 2011.

Performance Reporting

The ETA-9091, *WIA Annual Report (OMB number 1205-0420)* provides performance level information at the program level in the WIA tables and WIASRD data records containing relevant data on individual participants' characteristics, activities and outcomes.

Wage record data information represents the major key line items required to be reported in the WIASRD data records section of the WIA Annual Report. The department did not save the wage data detailed transaction extract report utilized as the basis for the wage data reported during SFY 2011 for PY 10. As a result, we were unable to determine the propriety of the wage information included in the WIASRD portion of the report.

The Department should develop controls to ensure that all data used to prepare federal reports is archived to adequately support such reports and provide an audit trail.

Questioned Costs: None

RECOMMENDATION

2011-47b Implement controls to ensure all data used to prepare federal reports is retained to adequately support such reports and provide an audit trail.

Finding 2011-48

WIA CLUSTER
WIA Adult Program – CFDA 17.258
WIA Youth Activities – CFDA 17.259
WIA Dislocated Workers – CFDA 17.260
WIA Dislocated Worker Formula Grants – CFDA 17.278
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. We were informed that although the State Workforce Investment Office (SWIO) performed on-site monitoring, it has not documented the monitoring procedures performed and the results. Additionally, the SWIO has not formally communicated the results of any fiscal monitoring activities of its subrecipient for Program Year 2010, which occurred during state fiscal year 2011. Monitoring results and related recommendations must be communicated to the subrecipients so that improvements can be made when necessary. The department informed us that they have been unable to document procedures or communicate results due to staffing limitations.

In reviewing supporting documentation for the subrecipient's audit report for SFY 2010, we noted that revenues exceeded program expenditures by $166,768. The Department was unable to determine the nature of the variance. Enhanced monitoring procedures may have identified the cause of the variance and determined whether excess cash was drawn by the subrecipient.

Questioned Costs: None

RECOMMENDATIONS

2011-48a Document the performance of subrecipient monitoring activities and communicate the results to the subrecipient in a timely manner.

2011-48b Determine if excess cash was drawn for SFY 2010 and take appropriate action if necessary.

2011-48c Strengthen fiscal monitoring procedures to ensure that cash drawn by a subrecipient is appropriate based on monitoring of subrecipient records.

Finding 2011-49

WIA CLUSTER
WIA Adult Program – CFDA 17.258
WIA Youth Activities – CFDA 17.259
WIA Dislocated Workers – CFDA 17.260
WIA Dislocated Worker Formula Grants – CFDA 17.278
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 47 adult files and 23 youth files for eligibility testing from the June 30, 2011 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) and the Providence/Cranston (PC) offices. We noted some cases involving a lack of adequate documentation or that contained discrepancies between case file documentation and information recorded in the Department's client database during our review. For instance:

	Number of client cases
Birth certificate or other citizenship documentation / proof of authorization could not be located in the case file	2
Letter of authorization and/or supporting documentation for individual training accounts (ITA's) for Occupational Skills Training was not in the participant folder	4
We noted a discrepancy between the SS# recorded in the case file and the SS# listed for the same Youth client in the database	1
Errors or discrepancies 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 the PE&V form improperly indicated that the recipient was eligible for adult but the database indicated eligibility for both Adult and Dislocated Worker services	1
o Adequate documentation supporting self- certification was not documented	1
o a recipient was in the case file as adult, but the database indicated she was eligible for DW services and the database indicated that this individual was a single parent and was laid off but the case file indicated that there were no children and the individual had been fired	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

2011-49a Provide additional training to staff regarding the objectives of the program and required documentation. Enhance supervisory review over the eligibility process to ensure consistency between the case file information and the department's client database, including specific review of the forms and documentation 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 data and found that in addition to some of the discrepancies noted in the table above, exit dates per the case files were not in agreement with the system database for 4 adult and dislocated worker clients and 1 for youth client. 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

2011-49b Ensure that GEOSOL system data is consistent with case file documentation.

Finding 2011-50

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER:
Highway Planning and Construction – CFDA 20.205
FEDERAL TRANSIT CLUSTER:
Federal Transit – Capital Investment Grants – CFDA 20.500
Federal Transit – Formula Grants – CFDA 20.507
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.

<u>Highway Planning and Construction Cluster</u>

We tested 20 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 (25%) of the 20 projects tested had at least one labor compliance checklist missing, and
- 8 (24%) of 33 labor compliance checklists were missing.

Section 5.5(3) (ii) (A) of Title 29 of the Code of Federal Regulations requires verification that the contractors and subcontractors submit weekly certified payrolls. For the 20 active construction contracts tested as part of our sample, RIDOT did not have 41 (15%) contractor or subcontractor certified payrolls on file. RIDOT's daily activity log did not indicate whether there were contractors on site for 35 of the 41 missing certified payrolls, the daily activity log did indicate that contractors were on site for the remaining 6 missing payrolls.

<u>Federal Transit Cluster</u>

We selected the only FTA construction contract active during fiscal 2011 to determine whether the Department's Davis-Bacon Act monitoring procedures were in place and operating effectively. We found that no labor compliance checklists were completed during the fiscal year, and none of the 38 payrolls on file contained the required certifications.

RIDOT should strengthen controls to ensure contractor submission of certified payroll documentation is timely and complete and that labor compliance checklists are completed at the appropriate intervals. RIDOT should also require weekly logging when no contractor activity occurred to enhance controls over compliance with Davis Bacon Act requirements.

<u>Questioned Costs</u>: None

<u>RECOMMENDATIONS</u>

2011-50a 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.

2011-50b Develop a policy for documenting "No Activity" in the Daily Activities Book.

Finding 2011-51

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

<u>SPECIAL TESTS AND PROVISIONS - MATERIALS TESTING</u>

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 73 items from 20 fiscal 2011 projects, to determine whether RIDOT completed the required materials testing as specified in each project's materials test book. We noted exceptions for 12 (60%) of the 20 projects as follows:

- Contractors are required to provide a Certificate of Compliance to ensure that all materials used on a project meet standard specifications. Items requiring these certificates are detailed in the materials test book. RIDOT's PURK manual requires the resident engineer to obtain the appropriate Certificates of Compliance in duplicate from the contractor. One copy should be retained in the field records and one copy should be submitted immediately to the RIDOT's Materials Section. RIDOT could not provide 3 contractor Certificates of Compliance (at the construction field office). All 3 Certificates of Compliance were subsequently obtained by RIDOT's Construction Office.

- In 14 instances, related to 6 projects, documentation of material test results were not sufficiently documented and/or on file at the project field office; 5 material test results were subsequently obtained by RIDOT. Due to the lack of materials test results in the remaining 9 instances, the amount paid for the materials was questioned.

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

Questioned Costs: $1,118,335

RECOMMENDATIONS

2011-51a Improve the RIDOT quality assurance program for materials testing consistent with federal regulations and guidelines.

2011-51b Ensure all required certificates of compliance have been received and recorded in the materials test book prior to contractor payment for the materials.

2011-51c Improve documentation for tests completed to comply with the FHWA approved *Master Schedule for Sampling, Testing and Certification of Materials.*

2011-51d Require all test results be documented in the materials test book prior to vendor payment for the related materials.

2011-51e Require staff to report any errors in the materials test book to the appropriate RIDOT personnel for correction.

2011-51f Improve controls over test results to allow cross referencing between test results and contractual items being tested.

Finding 2011-52

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. The amount passed through to subrecipients in fiscal 2011 was not identified by RIDOT but we estimated it to be less than $6 million. The Department does not maintain a centralized or complete listing of subrecipients, related pass through amounts and specific grant funding source (Highway Planning and Construction, Highway Safety Cluster, Federal Transit Cluster or State, etc.). Additionally, the Department does not segregate pass through funds within the State's Accounting System (RIFANS) or its Financial Management System (FMS).

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 ensuring compliance with federal requirements by subrecipients. RIDOT has obtained and reviewed the Single Audit Reports for most subrecipients, but the Department cannot provide a complete listing of all subrecipients and therefore cannot ensure all subrecipients audit reports were reviewed. When the Department found variances in the amounts reported in subrecipient's Schedule of Expenditures of Federal Awards and the amount passed through or there were findings over internal control that could have an effect on Highway planning and Construction funding, RIDOT did not follow-up with the subrecipients.

RIDOT needs to identify projects within its financial management system and State accounting 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. During fiscal 2011, RIDOT stated they implemented new standard agreements that included all required federal award information. We identified agreements issued during the fiscal year that lacked some of the required elements. Additionally, the department did not modify any prior agreements still in effect during the fiscal year to include all required elements.

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 generally performs site visits, reviews contractor and sub-contractor billings, and communicates regularly with its subrecipients; however, we found that these monitoring activities were not well documented. We were informed that the Office of Quality Compliance and Review only monitors subrecipient awards when they reach the construction phase and only monitors those subrecipients that received awards beginning in fiscal 2011.

The Department has improved certain aspects of subrecipient monitoring but can further improve its efforts by ensuring that all subrecipients are identified timely, appropriate notification is made to subrecipients of federal compliance information, and overall departmental monitoring efforts are better coordinated.

Questioned Costs: None

RECOMMENDATIONS

2011-52a Establish written policies and procedures for subrecipient monitoring and establish a schedule of on-going projects for review and document the monitoring performed.

2011-52b Identify all federal awards passed through to subrecipients by project.

2011-52c Ensure subrecipients have had required single audits performed and review the audit reports on a timely basis including issuing management decisions within required timeframes.

2011-52d Provide required information to subrecipients in contracts such as CFDA number and title, federal agency and applicable compliance requirements including identification of ARRA funding. Ensure that the department communicates 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).

2011-52e Evaluate the impact of subrecipient activities on RIDOT's ability to comply with applicable federal regulations

Finding 2011-53

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 2011 were $54.1 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, the report used by RIDOT to facilitate the reconciliation did not include all fiscal year ARRA funded expenditures therefore ARRA expenditures reported by the two systems are not 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

2011-53 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 2011-54

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

ALLOWABLE COSTS/COST PRINCIPLES

Police Detail Charges

RIDOT can improve documentation maintained to support the reasonableness of police detail charges reimbursed through federally-funded construction projects. Expenditures for police details paid by RIDOT in fiscal 2011 were approximately $5.2 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 and vehicle fees). We were informed that the department must pay the contracted hourly rate between the police officer and municipality; but RIDOT does not maintain copies of police contracts or other supporting documentation to support the charges. We also observed that municipalities charged differing rates for vehicles and applicable administrative fees. Demonstrating the reasonableness of such charges and enhancing control over these payments can be improved by establishing one vehicle and administrative rate for all municipalities.

During fiscal 2011, RIDOT drafted new cooperative agreements and created police billing templates; however, these new procedures and controls were not in place in fiscal 2011.

Questioned Costs: None

RECOMMENDATION

2011-54a Improve documentation maintained to support the reasonableness of police detail charges and enter into memorandums of understanding with the municipalities for such charges. Establish uniform vehicle and administrative reimbursement rates for all municipalities.

In-State Travel Reimbursement

RIDOT can improve its controls over in-state travel reimbursements to ensure charges to federal programs are consistent with State travel policies and federal cost principles. Expenditures for employee mileage reimbursement charge to the Highway Planning and Construction program during fiscal 2011 approximated $223,000.

RIDOT's current policy for in-state travel reimbursement is the lesser of: 1) the distance from the employee home to the job site or 2) the distance from the State office building to the job site. When an employee submits a request for reimbursement, they must submit a detailed mileage log. The employee reimbursement request then goes through an approval process that includes as many as five separate sign-offs. Despite the multi-layer approval process we found 14 of the 35 mileage reimbursement select for testing were miscalculated resulting in an overpayment of $4,227 (ARRA HPC - $2,783, HPC - $1,152 and GARVEE - $292).

We observed that RIDOT's mileage reimbursement policy (for Local 400 employees) differs from the State's overall mileage reimbursement policy. The official State Policy (A-46 - In State Travel – reimbursement) states "No transportation costs will be allowed between any employees; place of residence and his/her office. However, in connection with work related trips, when the distance between the employees' residence and his destination is greater than the distance between his residence and his office, the field trip mileage in excess of the mileage between the employee's residence and his office is reimbursable. In that instance the travel voucher should contain the following special certification, "I certify that the above mileage is correct and was incurred for official state business; that the travel from my residence to the destination was greater than the travel between my residence and my official station."

RIDOT's policy is based on a June 21, 1983 arbitrator's ruling which states "the distance from the employee's home to job site or office base to the job site whichever is less, i.e., the mileage for the State Office Building to the job site will be compared to the mileage from the employee's home to job site and the lesser of the two is the allowable mileage." In essence the employees are being reimbursed for their commute to and from work which is inconsistent with the State's overall policy. RIDOT should align its departmental in-state mileage reimbursement policy with the State's overall policy.

<u>Questioned Costs</u>: $4,227

<u>RECOMMENDATIONS</u>

2011-54b Renegotiate travel reimbursement policies that are consistent with the State's overall In-State travel reimbursement policies.

2011-54c Strengthen controls to ensure accurate in-state travel reimbursements to employees.

Finding 2011-55

FEDERAL TRANSIT CLUSTER:
Federal Transit – Capital Investment Grants – CFDA 20.500
Federal Transit – Formula Grants – CFDA 20.507
Administered by: Rhode Island Department of Transportation (RIDOT)

<u>EARMARKING</u>

The Department does not have controls in place to ensure compliance with Title 49 Chapter 53 Section 5307(d)(1)(j)(i) which states the recipient "will spend for each fiscal year for public transportation security projects, including increased lighting in or adjacent to a public transportation system (including bus stops, subway stations, parking lots, and garages), increased camera surveillance of an area in or adjacent to that system, providing an emergency telephone line to contact law enforcement or security personnel in an area adjacent to that system, and any other project intended to increase the security and safety of an existing or planned public transportation system, at least one percent of the amount the recipient receives for each fiscal year under section 5336 of this title."

RIDOT personnel were not aware of this earmarking requirement and consequently did not have control procedures in place to ensure compliance. After consultation with the Federal Transit Administration, the Department was able to identify expenditures that met the earmarking requirement.

Questioned Costs: None

RECOMMENDATION

2011-55 Implement controls to ensure compliance with the Earmarking requirement (Title 49 Chapter 53 Section 5307(d)(1)(j)(i).)

Finding 2011-56

FEDERAL TRANSIT CLUSTER:
Federal Transit – Capital Investment Grants – CFDA 20.500
Federal Transit – Formula Grants – CFDA 20.507
Administered by: Rhode Island Department of Transportation (RIDOT)

REPORTING - FEDERAL FINANCIAL REPORT – SF-425

The Department does not have controls in place to ensure the Federal Financial Report (SF-425) is correct and the amounts reported agree to the accounting records supporting the audited financial statements and the Schedule of Expenditures of Federal Awards. We tested 6 grant awards for a total of 19 quarterly reports representing $18.8 million (98%) of federal expenditures. We identified unexplained differences between the amounts reported and the state's accounting system in 14 of the 19 quarters which included the following:

- expenditures being reported in the incorrect quarter;
- expenditures reported in the State's accounting system or RIDOT's FMS but not included on the quarterly report; and
- expenditures reported in the quarterly report not supported by the State's accounting System or RIDOT's FMS.

The Federal Financial Report (SF-425) submitted to the Federal Transit Administration provides a financial status update for each quarter the federal award is active. Each report submitted includes a beginning balance (project expenditure to date as of the last quarter), the current quarter's expenditures and the expenditures to date. The department uses its Financial Management System (FMS) to identify the amounts to include on the quarterly reports, which is not the accounting system that supports the audited financial statements or audited Schedule of Expenditures of Federal Awards (SEFA). Additionally, we identified a $434,000 difference between the SEFA and quarterly reports submitted during the State's fiscal year.

Questioned Costs: None

RECOMMENDATION

2011-56 Enhance controls to ensure the Federal Financial Report (SF-425) is accurate and supported by amounts reported by the State's accounting system and the Schedule of Expenditures of Federal Awards.

Finding 2011-57

TANF CLUSTER:
Temporary Assistance for Needy Families – CFDA 93.558
ARRA Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) 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 2011 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 the Temporary Assistance for Needy Families and Supplemental Nutrition Assistance Programs.

During fiscal year 2011, DHS complied with this federal requirement for the MMIS through the performance of a Type II "SAS 70" evaluation. DHS, however, still needs to improve its ADP Risk Analysis and System Security Review procedures for INRHODES. DHS's current processes do not fully comply with many of the requirements outlined in 45 CFR 95.621.

To fully comply with ADP Risk Analysis and System Security Review requirements annually, DHS can utilize the following:

- Contracted audits that meet the objectives outlined 45 CFR section 95.621 as was utilized for the MMIS in fiscal 2011;

- DHS and/or resources from the State's Division of Information Technology, skilled in information technology systems security, to conduct system reviews meeting the objectives outlined in 45 CFR section 95.621; or

- A combination of both resources to ensure compliance with 45 CFR section 95.621.

Due to the significance of these two systems to a variety of federal programs administered by the State, it is critical that adequate information systems security practices are continuously employed over these systems. The "SAS 70" evaluation conducted of the policies and procedures in place over the MMIS during fiscal 2011 was a significant improvement over DHS's monitoring of the MMIS which improved the State's compliance with ADP Risk and System Security Review. The State must now further its compliance efforts by ensuring that similar monitoring is implemented over the INRHODES System and maintained on the MMIS going forward.

Questioned Costs: None

RECOMMENDATION

2011-57 Ensure annual compliance with federal requirements for ADP Risk and System Security Reviews for INRHODES and the MMIS.

Finding 2011-58

TANF CLUSTER
Temporary Assistance for Needy Families – CFDA 93.558
ARRA Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF)
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), formerly 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:

- Three case files selected were not provided for our review.
- Two cases included an interim report when a new application and interview should have been completed.
- Four instances where attendance was not confirmed for an activity plan and/or there were gaps in employment activity plans when one activity was scheduled to end and no new plan was put in place.

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 or a hearing is held. There is no formal sampling procedure and not all checklists prepared in reviews were maintained in the case file.

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.

Questioned Costs: Unknown

RECOMMENDATIONS

2011-58a 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 proper re-certifications and determining and enforcing compliance with work participation requirements.

2011-58b Formalize a sampling approach and review process for child care cases. Maintain documentation when reviews are performed.

2011-58c 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 childcare costs totaling $38,795 for State fiscal year 2011 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). The stratification of childcare costs by age of the child is performed for all childcare expenditures and not by specific funding source. Therefore the amount of expenditures for children over the age of thirteen and reimbursed by funding source (federal or state) cannot be readily determined. DHS should develop procedures to exclude these costs from requests for federal reimbursement or for maintenance of effort claiming purposes.

Questioned Costs: Unknown

RECOMMENDATION

2011-58d Develop procedures to exclude ineligible child care costs from requests for federal reimbursement or for maintenance of effort claiming purposes.

Finding 2011-59

TANF CLUSTER
Temporary Assistance for Needy Families – CFDA 93.558
ARRA Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) 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) 2010 are summarized below:

- DHS reported approximately $28 million relating to Emergency Assistance (EA) direct benefits paid by the Department of Children, Youth and Families (DCYF). The DCYF reported these costs served an average of 637 families each month. DHS was unable to provide us with adequate documentation to demonstrate that these clients met TANF income and family composition eligibility requirements.

  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).

- DCYF residential service expenditures of $16.2 million for 1069 families were reported by DHS for FFY 2010. 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 $1.6 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 $562,500 represented payments by the R.I. 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 $1.1 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 or number of families served.

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

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

RECOMMENDATION

2011-59 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.

Finding 2011-60

TANF CLUSTER
Temporary Assistance for Needy Families – CFDA 93.558
ARRA Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs – CFDA 93.714
CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
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

2011 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 2011. We compared this file to another file containing all TANF benefit payments made during state fiscal years 2010 and 2011. 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:

- Two (2) cases with discrepancies resulting from data matches were not investigated or resolved. Based on our evaluation of electronic case file data, both discrepancies may impact eligibility or the household's benefits.

- Four (4) cases where discrepancies were "cleared" by the caseworker by electronically entering an action code (e.g., no discrepancy exists), however, no documentation or comments to the electronic case file were present supporting 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.

- Two (2) cases 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 this discrepancy. The application of this DHS policy resulted in the determinations not to record the interface income in the appropriate case record periods, which would have yielded overpayments and initiated collection action. Based on our evaluation, these discrepancies may impact the household's eligibility or benefit level. Since the data matches were "cleared", no modifications to the household's case records were initiated.

Additionally, we noted a lag of eight months when one of the interface programs was not initiated. The Department stated that the particular interface would only process when prompted manually by a particular employee. The employee's position was vacant during the period when the interfaces were not run. By the end of the fiscal year when the position had been filled, all the prior months' interfaces were run. Also, the Department corrected the interface process to run automatically when the tape information is received.

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 indicated that the completeness of the interface data had been corrected by year-end.

Questioned Costs: None

RECOMMENDATIONS

2011-60a 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.

2011-60b Maintain documentation supporting the resolution of data match discrepancies and initiate modifications when discrepancies impact eligibility and/or amount of benefits.

2011-60c Revisit the propriety and application of DHS policy (1022.10.20) and determine if it is supported by federal guidance or regulation.

Finding 2011-61

TANF CLUSTER:
Temporary Assistance for Needy Families – CFDA 93.558
ARRA Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs – CFDA 93.714
Administered by: Department of Human Services (DHS)

SUBRECIPIENT MONITORING

OMB Circular A-133 require pass-through agencies to monitor subrecipients use of federal awards through site visits, limited scope audits, or other means. Because the pass-through entity is held accountable for federal awards administered by their subrecipients, the pass-through entity needs to establish an appropriate monitoring process and to decide what, if any, additional monitoring procedures may be necessary to ensure the subrecipients' compliance with laws, regulations, and the provisions of contracts and grant agreements.

The circular also requires the pass through agencies (1) ensure that subrecipients expending $500,000 or more in federal awards have met applicable audit requirements, (2) issue a management decision on any audit findings within six months after receipt of the subrecipients' audit reports , (3) ensure that the subrecipients take timely and appropriate corrective action, and (4) evaluate whether any audit findings necessitate adjustment of the pass-through entity's records or impact the agency's ability to comply with applicable federal regulations.

We selected four of out five subrecipient files for testing. Only one of the four subrecipients provided their audit reports timely to the department. The other three subrecipients only forwarded their reports after our request of the department. Once received, DHS staff did review them and noted no findings related to the TANF program.

Questioned Costs: None

RECOMMENDATION

2011-61 Obtain and review subrecipient audit reports. Issue timely management decisions on any audit findings and ensure that the subrecipients take appropriate corrective action.

Finding 2011-62

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

SUBRECIPIENT MONITORING

The Office of Energy Resources (OER) can improve its monitoring of subrecipients in a number of areas to ensure compliance with program requirements. These include requiring prompt corrective action when deficiencies are noted during monitoring reviews and issuing required management decisions within 6 months of receipt of subrecipient audit reports.

Subsequent to the close of fiscal 2011, one of LIHEAP's larger community action program subrecipients, the Providence Community Action Program (ProCAP), was in receivership and its overall operations were under review. Key personnel were dismissed amid allegations of program mismanagement and certain program operations were suspended or reassigned. LIHEAP was the largest program administered by this community action program agency.

We found that the OER performed onsite monitoring reviews of its subrecipients which included sample testing of client eligibility determinations and related file documentation. Eligibility exceptions were noted during the monitoring review of ProCAP and were communicated to the agency in December 2010. We found that no further action was taken regarding these specific exceptions to prompt appropriate corrective action. However, we did observe multiple communications from OER to ProCAP about deficient operating and reporting practices which requested remedial action.

This same subrecipient has been continually late in submitting required single audits in accordance with OMB Circular A-133. The subrecipient's fiscal 2009 single audit report was submitted during fiscal 2011 and the 2010 single audit report was submitted in September 2011. Each contained multiple findings related to control weaknesses over financial reporting and federal compliance requirements including LIHEAP funds passed-through the State. OER has not issued management decisions for findings contained in the audits within 6 months of receipt as required by OMB Circular A-133.

Questioned Costs: None

RECOMMENDATION

2011-62 Enhance subrecipient monitoring procedures to ensure appropriate follow-up on (1) deficiencies noted during on-site monitoring reviews and (2) audit findings reported in subrecipient audit reports. Issue management decisions within 6 months of the subrecipient audit report receipt date as required by federal regulation.

Finding 2011-63

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

CASH MANAGEMENT – MATERIAL NONCOMPLIANCE

Drawdown of Federal Funds

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 $24 million in State fiscal year 2011, represent the majority of program expenditures. The draw technique established in the 2011 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 follow the technique specified in the Treasury-State agreement in drawing federal funds for LIHEAP and did not utilize the State's report designed to time draws in compliance with the agreement. Generally, federal funds were not drawn to coincide with the payments made to subrecipients, which resulted in numerous instances where federal cash balances were in excess of immediate program needs. For the majority of days within the fiscal year, the program had a positive average daily cash balance of approximately $1 million.

The OER should consistently follow the draw technique specified in the Treasury-State agreement in drawing federal funds for the program. Payments to subrecipients should be scheduled periodically and one draw should 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 OER should consistently use this report to determine the timing and amount of federal funds drawn.

Questioned Costs: None

RECOMMENDATION

2011-63a 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.

Subrecipient Cash Management

OER contracts with various Community Action Program (CAP) agencies to provide energy related services designed to assist low-income households with home energy costs. Each CAP agency submits a weekly report to the OER which identifies the balance of LIHEAP funds on hand. The OER uses these reports to monitor agency cash balances and to determine if agencies require additional program funds.

We found that the OER lacks consistent controls to restrict subrecipient cash balances to their immediate cash needs. We noted that one subrecipient reported a material positive cash balance on hand for more than 30 days.

Questioned Costs: None

RECOMMENDATION

2011-63b Restrict subrecipient funding to their immediate cash needs.

Program Vendor Payments By Subrecipients

LIHEAP 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 Office of Energy Resources (OER), that the subrecipient CAP agencies were disbursing funds to energy vendors in advance based on each client's primary grant award. Payments to energy vendors were not made upon submission of invoices for actual oil deliveries made or utility billings. The OER 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, during fiscal 2011, one energy vendor returned more than $719,000 of program funds relative to prior grant awards that had not been used.

Subsequent to June 30, 2011, the OER added an additional provision to its contracts with vendors who apply to participate in the program. The provision indicates that vendors will be paid only upon submission of an invoice supporting product delivery.

Questioned Costs: None

RECOMMENDATION

2011-63c Require subrecipient CAP agencies to disburse program funds on behalf of eligible clients based upon vendor submission of invoices for energy services.

Finding 2011-64

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

PERIOD OF AVAILABILITY

The period of availability for LIHEAP requires that at least 90 percent of 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).

Accounts have been established within the State's accounting system to segregate expenditures and obligations by specific federal grant award; however, the OER's procedures to demonstrate compliance with the period of availability requirements need to improve. The OER uses expenditure and drawdown data arrayed by specific grant award to monitor compliance with period of availability requirements; however, no formal documentation is prepared or maintained. Program personnel contend that they are aware of the requirements and know they are in compliance based on observation of expenditures and drawdowns. While the OER likely complied with period of availability requirements, these data sources are imprecise for the intended purpose and the OER can improve its overall control process to ensure compliance with period of availability requirements.

Questioned Costs: None

RECOMMENDATION

2011-64 Maintain documentation to support the calculations confirming compliance with period of availability requirements.

Finding 2011-65

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

EARMARKING

The LIHEAP block grants have several earmarking requirements which include:

- Not more than 10 percent of the LIHEAP funds payable to the State for a federal fiscal year may be used for planning and administrative costs, including both direct and indirect costs. This limitation applies, in the aggregate, to planning and administrative costs at both the State and subrecipient levels (42 USC 8624(b)(9)(A); 45 CFR section 96.88(a)).

- Not more than 15 percent of the greater of the funds allotted or the funds available to the grantee for a federal fiscal year may be used for low-cost residential weatherization or other energy-related home repairs. The Secretary may grant a waiver, and the grantee may then spend up to 25 percent for residential weatherization or energy-related home repairs (42 USC 8624(k)).

- Not more than five percent of the LIHEAP funds payable to the State may be used to provide services that encourage and enable households to reduce their home energy needs and thereby the need for energy assistance. Such services may include needs assessments, counseling, and assistance with energy vendors (42 USC 8624(b)(16)).

These earmarking requirements are based on total program expenditures including expenditures incurred 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 maintain off-line spreadsheets allocating payments to subrecipients into the appropriate category.

While the OER has made improvements to monitor the earmarking requirements, including tracking expenditures by grant year on unique line item sequence numbers, control procedures were not fully in place at June 30, 2011. Specifically, the OER lacked sufficient controls to track expenditures related to administrative costs and energy need reduction services. Controls procedures should continue to be enhanced to ensure the State is fully compliant with overall earmarking requirements including amounts expended by subrecipients and the State.

Questioned Costs: None

RECOMMENDATION

2011-65 Implement designed control procedures and improve documentation to ensure compliance with LIHEAP earmarking requirements.

Finding 2011-66

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

REPORTING

Financial Status Report (SF-269A)

The State is required to prepare a Financial Status Report (SF-269A) for the LIHEAP block grant, emergency contingency grant, and leveraging grant in accordance with LIHEAP Action Transmittal (AT) 2011-02. We noted the following regarding preparation of the SF-269A report:

- The OER reports unobligated funds on the SF-269A report for the purpose of demonstrating compliance with the period of availability requirement. As discussed in Finding 2011-64, we could not verify the amounts reported as obligated at September 30, 2010 for the federal fiscal year 2010 LIHEAP grant award due to insufficient supporting documentation.

- The unobligated balance of federal funds is incorrectly stated on the SF-269A report relating to the LIHEAP block grant funds. Data used in the report caused Line 10.i, "Unobligated balance of federal funds," to be overstated by $38,724. This difference arose due to imprecise data sources being utilized to prepare the SF-269A reports.

Questioned Costs: None

RECOMMENDATION

2011-66a 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-2011-02, dated 12/14/10.

Carryover and Reallotment Report

Grantees must submit a report, no later than August 1, indicating the obligated amount expected to be carried forward to the following fiscal year and the planned use of those funds. Funds in excess of the maximum carryover limit are subject to reallotment to other LIHEAP grantees in the following fiscal year, and must also be reported (42 USC 8626).

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.

Questioned Costs: None

RECOMMENDATIONS

2011-66b Ensure that the Carryover and Reallotment Report is consistent with supporting documentation.

2011-66c Submit a revised Carryover and Reallotment Report for the 2010 grant awards as required.

2011-66d 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 all households that received assistance (Table One) and all households that applied for assistance (Table Two) of the LIHEAP Household Report indicated estimated rather than actual amounts of households assisted. The *CAPTAIN* system, which maintains information related to LIHEAP, does not provide detail relating to the number of households that receive weatherization assistance or households receiving assistance including denials (Table Two). The OER should strengthen procedures to accumulate data required to prepare the Household Report in order to ensure accurate reporting.

Questioned Costs: None

RECOMMENDATION

2011-66e Enhance the *CAPTAIN* system for the purpose of generating the data necessary to complete the LIHEAP Household Report accurately.

Finding 2011-67

CCDF CLUSTER:
Child Care and Development Block Grant – CFDA 93.575
Child Care Mandatory and Matching Funds of the Child Care and Development Fund – CFDA 93.596
Administered by: Department of Human Services (DHS)

FEDERAL REPORTING – EARMARKING REQUIREMENTS

Controls over federal reporting need to be enhanced to ensure accurate and consistent reporting of financial information to the Administration for Children and Families (ACF). The department is allowed to spend up to 5% of its grant awards on administrative costs. Various categories of expenditures are identified from the cost allocation reports and amounts are totaled for reporting on the ACF-696 report. We noted that the September 30, 2010 report for the FFY 2010 grant included $133,739 in costs that were identified as administrative costs when they should have been reported as program costs. This overstatement was not corrected in subsequent reports, in part because there was no supervisory review of the report before it was submitted.

Questioned Costs: None

RECOMMENDATION

2011-67 Strengthen controls to ensure that federal reports are prepared accurately and reviewed prior to submission.

Finding 2011-68

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)

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 does 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. Childcare payrolls are charged to available resources and not proportionately to all accounts.

DHS reported that it had met the matching requirement for the FY 2011 grant at June 30, 2011, but the actual amount contained in supporting documentation indicated that DHS did not meet the requirement. DHS recorded expenditures in the subsequent quarter so that actual expenditures did meet the matching requirement at September 30, 2011.

DHS is developing procedures to ensure that draws of federal cash do not exceed the required federal percentage distributing costs among all sources each time payroll is charged.

Questioned Costs: None

RECOMMENDATIONS

2011-68a Develop and implement control procedures to ensure that federal cash draws do not exceed the required federal matching percentage (FMAP).

2011-68b Ensure matching requirements are met each quarter, and that reports accurately reflect actual expenditures.

Finding 2011-69

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)

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 maintenance of effort required under the child care program {45 CFR 98.53(c)}. For Federal Fiscal Year (FFY) 2010, DHS claimed approximately $1.5 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

RECOMMENDATION

2011-69 Develop control procedures to ensure that compliance with specific eligibility requirements is maintained relating to all child care services claimed as Maintenance of Effort.

Finding 2011-70

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Executive Office of Health and Human Services (EOHHS)

PROVIDER ELIGIBILITY AND SUSPENSION AND DEBARMENT – MATERIAL NONCOMPLIANCE

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. EOHHS 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. During fiscal 2011, EOHHS and its fiscal agent continued implementation of a new system to allow for the electronic re-enrollment of all providers; however, the new process did not become operational during the year. We consider EOHHS's inability to document the above federal requirements relating to Provider Eligibility and Suspension and Debarment to be material noncompliance during fiscal 2011. Specifically, we do not believe that the State complied 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) during fiscal 2011.

Questioned Costs: None

RECOMMENDATION

2011-70 Reconstruct provider files to meet federal requirements for Provider Eligibility and Suspension and Debarment.

Finding 2011-71

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Administered by: Administered by: Executive Office of Health and Human Services (EOHHS)

CONTROLS OVER THE DETERMINATION OF SCHIP ELIGIBILITY

The 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 2011 approximated $40 million (federal share - $27 million).

Eligibility for both the Medicaid and the SCHIP programs is determined through the State's INRHODES computer system; however, specific SCHIP eligibility criteria have not been programmed into that system. Instead, all individuals first become Medicaid eligible. 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 State 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, the 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

2011-71 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 2011-72

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Administered by: Executive Office of Health and Human Services (EOHHS)

FEDERAL REPORTING

Federal regulations require expenditures for the Medical Assistance Program (Medicaid) to be reported 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 2011, RIFANS does not include the same level of Medicaid service detail that is available in the MMIS. This requires financial management staff 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 financial report, Form SF-425, which is required to be filed within 30 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

EOHHS 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, EOHHS imputes State matches for federal expenditures certified by other State agencies to derive total costs reported on the CMS-64. Based on interagency agreements with other State agencies, all Medicaid claiming initiated by other departments should be recorded in authorized accounts within the State accounting system demonstrating the appropriate state/federal shares of the expenditures. Agency compliance with this mandated accounting would allow EOHHS to completely reconcile administrative expenditures reported in the State's accounting system with those reported on cost certifications filed by those agencies and ultimately on Form CMS-64.

During fiscal year 2011, Medicaid administrative expenditures reported on Form CMS-64 totaled \$50,665,953 (federal share) while expenditures reported in the State's accounting system totaled \$52,235,255. 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 EOHHS reconciles reported program expenditures to amounts recorded in the State's accounting system, no reconciliation is performed for administrative expenditures.

Federal Financial Report

EOHHS is also required to complete the SF-425 Federal Financial Report for the Medical Assistance and SCHIP programs. The main function of the SF-425 report is to report cumulative cash receipts and disbursements detail for 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 quarterly SF-425 reports, EOHHS estimated federal expenditure amounts when Form CMS-64 was not completed in time to determine the actual amount of federal expenditures. Our analysis of expenditure amounts reported on quarterly SF-425 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. EOHHS should improve its federal reporting process to ensure that accurate Medicaid and SCHIP expenditure amounts are reported on the SF-425 reports. In relation to all federal reports prepared by EOHHS, requiring management review prior to filing the reports would significantly improve controls over federal reporting.

Questioned Costs: None

RECOMMENDATIONS

2011-72a Align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS.

2011-72b Completely reconcile administrative expenditures reported on the CMS-64 report with those reported in the State's accounting system.

2011-72c Report cumulative disbursements accurately on the SF-425 report based on actual expenditures in accordance with report guidelines.

2011-72d Improve tracking of Medicaid and SCHIP expenditures reported on the SF-425 reports to better document the collective reporting of program and administrative expenditures by grant period.

2011-72e Improve controls over federal reporting by consistently reporting expenditure amounts that have been recorded in the State's accounting system.

2011-72f Require management review of all federal reports prior to filing.

Finding 2011-73

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Executive Office of Health and Human Services (EOHHS)

COSTS NOT OTHERWISE MATCHABLE (CNOM) – MEDICAL ASSISTANCE

In January 2009, the Centers for Medicare and Medicaid Services (CMS) approved the State's request to operate its entire Medicaid program under a single Section 1115 Demonstration 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 $38.5 million (federal share - $20.9 million) in CNOM expenditures during fiscal 2011. These included early intervention services to young children, individuals in need of medical and pharmacy services relating to mental illness and substance abuse, as well as children not in the custody of the State that receive services through the State's Department of Children, Youth and Families (DCYF).

The State was unable to provide specific claims data to support $18.7 million (federal share - $10,156,710) 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 $19.8 million in CNOM claiming was paid through the State's MMIS in fiscal 2011 (federal share - $10.7 million). 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.

For many CNOM expenditure groups, the evaluation of income and asset limitations for program eligibility was delegated to the service provider agencies. The Executive Office of Health and Human Services (EOHHS) adopted policies and procedures that require the State agencies (DHS, DCYF, BHDDH, etc.) responsible for the administration of the respective CNOM programs to document and validate eligibility determinations made by provider agencies. In most instances, these requirements had not been fulfilled by the respective agencies at the time of our audit, thus a complete evaluation of the allowability of this claiming could not be performed.

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 eligibility determination system, the INRHODES system. The INRHODES system, through its income eligibility verification system (IEVS), has 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, and will require a more extensive monitoring and post audit process to ensure that CNOM eligibility requirements are met.

- Provider eligibility requirements must be met for Medicaid eligible services. The State utilizes centralized provider eligibility procedures employed by its fiscal agent to ensure that licensure and suspension and debarment requirements are met. Processing CNOM claims external to the MMIS circumvents the program's provider eligibility controls and creates a risk that claims could be reimbursed for services performed by ineligible providers or unlicensed clinicians.

EOHHS 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 2011, standards and practices adopted by EOHHS 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. Respective departments need to complete all claiming reviews relating to fiscal 2011 CNOM expenditures and credit the federal government for amounts determined to be claimed in error. In the future, EOHHS should ensure that all CNOM claiming processes are fully operational prior to claiming these expenditure populations to the Medicaid program.

Questioned Costs: $10,156,710

RECOMMENDATIONS

2011-73a Subject all CNOM claiming to the system edits and eligibility control processes (MMIS and INRHODES systems) in place over all Medicaid program expenditures.

2011-73b Ensure that adopted standards and practices, including claiming reviews, are completed for all CNOM expenditures claimed during fiscal 2011 and credit the federal government for any amounts claimed in error.

2011-73c Ensure that all future CNOM claiming processes are fully operational prior to claiming expenditures to the Medicaid program.

Finding 2011-74

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Executive Office of Health and Human Services (EOHHS)

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, the State charges the majority of costs associated with its fiscal agent contract at the 75% FFP rate within the Medical Assistance program.

As part of the fiscal 2011 audit, additional documentation was provided regarding the specific services being provided under the Medicaid fiscal agent contract. Based on this documentation, we were able to determine that certain specialists employed by the fiscal agent to approve prior authorization requests for a variety of medical and dental services were not allowable at the enhanced 75% rate. According to Medicaid regulations, prior authorization of medical services in advance of service delivery is not eligible for reimbursement at the 75% FFP rate. In addition, certain special project costs such as the annual maintenance cost of a web directory performed by the fiscal agent were also determined to be unallowable at the enhanced rate. The State charged expenditures of $817,322 for these services in fiscal 2011 resulting in questioned costs of $204,330 when charged at the enhanced federal rate.

EOHHS has now concurred with our findings and has agreed to correct its charging of these amounts on future fiscal agent invoices. EOHHS will also need to determine any excess federal expenditures charged in previous fiscal years for these services and credit the federal government for unallowable charges.

Questioned Costs: $204,330

RECOMMENDATION

2011-74 Credit the federal grantor for unallowable fiscal agent costs charged at the enhanced federal reimbursement rate.

Finding 2011-75

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Executive Office of Health and Human Services (EOHHS)

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) quarterly cumulative provider response rates ranging from a high of 35% to a low of 28% for the respective quarters for the State fiscal year ended June 30, 2011. Providers identified as exhibiting questionable drug 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 documented 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 medical service providers. The State specifically needs to adopt policies and procedures that will allow for consistent documented resolution of the findings of its DUR Board to ensure compliance with federal regulations relating to utilization review procedures within the Medicaid program.

Questioned Costs: None

RECOMMENDATION

2011-75 Adopt policies and procedures that will allow for consistent documented resolution of the findings by the State's appointed DUR Board.

Finding 2011-76

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Executive Office of Health and Human Services (EOHHS)

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, EOHHS did not complete any active case reviews from November 1, 2010 through June 30, 2011 resulting in noncompliance for a significant portion of the fiscal year. EOHHS relied upon federal payment error rate monitoring (PERM) audits for all negative case reviews conducted in fiscal 2011 as allowed by federal regulations.

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. EOHHS could not comply with this requirement because the studies had not been completed in a timely manner as discussed in the previous paragraph. EOHHS was unable to provide us with Certification of Medicaid Eligibility Quality Control Payment Error Rate submissions to CMS for any periods following March 2009.

MEQC is one of several requirements that States must comply with to ensure overall compliance with Medicaid recipient eligibility. We consider the deficiencies in the operation of the State's MEQC program described above to be a material weakness in internal control over recipient eligibility.

Questioned Costs: None

RECOMMENDATION

2011-76 Address staffing deficiencies in the MEQC unit so that EOHHS can meet its federal monitoring and reporting responsibilities.

Finding 2011-77

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Executive Office of Health and Human Services (EOHHS)

INPATIENT HOSPITAL AND LONG TERM CARE FACILITY AUDITS – MATERIAL NONCOMPLIANCE

The State Medicaid agency reimburses providers for inpatient hospital services and long-term care facility services through the use of rates that are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated providers. Federal regulation 42 CFR 447.253 establishes the specific rate setting requirements that each Medicaid agency must comply with. Each State Medicaid agency must provide for the filing of uniform cost reports for each participating provider. These cost reports are used to establish payment rates. Each State Medicaid agency must also provide for the periodic audits of financial and statistical records of participating providers. The specific audit requirements are established within each Medicaid agency's State Plan.

Inpatient Hospitals – Review of Submitted Settlement Reports

The RI General Laws require inpatient hospital providers to file cost settlement reports to EOHHS within one year from the end of the hospital's fiscal year. EOHHS uses these settlement reports to determine amounts owed to or due from participating hospitals. During fiscal 2011, most hospitals had submitted their cost reports on a timely basis; however, staff reductions in recent years have limited EOHHS's ability to conduct reviews necessary to finalize settlements. The significant delay in the settlement of past years also represented a control weakness over the accuracy of inpatient hospital rates set for subsequent periods through fiscal 2010 (The State began inpatient hospital reimbursements through a Diagnosis Related Group (DRG) methodology in fiscal 2011).

At June 30, 2011, EOHHS had approximately 62 unsettled reports from its 14 private hospitals for years ranging from 2004 through 2010. Although EOHHS paid amounts owed on the majority of these hospital settlements during fiscal 2011, based on the hospitals' cost report filings, review and final settlement of these years are still pending. During fiscal year 2011, the backlog of submitted hospital settlement reports continued to increase. The State needs to complete its review of hospital settlement reports to ensure that proper reimbursements were paid to inpatient hospitals through fiscal 2010.

Long-term Care Facility Audits

The CMS-approved State Plan titled *Principles of Reimbursement for Nursing Facilities* (Principles) establishes the requirements for long-term care facility rate setting. Rates are determined on a prospective basis and payments to long-term care facilities cannot exceed the facility's customary charges to the general public for such services.

All long term care facilities are required to submit a cost report for each calendar year by March 31 of the following year. The EOHHS Rate Setting Unit determines long term care facility per diem rates by analyzing the costs charged to various cost centers using guidance provided by the Principles. Per diem rates are changed during the year as required for inflation, fair rental, acuity and other adjustments.

The Principles require that "all cost reports will be desk audited within six (6) months of submission". The State of Rhode Island Rate Setting Unit shall conduct audits of the financial and statistical records of each participating provider in operation. Audits will be conducted under generally accepted auditing standards and will insure that providers are reporting under generally accepted accounting principles." There are approximately 82 long-term care facilities within the Rhode Island Medicaid program subject to these cost report filing and auditing requirements.

The EOHHS Rate Setting Unit has typically met the audit requirements by performing annual desk audits and triennial field audits on all long-term care providers. Desk audits consist of a detailed examination of certain cost centers. Field audits involve a much more comprehensive review of expenses charged and are more likely to result in significant rate setting adjustments. Only a few field audits were performed in fiscal 2010 and 2011 due to an acute staffing shortage in the Rate Setting Unit. In fiscal 2011, the Rate Setting Unit completed just three (3) desk audits for 2008 and none for 2009 due to staffing shortages and staff inexperience. Fiscal 2011 per diem rates should have been based upon 2009 desk audits, none of which were completed during the year.

We concluded that the State's Medicaid Program did not materially comply with these federal regulations, specifically 42 CFR 447.253(g), *audit requirements*.

Questioned Costs: Unknown

RECOMMENDATION

2011-77 Address personnel resource deficiencies within the Medicaid program to ensure compliance with federal inpatient hospital and long-term care facility audit requirements.

Finding 2011-78

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Executive Office of Health and Human Services (EOHHS)

SUSPENSION AND DEBARMENT

Our audit noted the following control deficiencies and questioned costs relating to suspension and debarment compliance requirements in the Medical Assistance program:

- During fiscal 2011, EOHHS identified payments of approximately $2.4 million (federal = $1,391,931) from October 2007 through April 2010 that were made to two (2) substance abuse providers whose Medical Director had been suspended from participation in federal programs during that period. The Medical Director's suspension went unidentified until the individual voluntarily disclosed it while applying to the Medicaid program as a direct provider. EOHHS states that the owners of the two substance abuse facilities failed to properly disclose the Medical Director's suspended status on the provider application.

- EOHHS could not provide a suspension and debarment certification obtained from the vendor in conjunction with a large administrative service contract charged to the Medicaid program.

As EOHHS implements its new electronic provider enrollment process and procures a new fiscal agent contract for operation of the Medicaid Management Information System, it should consider improving controls to identify and prevent suspended or debarred providers from participating in provider groups reimbursed through Medical Assistance. One possibility would be to have provider groups specifically identify the licensed provider of the billed service so that the individual providers could be validated for proper licensure in the State. The State's current provider eligibility and licensing requirements only ensure the eligibility of provider groups and not the individual medical providers participating in those entities.

Questioned Costs: $1,391,931

RECOMMENDATIONS

2011-78a Improve procedures to allow for the identification of suspended or debarred providers employed within provider groups.

2011-78b Recover reimbursements to providers for services provided by the identified suspended provider and credit the federal government for its share of ineligible Medicaid expenditures.

Finding 2011-79

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Executive Office of Health and Human Services (EOHHS)

CONTROLS OVER MEDICAID PAYMENTS TO PRIVATELY-OPERATED COMMUNITY PROVIDER AGENCIES - SERVICES AND SUPPORTS FOR ADULTS WITH DEVELOPMENTAL DISABILITIES

The Division of Developmental Disabilities (Division) 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 2011.

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 authority which was originally granted in a 1915(c) waiver approval to the State and is now incorporated into the State's Global Consumer Choice Section 1115 demonstration waiver. The State's waiver authority details the scope of services to be provided to this segment of the Medicaid population. The 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. In addition, adults with developmental disabilities, can qualify for managed care coverage under the State's Rhody Health Partner's program, which also allows certain services to be billed through the State's managed care organizations.

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 dates of service. 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 services to bill directly through the MMIS and allow for more enhanced control edits to be applied to these claims.

- Providers are commonly reimbursed through both payment processes for different program services (i.e., residential supports through the WPS and day program services through the MMIS) for the same individual. 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 per individual 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.

- Direct reimbursements for fire code upgrades at privately-operated facilities totaling $459,344 (federal share - $224,732) were made during fiscal 2011. Because these reimbursements were not identified as allowable services under the waiver authority, we believe that the State must obtain specific authorization from CMS to make these reimbursements allowable under Medicaid.

- The State's waiver authority 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 in recent years 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. Controls could be enhanced by processing all claims through the MMIS, subjecting them to the designed edits and control features available in the system.

Beginning in fiscal 2012, the State began processing the majority of claims for community-based services and supports for adults with developmental disabilities services through the MMIS. Under this processing change, all providers bill for defined units of service to the MMIS which should allow the State to utilize the controls and editing capabilities designed within the system to determine appropriate provider reimbursements.

Provider Licensing – Privately-operated Agencies Providing
Services for Adults with Developmental Disabilities

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, BHDDH is responsible for licensing providers of services to developmentally disabled adults.

During fiscal 2011, we were unable to verify provider licensure for this provider group as BHDDH could not provide us with the requested documentation to perform our work. While all providers are required to meet Medicaid eligibility requirements, controls should be improved to effectively monitor and document compliance for this provider group. Specifically, the department should require providers to identify the licensed professionals providing treatment to Medicaid eligible individuals.

In past audits, we have noted that several providers licensed by BHDDH were operating under expired licenses 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.

EOHHS, as the 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. EOHHS should also implement monitoring procedures to ensure that provider licensing by other State agencies is current.

Questioned Costs: $224,732

RECOMMENDATIONS

2011-79a Implement system modifications to allow full adjudication of claims for services provided to adults with developmental disabilities through the MMIS.

2011-79b 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.

2011-79c 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.

2011-79d Ensure that all providers meet licensing and federal health and safety requirements for providing services within the Medical Assistance program.

Finding 2011-80

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Administered by: Executive Office of Health and Human Services (EOHHS)

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 2011 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

2011-80 Strengthen system processing controls over home and community based medical and support services to enhance overall program integrity for this claim group.

Finding 2011-81

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Executive Office of Health and Human Services (EOHHS)

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 2011, contracted residential placements in excess of $36 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 2011 to determine the percentage of contracted placement per diem rates that should be allocated for Medicaid activities. The allocation percentages applied to the fiscal 2011 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 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 level of medical assessment and rehabilitation services mandated by the underlying contracts with DCYF.

- Since most of the rates being charged in fiscal 2011 were adjusted (in accordance with department-wide budgetary reductions) from the underlying contracts that ended in fiscal 2009 and whose terms have been extended annually since, it was difficult to specifically document the exact rates charged through RICHIST.

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. 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. EOHHS, as the 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, EOHHS 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.

<u>Questioned Costs</u>: Unknown

RECOMMENDATIONS

2011-81a Develop a plan that would facilitate payment for Medicaid eligible services conducted within DCYF contracted placements through the MMIS.

2011-81b Develop allowable medical services with defined service units and appropriate reimbursement rates available for DCYF provider groups to bill directly to the MMIS.

2011-81c 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 2011-82

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Department of Human Services (DHS)

PROGRAM OVERPAYMENTS – QUESTIONED COSTS

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 to the federal grantor on the Form CMS-64 within one year of discovery (overpayments discovered prior to March 23, 2010 are required to be credited within 60 days following discovery).

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. The number of variances ranged between approximately 700 and 1,000 each month during fiscal 2011. DHS was able to remain reasonably current in resolving differences reported between the two systems each month. DHS identified approximately $674 in federal questioned costs in cases where individuals remained eligible on the program when they no longer qualified for benefits. DHS did not credit the federal grantor on the CMS-64 Report for questioned costs identified as required by federal regulations. Once identified, these amounts should be credited to the federal grantor.

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 2011, RIte Share expenditures approximated $13.5 million covering approximately 12,000 individuals under their respective employer health insurance coverage. Since the inception of the RIte Share program, DHS has accumulated a receivable balance totaling $1.0 million (federal share - $617,021) 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, retroactively dating their insurance coverage termination date in the MMIS to the date the individual terminated their employment. In addition to paying premiums to these individuals, therefore, the State is exposed to paying all fee for service claims submitted on behalf of these individuals during the same period.

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.

Questioned Costs: $617,695

RECOMMENDATION

2011-82 Reimburse the federal government for claims paid on behalf of ineligible individuals within timeframes mandated by federal regulations.

Finding 2011-83

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Executive Office of Health and Human Services (EOHHS)

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 2011, EOHHS 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. EOHHS does not currently have controls in place to ensure the accuracy of the uncompensated care data provided by the hospitals.

Section 1923 (j) (2) of the Act requires States to 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. During fiscal 2011, audits for 2005, 2006, and 2007 State plan years were filed by EOHHS.

These audits, in addition to reaffirming that EOHHS needed to implement policies and procedures to validate the amounts reported for hospital uncompensated care, recommended the following improvements to controls over disproportionate share payments made to hospitals:

- Improve documentation of hospital qualifications with State-defined criteria for disproportionate share payments;
- Implement procedures to estimate hospital-specific DSH limits prior to making DSH payments as well as to calculate the DSH limits based on actual cost, charge and payment information;
- Implement policies and procedures to improve critical documentation (as outlined in the CMS General DSH Audit and Reporting Protocol) maintained by hospitals supporting calculated hospital-specific DSH limits; and
- Other improvements targeting specific deficiencies in hospital documentation supporting uncompensated care.

EOHHS's completion of initial DSH audits during fiscal 2011 represented an improvement in its compliance with federal regulations relating to DSH payments made in the Medicaid program. EOHHS, however, must continue this improvement by implementing the recommendations cited in the DSH audits and ensuring that the results of the audits for past years are considered and reflected in future DSH payments.

Questioned Costs: None

RECOMMENDATION

2011-83 Improve controls over Medicaid DSH payments by implementing the recommendations made within completed DSH audits.

Finding 2011-84

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Executive Office of Health and Human Services (EOHHS)

MANAGED CARE CONTRACT SETTLEMENTS

Medicaid benefit expenditures exceeded $2 billion in fiscal 2011 of which more than $650 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 Medicaid Management Information System's (MMIS) 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.

EOHHS relies on the MMIS to not pay for claims that are identified as being covered under an individual's managed care capitation and for the HMOs to only make payment for claims deemed to be covered under capitation to ensure that duplicate or ineligible claims are not paid through the two different payment processes. Due to the limited nature of the encounter data, little analysis or editing can be performed currently on this significant volume of claims. As part of its procurement of a new Medicaid Management System contract, EOHHS should include enhancements that will allow for a more detailed adjudication of claims paid through its managed care program. Since the State's managed care program requires settlement with HMOs based on actual costs incurred, claims paid through managed care contracts should receive the same level of control and editing that regular Medicaid fee-for-service claims receive.

In the interim or as another option, EOHHS should consider utilizing independent audits 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.

Questioned Costs: None

RECOMMENDATIONS

2011-84a 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.

2011-84b Enhance 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 within the new procurement of the MMIS fiscal agent contract.

Finding 2011-85

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Executive Office of Health and Human Services (EOHHS)

MEDICAL ASSISTANCE PROGRAM – PROGRAM OVERSIGHT AND MONITORING

The Executive Office of Health and Human Services (EOHHS) is mainly responsible for the administration and oversight of the State's Medical Assistance program. The administration and oversight of Medicaid is dependent on EOHHS having sufficient personnel resources to discharge this responsibility. Various program operations have been delegated to the State's fiscal agent or other contractors over time as departmental resources have declined. The State does not have sufficient personnel dedicated to the consideration and documentation of internal controls, including related monitoring procedures performed to ensure the proper administration of significant program areas. Considering the size and complexity of the Medicaid program, documenting and considering internal controls over program operations should be given more attention by the State. Federal regulations require non-federal entities to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

As part of our audit, we noted control deficiencies, and in certain instances, noncompliance with program requirements, in the following areas that are, at least in part, caused by inadequate personnel resources allocated to effectively administer and monitor these aspects of the program:

- *Program operations delegated to the fiscal agent* – Although the fiscal agent has adequate control procedures designed over its operations, EOHHS should document and identify specific areas of fiscal agent operations where it performs specific monitoring and validation of fiscal agent performance. For example, EOHHS should adopt procedures to ensure that all receipts (TPL recoveries, drug rebates, program overpayments, etc.) received by the fiscal agent are properly credited and deposited by the fiscal agent.

- *Program operations administered by other State departments and agencies* – Significant services billed through Medicaid for (1) children in the State's custody, (2) developmentally disabled adults, and (3) various CNOM programs are operated by the Department of Children, Youth, and Families (DCYF), and the Department of Behavioral Health, Developmental Disabilities and Hospitals (BHDDH) as well as other State agencies. As indicated in Findings 2011–81, 2011-79, and 2011-73, respectively, significant control deficiencies have been identified in relation to these aspects of program administration.

- *Inpatient Hospital and Long-term Care Facility Audits* – As indicated in Finding 2011- 77, EOHHS 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. EOHHS has also been unable to review and finalize hospital settlements in recent years even though hospital providers have submitted required cost reports in a timely manner. We considered EOHHS's inability to perform these vital program functions to be material noncompliance in fiscal 2011.

- *Controls over Recipient and Provider Eligibility* – As indicated in Finding 2011-76, EOHHS's ability to conduct timely MEQC reviews continued to be significantly diminished during fiscal 2011. In addition, as noted in several findings, controls over provider eligibility were noted as being deficient during fiscal 2011. Even once the fiscal agent is able to re-enroll all Medicaid providers, additional monitoring that ensures compliance with provider eligibility requirements will need to be performed by EOHHS.

- *Contracted Program Functions* – Over the years, reductions in personnel have resulted in EOHHS delegating additional areas of program administration to its contracted consultants. This delegation, however, does not relieve EOHHS'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.

The State must weigh the importance of maintaining adequate personnel resources to ensure proper oversight and control over program expenditures that exceeded $2 billion in fiscal 2011. Sustained reductions in personnel resources in program areas referenced above will continue to negatively impact control over program expenditures and compliance with federal program requirements. In addition, the State should consider additional personnel resources dedicated to the documentation, consideration, and monitoring of internal control over program operations.

Questioned Costs: None

RECOMMENDATIONS

2011-85a Address personnel resource deficiencies in critical program areas to ensure proper administration and control over the Medicaid program.

2011-85b Consider dedicating additional personnel resources responsible for the consideration, documentation, and monitoring of significant program operations and related controls to ensure compliance with federal and program regulations.

Finding 2011-86

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Executive Office of Health and Human Services (EOHHS)

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 expenditures approximating $177 million for the more than 15,700 individuals enrolled in this program during fiscal 2011.

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 $797 to $1,408 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

2011-86 Expand MEQC procedures to validate the eligibility requirements of Rhody Health and the proper assignment of capitation payment levels to program participants.

Finding 2011-87

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Administered by: Executive Office of Health and Human Services (EOHHS)

MEDICAL ASSISTANCE PROGRAM – MANUAL PAYMENTS BY FISCAL AGENT

The State's Medical Assistance Program, administered by the Executive Office of Health and Human Services (EOHHS), utilizes a fiscal agent to process medical claims and issue payments to providers. The majority of program expenditures, which total nearly $2 billion annually, are processed through the State's Medicaid Management Information System (MMIS). In addition to normal MMIS program disbursements, EOHHS also instructs the fiscal agent to disburse other payments ("manual payments"), including but not limited to the following:

- payments to the Rhode Island Public Transit Authority (RIPTA) for bus passes provided to Medicaid eligible individuals;
- payments advancing nursing home providers for the current month's services;

- certain claims approved for payment by EOHHS after appeal by the provider;
- disproportionate share payments to hospitals for uncompensated care;
- certain outpatient hospital payments required by RI General Laws; and
- year-end advances to State-operated providers for services provided but unbilled.

These manual payments, which approximated $200 million in fiscal 2011 (of which $122 million relates to disproportionate share payments as listed above), are issued when the State's fiscal agent receives formal authorization from EOHHS with detailed payment instructions. Although these authorizations are tracked with unique control numbers, manual payments essentially allow EOHHS personnel the ability to authorize payments outside expected control measures. In contrast, program payments made through regular MMIS cycles are system-determined amounts subject to all the processing controls of the system. Similarly, payments made through the State's accounting system are subject to procurement and disbursement controls as well as multiple levels of authorization and review. While we acknowledge that there are limited instances where manual payments by the fiscal agent may be necessary, most of the above payments currently made as manual payments should be disbursed subject to enhanced control mechanisms.

Overall program controls could be improved as follows:

- Payments to RIPTA for non-emergency transportation should be either fully adjudicated through the MMIS or paid through the State's accounting system;

- Payments to inpatient hospitals for uncompensated care relating to inpatient and outpatient services could be made through the State's accounting system;

- Practices such as year-end advances to state-operated providers should be eliminated as there is no justification or benefit to such payments. State-operated provider agencies such as the Department of Behavioral Health, Developmental Disabilities, and Hospitals (BHDDH) and the Department of Children, Youth, and Families (DCYF) should record year-end receivables in the State's accounting system for services provided but unbilled and receive payment for the services when the actual claims are processed through the MMIS.

Manual payments by the State's fiscal agent should be utilized infrequently in circumstances when other existing payment mechanisms are impractical. In addition, EOHHS should also require authorization by two financial managers on all requests for manual payments to ensure that no one employee can authorize a payment by the fiscal agent. The enhancements will improve overall control over program expenditures currently being made through fiscal agent manual payments.

Questioned Costs: None

RECOMMENDATIONS

2011-87a Minimize the use of manual payments by the Medicaid fiscal agent. Process payments through RIFANS when appropriate and improve authorization controls over manual payments that must be processed through the MMIS.

2011-87b Eliminate the practice of processing advances to state-operated providers at fiscal year-end.

Finding 2011-88

RESEARCH AND DEVELOPMENT CLUSTER:
Trans-NIH Recovery Act Research Support – CFDA 93.701
Administered by: University of Rhode Island

IDENTIFICATION OF ARRA FUNDS TO SUBRECIPIENTS

Recipients who provide American Recovery and Reinvestment Act (ARRA) funds to subrecipients must provide the Federal award number, CFDA number and amount of ARRA funds at the time of 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 disbursement for one of the subrecipients who received Recovery Act funds during fiscal year 2011. The total amount of the ARRA funds provided to the subrecipient during fiscal year 2011 was $101,914.

According to 2CFR Section 176.210(c):

> Recipients agree to separately identify to each subrecipient, and document at the time of 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 subrecipient did not receive the information at the time of disbursement.

Questioned Costs: None

RECOMMENDATION

2011-88 We recommend that management of the University implement policies and procedures to ensure that the proper information is supplied to subrecipients.

Corrective Action Plan

Finding 2011-1 – *Corrective Action*

2011-1a

The Department of Administration has implemented certain modules of its Oracle E-Business Suite called RI-FANS. These modules include I-Procurement, Sourcing, Contracts, General Ledger, ISupplier 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. Installation of these modules will remain resource and funding dependent. The department is upgrading the current modules from the Oracle E-Business Suite Version 11 to the Oracle E-Business Suite Version 12 during fiscal 2012.

2011-1b

In regards to substantiating the cost/benefit relationship of completing the RIFANS implementation, this would require quite an effort to complete and is thus resource dependent and not planned in FY2013.

<u>Anticipated Completion Date</u>: N/A

Contact Person: Alan Dias, Assistant Director of IT
Phone: 401.222.6091

Finding 2011-2 – *Corrective Action*

The Office of the General Treasurer will attempt to 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.

It was noted that the initiation of the cash movement is typically performed by the agencies and as a compensating control; they reconcile the authorized cash movement to the subsequent accounting entry. Also, the initiation of cash movement, the initiation of an accounting entry, the approval of the accounting entry and the reconciliation of the cash movement to the general ledger, while all potentially performed within Treasury, is effectively segregated and not all functions are performed by the same individual.

<u>Anticipated Completion Date</u>: June 30, 2012

Contact Person: Chris Feisthamel, COO, Office of the Treasurer
Phone: 401.462.7660

Finding 2011-3 – *Corrective Action*

2011-3a

The State's payroll system is a legacy application written in COBOL in an IBM mainframe environment. In FY2011 and FY2012 payroll codes and other incremental steps were taken in documenting the payroll system. In FY2012 and FY2013 we will continue to take incremental steps in documenting the payroll system. A formal document outlining certain portions of the system will be prepared with the legacy account conversion and with the changes occurring with the pension reform act. We will focus on those areas for documentation.

Anticipated Completion Date: Ongoing through June 2013

2011-3b

DOIT will ensure that payroll programming modifications are communicated to the Office of Accounts and Control and require a formal acknowledgement before moving changes into production.

Anticipated Completion Date: December 30, 2012

Contact Person: Alan Dias, Assistant Director of IT
Phone: 401.222.6091

Finding 2011-4 – *Corrective Action*

2011-4a and 4b

The process used to prepare entity wide financial statements will be reviewed to identify areas where controls can be further improved, especially through increased automation of processes. In addition, all critical calculations that impact the preparation of the statements will be reviewed by another staff member. Notwithstanding control enhancements, this rather involved accounting process requires manual involvement and, as such, will continue to be subject to manual error.

Anticipated Completion Date: November 30, 2012

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

Finding 2011-5 – *Corrective Action*

The Supplier Coordinator position has been vacant due to budgetary constraints. The lack of a dedicated staff member for this process was the origin of the control weakness. In March of 2012, the administration approved the position to be filled.

Anticipated Completion Date: June 30, 2012

Contact Person: Lorraine Hynes, Purchasing Agent
Phone: 401.574.8123

Finding 2011-6 – *Corrective Action*

2011-6a and 6b

The Federal Grants Information Schedule (FGIS) review process will be enhanced to provide additional assurance that information submitted by agencies is accurate.

A new policy has been implemented that requires the FGIS and related reconciliations to be submitted quarterly to the Controller's Office for major Federal programs. We believe the significant increase in the frequency of submission of the FGIS will allow for more timely submission at fiscal year-end also.

This recommendation focuses solely on the FGIS as the tool to reconcile federal revenue and expenditures to the State's accounting system. However, it is important to note that the FGIS is not the only mechanism to reconcile with the accounting system as there are agencies that have alternative and effective reconciliation processes in place. As a result, we are working with those agencies to formally document their process for control purposes.

Anticipated Completion Date: June 30, 2012

2011-6c

A communication will be sent to all agencies reminding them to make consistent use of the natural account that was created for this purpose.

Anticipated Completion Date: April 30, 2012

2011-6d

Allocation of additional resources is subject to budgetary constraints. However, if there is an opportunity to obtain additional funding, a position will be established to enhance statewide controls over the financial reporting aspects of federal programs.

Anticipated Completion Date: June 30, 2012

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

Finding 2011-7 – ***Corrective Action***

2011-7a

New procedures to address these and other issues relating to accounting for capital projects are currently being finalized.

Anticipated Completion Date: April 30, 2012

2011-7b

The physical inventory process has been significantly enhanced over the past several years. In fiscal year 2012 we are conducting fixed asset inventories at two major departments-DEM and DOT. The fixed asset inventory for one other major department, BHDDH, will be conducted no later than in fiscal year 2013. At that point, inventories will have been conducted at all major departments. Subsequently we will conduct inventories at all major departments at least every 3 years.

Anticipated Completion Date: December 31, 2012

2011-7c

For all assets purchased since the implementation of the Oracle Fixed Asset Module in 2007, the funding source is available in the data tables. A standard Oracle report has been developed to access this information. All agencies will be notified of the availability of this report.

Anticipated Completion Date: April 30, 2012

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

Finding 2011-8 – *Corrective Action*

2011-8a

The Office of Accounts & Control will prepare and communicate a policy for delegation of approval authority within RIFANS. Also, we will work with DoIT to create a report which shows all delegated approvals in RIFANS. The report will be run monthly and reviewed to ensure that all delegations abide by the policy set forth.

2011-8b

The Office of Accounts and Control will work with DoIT to prepare a report that will show all hierarchy changes. The report will be run monthly and reviewed to ensure that all changes were approved by the appropriate Associate Controller.

Anticipated Completion Date: September 30, 2012

Contact Person: Louise Anderson, Associate Controller-Operations
Phone: 401.222.2704

Finding 2011-9 – *Corrective Action*

The OHHS is currently working with the Controller's Office to identify manual payments that can be made through RIFANS. We will also review the authorization procedures for manual payments to determine if changes are needed to enhance the controls over such payments.

Generally, payments to providers are more appropriately made through MMIS, e.g. advance payments to nursing homes are recouped with the next claims payment cycle, and the timing of disproportionate share payments to hospitals are better controlled. Payment through MMIS also provides improved tracking/monitoring for Caseload Estimating purposes.

Anticipated Completion Date: 4^{th} Qtr. SFY 2012

Contact Person: Ralph Racca, Administrator
Executive Office of Health and Human Services
Phone: 401.462.1879

Finding 2011-10 – *Corrective Action*

OHHS is seeking to establish an Administrative Services Unit for the purpose of centralizing certain functions currently the responsibility of and performed separately by each agency. An internal audit function would be one of the key responsibilities of the Administrative Services Unit. It would address the issue of appropriate control and monitoring of operations to ensure compliance with federal regulations.

Anticipated Completion Date: 2nd Qtr. SFY 2013

Contact Person: Lawrence Ross, Assistant Director
Executive Office of Health and Human Services
Phone: 401.462.6025

Finding 2011-11 – *Corrective Action*

2011-11a

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 2011-11 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
Phone: 401.462.9292

2011-11b

The preparation of a corrective action plan is also resource dependent and funding depending.

Anticipated Completion Date: To be determined

Contact Person: Ernest Quaglieri, Chief Information Security Officer
Phone: 401.462.9292

2011-11c

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) with 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 not able to retroactively review and certify systems already in place.

Anticipated Completion Date: To be determined

Contact Person: Ernest Quaglieri, Chief Information Security Officer
Phone: 401.462.9292

2011-11d

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 recently posted for this position but was unable to find a qualified candidate. We will continue to pursue filling this FTE but now are limited by budget constraints.

Anticipated Completion Date: September 30, 2011

Contact Person: Alan Dias, Assistant Director of IT
Phone: 401.222.6091

Finding 2011-12 – *Corrective Action*

DOIT has implemented certain changes to the responsibilities of privileged users in RI-FANS. 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.

RI-FANS provides for auditing features of system users. To address this finding, we had configured the auditing features to produce system reports of system changes by privileged users. After configuring these features in version 11 of Oracle E-Business Suite, the results were not as expected. Rather than continuing configuring version 11, we will work on making these changes in version 12 of Oracle E-Business Suite. Version 12 has additional auditing features and we will work to configure those in version 12.

Anticipated Completion Date: December 30, 2012

Contact Person: Alan Dias, Assistant Director of IT
Phone: 401.222.6091

Finding 2011-13 – *Corrective Action*

There are two major systems, Payroll and Human Resources (HR,) that require the legacy account conversion. Some system changes have been made on the Payroll system with HR currently undergoing system changes.

This project has been ongoing since 2006 and is resource and project dependent. We will be modifying the master file again this year due to pension changes which must be in by June 30, 2012. During these changes, we will be putting in new security to access both legacy and new accounts. The file will also be able to handle the new legacy numbers when the file is expanded.

Anticipated Completion Date: September 30, 2012

Contact Person: Alan Dias, Assistant Director of IT
Phone: 401.222.6091

Finding 2011-14 – *Corrective Action*

Division of Information Technology will assign a team to implement this capability using current available technology. This audit finding will be implemented after audit finding 2011-13 and is thus resource dependent.

Anticipated Completion Date: To be determined

Contact Person: Alan Dias, Assistant Director of IT
Phone: 401.222.6091

Finding 2011-15 – *Corrective Action*

2011-15a

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 and was meant to serve as an enterprise solution. Due to resources leaving DOIT, we have been unable to improve this environment and roll out better change management processes.

The Department of Labor and Training is also addressing issues with change management in their audit finding, 2011-27. We will address this finding jointly and pool resources and available funds that DLT may have to address this finding. By pooling resources and enhancing this environment, we can position these tools to server DOIT/DLT and other agencies.

2011-15b

DOIT acknowledges that improvements need to be made to the original software implementation to better improve the program change controls originally put into place. We currently have maintenance and support on those products and believe these products will meet our needs. The issue is developing expertise and having staff available to support these products. As mentioned in 2011-15a, we will be combining our efforts with DLT to address this finding.

The completion of this finding is funding dependent for the outside resources.

Anticipated Completion Date: June 30, 2013

Contact Person: Alan Dias, Assistant Director of IT
Phone: 401.222.6091

Finding 2011-16 – *Corrective Action*

As part of the Fiscal Year 2013 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.

2011-16a

The Division of Taxation has performed a preliminary review of the data received based on DoIT's Data Classification Policy (Policy #05-02). It is the Division of Taxation's opinion that this data should be classified as "sensitive" and therefore requires 256 bit or higher encryption.

The Division of Taxation will work with DoIT to ensure that all data received meets the minimum encryption level.

2011-16b

The Division of Taxation will work with DoIT's Chief Information Security Officer to identify the best encryption and most cost effective method for electronic files contained on our internal servers.

2011-16c

The Division of Taxation is working with DoIT to modify the daily transmission of OCR files. The initial plan will have all OCR files combined daily into one file; this combined file will be made accessible to Taxation. Taxation will then make any adjustments to the file and then BIM the file to the mainframe. Each night that the OCR process is run, a mainframe program will write all the OCR transactions to a new combined / accumulated OCR file. This new file will archive all the transactions for comparison with the original OCR files that were transmitted each day. This process will be repeated for the files with the EFT format and the EFT transactions will also be archived for comparison.

2011-16d

Along with the proposed changes outlined in 2011-16c, the Division of Taxation will develop monitoring and reporting procedures to ensure that OCR and EFT data was uploaded correctly.

2011-16e

As part of the Division of Taxation's strategic plan, the Division is continually looking for ways to increase and improve electronic filing. In 2011, the Division of Taxation partnered with the National Association of Insurance Companies (NAIC) to implement electronic filing of insurance premiums tax returns. Currently, the Corporate Tax Section is responsible for downloading any return received through NAIC. The return is then reviewed and verified by the Corporate Tax Section. The Division of Taxation will explore modifying the process and procedures to have E-Government Section download the files from NAIC to ensure better segregation of duties.

<u>Anticipated Completion Date</u>: To be determined

Contact Person: David Sullivan, Tax Administrator
Phone: 401.574.8922

Finding 2011-17 – ***Corrective Action***

As part of the Fiscal Year 2013 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.

2011-17a

Over the past year, the Division of Taxation has dedicated staff from Processing and Office Audit Sections to focus on reconciling and processing W-3s. During the past few months, the Division of Taxation has generated assessments for approximately $650,000.

With the experiences gained in Office Audit, Taxation will focus on developing an automated 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.

2011-17b

Taxation will submit a request to DoIT programming to add carryovers of income tax to the management report similar to refunds.

2011-17c

While electronic returns have increased the speed of processing returns and shortened the time to issue refunds, it has created an easier method for individuals to file fraudulent returns. Over the past few tax seasons, the Division of Taxation has seen an increase in the amount of fraudulent returns filed. During the past two tax seasons, the Division of Taxation has amended the parameters used to stop returns with potential fraudulent activity. These additional measures have increase the number of errors and stops placed on returns filed. These increased fraud detection measures along with reduced staffing due to employee turnover in the personal income tax section has increased the total number of returns on error throughout the year. The Division of Taxation will review all the errors codes in personal income tax to determine the effective and potential elimination or restructure in an effort to reduce to total number of returns on error.

2011-17d

Under Regulations issued by the Division of Taxation employers are required to file and pay withholding tax either daily, quarter/monthly, monthly or quarterly depending on the amount of withholding during the previous twelve months. The Division of Taxation will run a special automated program before issuing the withholding booklets for calendar year 2013 to update all withholding agents filing methods.

Anticipated Completion Date: To be determined

Contact Person: David Sullivan, Tax Administrator
Phone: 401.574.8922

Finding 2011-18 – *Corrective Action*

2011-18a

The Division of Taxation will reissue the policy for approvals of ARC transactions. Each Section Chief will be reminded of the policy and approval process will be established for each Chief.

2011-18b

The Division of Taxation uses ARC Transactions for many reasons other than adjusting accounts receivable transactions. For example, a filer may omit information from the return (i.e. other state name in credit for taxes paid to other states) causing the credit to be disallowed. When a revenue agent obtains the omitted information they would prepare a return correction to allow the credit. These transactions are better classified as return perfection adjustment, not Accounts Receivable Correction Transaction. The Division of Taxation will work with DoIT to properly classify these adjustments and create a balancing procedure for the data entry ARC batches.

Anticipated Completion Date: To be determined

Contact Person: David Sullivan, Tax Administrator
Phone: 401.574.8922

Finding 2011-19 – *Corrective Action*

2011-19a

Assessments created in the Data Warehouse which are transferred to the mainframe are coded with a special indicator. Any correction or adjustment made to these assessments can be separately identified and reported. Division of Taxation will request that DoIT separately report any correction or adjustment made to an assessment originating from the Data Warehouse.

2011-19b

Allowance for uncollectible taxes receivable for most tax types are determined using a weighted average over a three year period. The Division of Taxation does not have enough historical data for assessments and collections from the Data Warehouse to perform the same analysis. The Division of Taxation will continue to work with the Office of Accounts and Control to establish and modify the allowance for uncollectible tax receivables relating to assessments originating from the Data Warehouse.

2011-19c

Any assessment created in the Data Warehouse is transferred to the Mainframe System within 48 hours. The assessments are held for 60-days to avoid duplicate billings and to afford the taxpayer their statutory 30-day right appeal the assessment. The Division of Taxation will examine the feasibility of eliminating or reducing the 60-day waiting period.

Anticipated Completion Date: To be determined

Contact Person: David Sullivan, Tax Administrator
Phone: 401.574.8922

Finding 2011-20 – *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 2011-21 – *Corrective Action*

A finding concerning the IT Governance and Security of Taxation's Information Systems was communicated confidentially due to the potential impact on taxpayer compliance.

Finding 2011-22 – *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.

Regarding long-term goals, RIDOT has discussed with the State Controller 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
Phone: 401.222.6590

Finding 2011-23 – *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:

- Analyze the components of fund balance more frequently during the fiscal year;
- Compare (a) revenues received per the federal FMIS report to (b) receipts booked in RIFANS and resolve any differences; and
- Include transactions at the account level as part of the GARVEE reconciliation process.

To better address these financial reporting findings, as well as the infrastructure accounting issues identified in findings 2011-24a through 2011-24e, the RIDOT Financial Management Unit intends to post a senior-level accountant position in early FY 2013.

Anticipated Completion Date: December 31, 2012

Contact Person: Robert Farley, Chief Financial Officer
Phone: 401.222.6590

Finding 2011-24 – *Corrective Action*

Financial Management will continue to improve controls over the recording of infrastructure investment and disposal, as well as when infrastructure assets are placed into service.

Regarding the identification and recording of infrastructure asset disposals, a control procedure will be implemented for FY 2012 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 2011, Financial Management utilized the date of substantial completion identified on RIDOT form "Substantial Completion and Request for Partial Acceptance / Final Inspection" as the basis of determining when infrastructure assets are placed into service. This methodology has been agreed upon by both RIDOT and the Auditor General's Office. RIDOT's Financial Management Office is aware that better coordination between RIDOT Units is required to ensure that it possesses a complete list of infrastructure assets that have been placed into service during each fiscal year.

Regarding the issue of linking actual design and construction costs to projects, the RIDOT Financial Management Office has 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 2011, Financial Management determined the total design costs incurred and linked specific design costs for 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.

The Department does not dispute the auditors' observation that an automated systems approach could potentially be a less cumbersome and more efficient way to account for infrastructure assets. However, severe budgetary constraints presently limit the Department's ability to upgrade to an automated system. Notwithstanding this significant hurdle, the Department will explore whether automated infrastructure accounting systems exist. If they do, a cost/benefit analysis will be performed to determine if this is an effective approach in the future when funding for such enhancements may become available.

Regarding the issue of impairment, the Department will establish a policy that conforms with the criteria outlined in generally accepted accounting principles applicable to governmental entities.
To better address these infrastructure findings, as well as the financial reporting issues identified in findings 2011-23a through 2011-23c, the RIDOT Financial Management Unit intends to post a senior-level accountant position in early FY 2013.

Anticipated Completion Date: December 31, 2012

Contact Person: Robert Farley, Chief Financial Officer
Phone: 401.222.6590

Finding 2011-25 – *Corrective Action*

A portion of RIDOT's systems were tested offsite April 2011. The next Disaster Recovery test will take place June 2012. During this time, the remaining systems are planned to be tested. If the test results are positive, documentation of the process will be documented. If the test results are not positive and/or there is not enough time permitted to complete testing of remaining systems, a third test will take place. Currently TBD. After all test are verified and complete, documentation of the process will follow. A contingency plan has not yet been developed. This will be addressed with further discussion among DoIT personnel.

Anticipated Completion Date: Disaster Recovery - August 2012
Contingency Plan – TBD pending results from June 2012

Contact Person: Keith Graham, Technical Support Specialist III
Phone: 401.222.6935 x-4329

Finding 2011-26 – *Corrective Action*

2011-26a

Discussions and analysis of the manual processes for PO/AP invoice/payment processes with Purchasing and Accounts Payables will continue. Multiple purchases orders can exist for a single approved awarded CMS contract. However, the original FMS Purchase Order may close and subsequent Purchase Orders open. To address this, additional FMS validations will be put in place to identify the appropriate FMS PO to match and process against. If validations can not occur, Accounts Payables will track and log all manual changes.

Anticipated Completion Date: September 2012

2011-26b

(1) Approval Hierarchies will be addressed during the system upgrade to Release 12. Accounts Payable workflows will be implemented during the R12 upgrade. The first step needed to upgrade to R12 requires replacing the current time and attendance module from OIT (Oracle Internet Time) to OTL (Oracle Time and Labor). Vendor selection is in process to assist DoIT in the OIT upgrade. Once complete, work will begin on the R12 upgrade of the overall system. (2) Discussions with Accounts Payable will take place in identifying additional validations on payments. In addition, existing reports will be reviewed to determine if any can be used or modified to identify discrepancies in invoice payment amounts between FMS and RIFANS. New reports can be created if none exist.

Anticipated Completion Date: (1) July 2014; (2) July 2013

Contact Person: Jimena Resto, Systems Administrator
Phone: 401.222.6935 x-4562

Finding 2011-27 – *Corrective Action*

The Department of Labor and Training's DoIT Staff will work with DoIT's Enterprise Staff to jointly address this finding by working to meet the requirements set forth in finding 2011-27. DLT's DoIT Staff will address the issues of change management by working together using a combined group of resources and funding to implement Clearcase/ClearQuest, if this is the toolset used to meet the requirements set forth. In addition, DLT's DoIT staff will investigate a change management solution for use on the IBM AS400/I5 computer systems that also meet the requirements set for the in Finding 2011-27.

DLT's DoIT staff along with the DoIT Enterprise Staff realizes that improvements need to be made to the current software to improve functionality and usability. DLT's DoIT staff will have to develop knowledge and expertise of these products and have the necessary staff to implement and manage these programs. DOIT will work with DLT to identify the required funding to implement these tools to meet the requirements.

Anticipated Completion Date: June 30, 2013

Contact Person: Robert M. Genest, Administrator, MIS
Phone: 401.462.8012

Finding 2011-28 – *Corrective Action*

The current transmissions are prepared from a dedicated, secure PC then sent to the financial institution. DLT DoIT's staff will work with the financial institution so they can accept an encrypted file format from the IBM I5 System. DoIT will coordinate this secure transmission with the financial institution.

Anticipated Completion Date: December 31, 2012

Contact Person: Robert M. Genest, Administrator, MIS
Phone: 401.462.8012

Finding 2011-29 – *Corrective Action*

Not applicable.

Finding 2011-30 – *Corrective Action*

The Authority will fund the Operating Reserve, Debt Service Reserve, and Renewal and Replacement 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 2011-31 – *Corrective Action*

Management will implement appropriate procedures to strengthen internal controls.

Contact Person: Buddy Croft, Executive Director
Rhode Island Turnpike and Bridge Authority
Phone: 401.423.0800

Finding 2011-32 – *Corrective Action*

Since year-end, the reconciliation process has been changed to reflect the reporting of investments in the general ledger to properly reflect what is reported by the bank.

Contact Person: Buddy Croft, Executive Director
Rhode Island Turnpike and Bridge Authority
Phone: 401.423.0800

Finding 2011-33 – *Corrective Action*

Since year-end, the monthly reports received from ACS are incorporated into the monthly closing and reconciliation process.

Contact Person: Buddy Croft, Executive Director
Rhode Island Turnpike and Bridge Authority
Phone: 401.423.0800

Finding 2011-34 – *Corrective Action*

Since the year-end, the CFO has made an effort to ensure that the Chief Engineer is processing invoices timely.

Contact Person: Buddy Croft, Executive Director
Rhode Island Turnpike and Bridge Authority
Phone: 401.423.0800

Finding 2011-35 – *Corrective Action*

Management agrees with the auditors' recommendation and will work to implement a revision to its policies and procedures to include a review performed by the Board of Directors of the calculations and amounts used in the consolidated financial statements.

Contact Person: David Piccerelli, Executive Director
Rhode Island Public Telecommunications Authority
Phone: 401.222.3636

Finding 2011-36 – *Corrective Action*

Management agrees with the auditors' recommendation and will employ the practice of dating checks the day they are written.

Contact Person: David Piccerelli, Executive Director
Rhode Island Public Telecommunications Authority
Phone: 401.222.3636

Finding 2011-37 – *Corrective Action*

Management agrees with the auditors' recommendation and will improve upon its procedures for recording deposits with accurate and appropriate documentation to reflect all donations.

Contact Person: David Piccerelli, Executive Director
Rhode Island Public Telecommunications Authority
Phone: 401.222.3636

Finding 2011-38 – *Corrective Action*

On August 15, 2011, RIHEAA hired a person in the role of Senior Accountant. This individual will be taking responsibility for bank statement reconciliations in the near future. In addition, RIHEAA's management has been reviewing the roles of all members of the finance department so as to determine how best to accomplish appropriate segregation of duties.

Contact Person: Charles Kelly, Executive Director
Rhode Island Higher Education Assistance Authority
Phone: 401.736.1100

Finding 2011-39 – *Corrective Action*

2011-39a

The State developed the new cash resources report to centrally monitor cash balances as well as provide a tool to the agencies for their federal draw purposes. However, there are certain agencies that do not need to use the report due to their unique setup and related controls. Excluding these agencies, the State will reinforce the use of the report to the few agencies that did not use it for federal draw purposes in Fiscal 2011.

Furthermore, the State will review the suggested draw technique changes and modify if appropriate.

Anticipated Completion Date: June 30, 2012

2011-39b

The Office of Accounts and Control will explore the feasibility of an interface between RIFANS and the federal government's automated funds management system.

Anticipated Completion Date: June 30, 2013

Contact Person: Peter Hodosh, Associate Director for Special Projects
Phone: 401.222.6404

Finding 2011-40 – *Corrective Action*

Refer to corrective action plan for Finding 2011-7c.

Finding 2011-41 – *Corrective Action*

The State has established a decentralized reporting structure since the necessary expertise to determine applicability is at the program level. The State will pursue ways to allocate resources and provide a centralized oversight role. However, this is subject to budgetary constraints.

Anticipated Completion Date: June 30, 2013

Contact Person: Marc Leonetti, Controller
Phone: 401.222.6731

Finding 2011-42 – *Corrective Action*

2011-42a

The Department has consulted with DoIT and NGIS regarding this finding and has implemented the following course of action. Beginning April, 2012, NGIS will produce weekly reports that gather baseline information at the request of DHS. These reports will be reviewed by DHS after 6 consecutive weeks to determine baseline information. Once baseline data is established, DHS will have NGIS generate reports of anomalies that will be reviewed by the security administrator for follow-up action.

2011-42b

After consultation with NGIS and DoIT, DHS will make this determination after reviewing the "anomalies" report discussed in 42a.

Anticipated Completion Date: June 2012

Contact Person: George Bowen, Administrator, Operations Management
Department of Human Services
Phone: 401.462.6468

Finding 2011-43 – *Corrective Action*

Although URI did supply all required documentation in this federal fiscal year, the required documentation was not available in time for the final audit. The Department will work in cooperation with URI to ensure that adequate controls and supporting documents are available in a timely manner.

Anticipated Completion Date: March 2012

Contact Person: Nancy Pellegrino, SNAP Administrator
Department of Human Services
Phone: 401.462.0993

Finding 2011-44 – *Corrective Action*

2011-44a

The Office of Financial Management will review supporting documentation for cost allocation each quarter to check for errors.

2011-44b

The Office of Financial Management will strengthen control procedures to resolve discrepancies in cost allocation and submit the quarterly reports more timely.

2011-44c

Cost allocation certifications will be collected on time to verify time accountability.

Anticipated Completion Date: June 2012

Contact Person: Janice Cataldo, CFO (Acting)
Department of Human Services
Phone: 401.462.0547

Finding 2011-45 – *Corrective Action*

2011-45a and 45b

The Business Affairs Unit of the Department of Labor and Training has reconciled, identified, and documented the variance between reported expenditures and RIFANS during state fiscal year 2012. No adjustments to federal reports or the state accounting system were necessary. Controls relative to federal reporting have been strengthened during state fiscal year 2012 to preclude variances in reported expenditures from those reflected in the state accounting system.

Anticipated Completion Date: March 2012

Contact Person: Denise Paquet, Administrator – Financial Management
Department of Labor and Training
Phone: 401.462.8178

2011-45c and 45d

The Business Affairs Unit of the DLT has initiated quarterly reconciliations of the ETA 227 report to the state accounting system during state fiscal year 2012. Supervisory review of the ETA 227 report has been performed by a manager in the Labor Market Information Unit of the DLT prior to submission of the report. Business Affairs will perform a subsequent review of the data reported during its reconciliation process.

Anticipated Completion Date: June 30, 2012

Contact Person: Denise Paquet, Administrator – Financial Management
Department of Labor and Training
Phone: 401.462.8178

2011-45e

TAPR files are reviewed and corrections are made prior to submission. A Workforce Development Letter Series 11-03 Internal Control Procedures, dated March 24, 2011 was developed to strengthen internal controls to ensure accurate reporting of financial and program information to DOL ETA. 11-03 established Trade Administration monitoring of all incoming information from local Trade staff for completeness and accuracy. Monitoring of all EmployRI data entry will be reviewed as well.

Trade administrative staff, netWORKri Managers and netWORKri Trade staff were provided formal training and a review of the EmployRI MIS (Management Information System) through a series of training sessions. The training was provided by Geographic Solutions, (GEOSOL) addressing all aspects except the Advanced Individual Fund Tracking (AIFT) module that is not currently used in the

EmployRI system. Training was held during May 2011. The system tracks participants from application, eligibility and case management activities through closure and exit. Emphasis was placed on data entry accuracy, understanding performance measures, eligibility, case management, job development, job matching, job referrals and common measures. Additionally information on the soon to be incorporated AIFT module was provided. The AIFT will provide all financial tracking for participants as well as accurate data to reconcile to other DLT TAPR reporting system. Trade administrative staff has also conducted periodic follow-up training on EmployRI in the local offices, specifically covering key date definitions and data entry.

<u>Anticipated Completion Date</u>: December 31, 2011

Contact Person: Sue Chomka, Assistant Director – Workforce Development
Department of Labor and Training
Phone: 401.462.8712

2011-45f

Rhode Island's conversion process from a previous Management Information System (Access Database) to our Virtual One-Stop System (EmployRI) continues. This process has included data corrections which have provided for greater accuracy in the TAPR reporting. The focus now is on the implementation of the EmployRI Advanced Individual Fund Tracking System (AIFT). The conversion plan is to be completed April 2012. This system will allow the state to capture TAA expenditures and to be in compliance with the TAA TAPR reporting requirements. Both Trade administrative staff and the Trade Chief of Labor and Training Programs review this data for propriety.

Quarterly reconciliations of the TAPR to the ETA 9130 reports are being initiated during state fiscal year 2012.

<u>Anticipated Completion Date</u>: April 30, 2012

Contact Persons: Sue Chomka, Assistant Director – Workforce Development
Department of Labor and Training
Phone: 401.462.8712

Denise Paquet, Administrator – Financial Management
Department of Labor and Training
Phone: 401.462.8178

2011-45g

Data utilized in preparation of the submittal of the TAPR report are kept and maintained by Trade administrative staff. Moving forward, wage record data is to be saved and stored on a secured server.

<u>Anticipated Completion Date</u>: April 30, 2012

Contact Person: Sue Chomka, Assistant Director – Workforce Development
Department of Labor and Training
Phone: 401.462.8712

2011-45h

Prior to submission of TAPR reports, the information related to the TAPR data elements is reviewed for completeness and accuracy by Trade administrative staff. Petition numbers are correctly reported on TAPR QTR 20114.

Anticipated Completion Date: December 31, 2011

Contact Person: Sue Chomka, Assistant Director – Workforce Development
Department of Labor and Training
Phone: 401.462.8712

Finding 2011-46 – *Corrective Action*

2011-46a and 46b

Updates to computer systems BAM utilizes have been completed as of July 1, 2011 so all future BAM audits will reflect the registration requirement with evidence in print. The modifications to the criteria for UI claimant registrations in EmployRI has been completed by DLT's IT division to include all claimants with the exception of those claimants who are residing in another state but receiving Rhode Island unemployment benefits, those with return to work dates within 8 weeks of filing their claim, and claimants who belong to Trade Unions and interstate claimants.

BAM personnel received comprehensive training on verification of registration with the Employ RI database as well as the established criteria in order to be considered exempt/non-exempt from reemployment registration. BAM personnel were also instructed to review the documentation required for each case and the coding elements involving EmployRI registration. The training took place on September 29, 2011.

Review of the checklist and forms designed to capture the Job Service information will enable BAM personnel to follow policy/procedure established by DOL ET Handbook 395 5th Edition Part G – Employment Services Registration. BAM form QC 15 and 19 will show the results of the BAM audit involving Job Service Registration policy and services provided to each client. Review of each BAM case, by the BAM Manager, will insure that the EmployRI information is being verified and reported correctly. If after review, there is evidence that additional training on this subject is needed, individual training will be provided by the BAM Manager.

Anticipated Completion Date: September 30, 2011

2011-46c

The BAM manager has been monitoring the Unit's data system in the Sun System on a weekly basis to review the timeliness in completing the BAM audits. Investigators will be reminded of cases which are nearing the required time frame in completing their cases.

Anticipated Completion Date: October 2011

Contact Person: Raymond Filippone, Assistant Manager – Income Support
Department of Labor and Training
Phone: 401.462.8415

Finding 2011-47 – *Corrective Action*

2011-47a

DLT is establishing authorized balances within its FARS ledgers that are consistent with grant award documentation during state fiscal year 2012.

<u>Anticipated Completion Date</u>: June 30, 2012

Contact Person: Bob Garofano, Administrator – Financial Management
Department of Labor and Training
Phone: 401.462.8149

2011-47b

A dedicated server to be used to house all back-up data to federal reports is being procured by the Department. This server will provide an effective audit trail that supports data reflected on federal and state reports.

<u>Anticipated Completion Date</u>: June 30, 2012

Contact Person: David Tremblay, Administrator – Statewide Investment Office
Department of Labor and Training
Phone: 401.462.8812

Finding 2011-48 – *Corrective Action*

2011-48a

Training of new staff has begun and technical assistance will be provided by the DLT Business Affairs Unit with input and templates provided by the New York State Department of Labor.

<u>Anticipated Completion Date</u>: June 30, 2012

Contact Person: David Tremblay, Administrator – Statewide Investment Office
Department of Labor and Training
Phone: 401.462.8812

2011-48b and 48c

An extensive reconciliation of DLT's records and those of the subrecipient's reports was performed by Business Affairs that identified the source of the excess revenues. Adjustments were made to the subrecipient's accounting records and drawdowns of federal funds amongst the WIA programs were adjusted. A new process has been implemented in state fiscal year 2012 that strengthens fiscal monitoring to ensure that cash requests by subrecipients agrees with supporting accounting records.

<u>Anticipated Completion Date</u>: March 2012

Contact Person: Bob Garofano, Administrator – Financial Management
Department of Labor and Training
Phone: 401.462.8149

Finding 2011-49 – *Corrective Action*

DLT has developed a series of on-going training sessions and tools to address this finding. The training and tools sessions have and will continue to address the need to strengthen staff compliance with eligibility and consistent data entry of case information in the EmployRI MIS system.

Training session agenda included:

- Employment Counseling/The Interview (December 2010)
- Recruitment and Hiring Has Changed (February 2011)
- Assessment and Evaluation Tools(March, 2011)
- Job Search Planning & Development (October, 2011)
- Maintaining Contact & Customer Case Notes (December, 2011)
- Performance Management (April, 2012)
- Team Work & Excellent Customer Service (TBD)

Recurring themes throughout these sessions included the use of new methods and ideas to provide effective case management. They provided staff with the foundation needed to build upon an effective and efficient case management and employment plan for customers and information documentations to be included in the case folders.

Training on the EmployRI MIS system was conducted by DLT's vendor Geographic Solutions (GEOSOL). This system tracks participants from application, eligibility, case management activities through closure/exit and follow-up. GEOSOL provided an in-depth and extensive training to all staff and managers in May, 2011 with specific emphasis on EmployRI data entry, understanding WIA performance measures, eligibility, case management, job development, job matching, and job referral, and common measures. In addition, staff received training in Wagner-Peyser, WIA, TRADE, WIA Youth Services, Employer Services, Performance Measures, Administrative Overview, Provider Services, and Advanced Individual Tracking Fund. Incorporated into this training was information on the upgrades to the EmployRI version.

Continued specialized training has been provided in the netWORKri offices throughout the state by Administrative staff of the Workforce Development Division. These sessions have also focused on the data entry in EmployRI. The topics included several Trade specific requirements including key dates for Trade petitions, ATAA/RTAA, review of definitions of Case Closure and Case Outcome, TAPR completion and Data Entry.

A WIA Checklist for documentation to be included in all WIA folders was developed and placed in use during 2012. The checklist serves to ensure that all necessary documentation is included in each WIA case file. The form also includes steps to be followed for VOS data entry as well as a space for Manager's initials indicating that the file was reviewed for WIA eligibility as well as the file being reviewed for follow-up.

The State Workforce Investment Office is committed to increasing the quality and quantity of both its monitoring and technical assistance in order to tighten controls around eligibility and documentation as well. Monitoring will primarily be focused on data quality issues, such as discrepancies between the paper and electronic records and what DLT is referring to as "interim data validation". The latter is modeled on the federally required annual data validation process. Files are randomly selected from each

Local Workforce Investment Area and data elements are checked against source documents to verify compliance with federal definitions. By establishing this as an on-going practice, data integrity should be markedly improved.

The results of the data validation and monitoring will be analyzed to identify trends and areas of concern. Training will then be developed to resolve any problems.

Enhanced technical assistance by State Workforce Investment Office staff will be provided to front line workers in the One-Stop offices (netWORKri) and to youth service providers, as well as to monitoring staff at the local level. Topics will include "Understanding Performance Measures"; "Eligibility, Data Validation and Source Documentation"; and "Follow-up Activities". These efforts are designed to increase not only the skill level of front line staff but also performance accountability and the importance of data integrity.

<u>Anticipated Completion Date</u>: June 30, 2012. Ongoing training will continue as necessary.

Contact Persons: David Tremblay, Administrator – Statewide Investment Office
Department of Labor and Training
Phone: 401.462.8812

Sue Chomka, Assistant Director – Workforce Development
Department of Labor and Training
Phone: 401.462.8712

Finding 2011-50 – *Corrective Action*

2011-50a

RIDOT's Construction Management Office will take additional steps to ensure contractor compliance with Davis Bacon Act requirements. For fiscal year ending June 30, 2012, the Office of Construction Management will meet with applicable staff members to reinforce the requirement that two labor compliance checklists need to be completed for each applicable project and that all required certified payrolls need to be submitted.

2011-50b

The Department will take this recommendation under advisement.

<u>Anticipated Completion Date</u>: June 30, 2012

Contact Person: Frank Corrao, Construction Management
Phone: 401.222.2468

Finding 2011-51 – *Corrective Action*

2011-51a

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, 2012

2011-51b

The materials test book has migrated to an electronic format; however, the next phase in this initiative, which is to provide field staff with remote access, has not been implemented. 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**:** To be determined

2011-51c

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, 2012

2011-51d

An electronic module in the construction management program is currently being implemented. 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**:** To be determined

2011-51e

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: June 30, 2012

2011-51f

The Department will take this recommendation under advisement.

Anticipated Completion Date**:** To be determined

Contact Person: Frank Corrao, Construction Management
Phone: 401.222.2468

Finding 2011-52 – *Corrective Action*

2011-52a

RIDOT's Office of Compliance and Review has established written policies and procedures for subrecipient monitoring, and is working on incorporating these policies and procedures into a formal manual. A list of all federal awards passed through to subrecipients by project will be prepared by the Office of Financial Management and forwarded to RIDOT offices that have subrecipient monitoring responsibilities. Those offices will then document the date that reviews are conducted, as well as maintain adequate back-up documentation of the monitoring performed.

Anticipated Completion Date: December 31, 2012

Contact Person: Richard Fondi, Administrator, Highway and Bridge Construction Operations
Phone: 401.222.6940

2011-52b

The RIDOT Office of Financial Management will refine its process for identifying all federal awards passed-through to subrecipients by project.

RIDOT Office of Financial Management will identify all new projects that have been authorized in the federal Fiscal Management Information System (FMIS) since July 1, 2009 though the present.

Additionally, the RIDOT Office of Financial Management will cross-check the FMIS information with RIFANS to ensure that all sub-recipients have been identified.

Furthermore, the RIDOT Office of Financial Management will implement a policy that all subrecipient expenditures (and only subrecipient expenditures) will get charged to Natural Account 654120 on the State accounting system.

Lastly, a list identifying all federal awards passed through to subrecipients by project will then be generated annually by the RIDOT Office of Financial Management and provided to the Auditor General's Office for audit testing purposes, as well as to the respective RIDOT offices that have subrecipient monitoring responsibilities.

Anticipated Completion Date**:** June 30, 2012

Contact Person: John Megrdichian, Administrator for Financial Management
Phone: 401.222.2496

2011-52c

Before FY 2011, the Department had not obtained Single Audit reports. As noted by the Auditor General, during FY 2011 the Department instituted controls to ensure that Single Audit reports are obtained and reviewed, including the development of a Single Audit checklist.

RIDOT concurs that additional controls need to be implemented.

Towards that end, the Single Audit checklist that was implemented during FY 2011 will be expanded to include explicit steps requiring (a) reconciliations in instances where amounts in the subrecipient's SEFA do not agree to the amounts passed through, and (b) follow-up with the subrecipient and/or its audit firm whenever internal control findings are cited that could have an effect on funding provided by RIDOT.

Lastly, when applicable, the Department will issue management decisions within required timeframes.

Anticipated Completion Date: June 30, 2012

Contact Person: Robert Farley, Chief Financial Officer
Phone: 401.222.6590

2011-52d

RIDOT's Legal Unit and Financial Management Office are revising the standard template for subrecipient agreements to include: the CFDA number and title; federal agency name; federal award number; applicable compliance requirements; and a provision communicating to the subrecipient that it 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).

Anticipated Completion Date: June 30, 2012

Contact Person: Robert Farley, Chief Financial Officer
Phone: 401.222.6590

2011-52e

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, 2012

Contact Person: Robert Farley, Chief Financial Officer
Phone: 401.222.6590

Finding 2011-53 – *Corrective Action*

The RIDOT Office of Financial Management has updated its procedures regarding the ARRA reconciliation. These updated procedures now include all ARRA expenditures reported on RIDOT's FMS system, which should resolve this issue for FY 2012 and beyond.

Anticipated Completion Date: June 30, 2012

Contact Person: Robert Farley, Chief Financial Officer
Phone: 401.222.6590

Finding 2011-54 – *Corrective Action*

2011-54a

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: June 30, 2012

Contact Person: Robert Farley, Chief Financial Officer
Phone: 401.222.6590

2011-54b

As noted by the Auditor General, an arbitrator's ruling, which is approximately 30 years old, is the basis for Local 400 employees to be reimbursed for commuting to work. The Department has tried multiple times over the ensuing years to modify that decision at the negotiating table, but to date has been unsuccessful.

It should be noted that the State's official in-state travel reimbursement policy (i.e., A-46) states on page 5 that "(a)ll provisions of a collective bargaining agreement which modify or supplement this policy shall take precedent over any portion of this policy that may be in conflict with such agreement.

As such, the Department believes that its current practice of paying for commuting mileage is not in violation of the State's official in-state travel reimbursement policy.

Notwithstanding the fact that the Department believes it is in compliance with State policy, this issue will be revisited during the next contract negotiations with Local 400.

Anticipated Completion Date: To be determined

Contact Person: Robert Farley, Chief Financial Officer
Phone: 401.222.6590

2011-54c

The Department has strengthened supervisory controls to minimize employee miscalculations related to in-state travel reimbursement.

Anticipated Completion Date: June 30, 2012

Contact Person: Frank Corrao, Construction Management
Phone: 401.222.2468

Finding 2011-55 – *Corrective Action*

As noted by the Auditor General, RIDOT was not aware of this earmarking requirement, but the Department subsequently identified expenditures that met the requirement. RIDOT will strengthen controls to ensure compliance with Earmarking requirements.

Anticipated Completion Date: June 30, 2012

Contact Person: Robert Shawver, Administrator for Planning and Finance
Phone: 401.222.6940

Finding 2011-56 – *Corrective Action*

The RIDOT Office of Financial Management will reconcile RIDOT's Financial Management System data with RIFANS to ensure that expenditures are reported in the appropriate quarter.

Anticipated Completion Date: June 30, 2012

Contact Person: Loren Doyle, Administrator for Financial Management
Phone: 401.222.6590

Finding 2011-57 – *Corrective Action*

The MMIS system is now under the oversight from the Executive Office of Health and Human Services and not the Department of Human Services. Therefore, our update will only reference InRHODES. We have implemented a number of controls that address the pertinent clauses of the Federal Regulation 45 CFR § 95.621.

Anticipated Completion Date: February 2012

Contact Person: George Bowen, Administrator, Operations Management
Department of Human Services
Phone: 401.462.6468

Finding 2011-58 – *Corrective Action*

2011-58a

The Department will instruct eligibility staff on required documentation and service staff on required follow up on employment plan activities.

Anticipated Completion Date: March 2013

2011-58b

The Department will instruct all RI Works supervisors and CCAU supervisors on value of randomized selection of cases for review and retention of those reviews in case files.

Anticipated Completion Date: March 2013

2011-58c

The Department will further encourage all RIW, SNAP, MA and CCAU staff to scan documents, however, the Department is in the midst of a comprehensive review of business processes and will be guided by emerging decisions regarding infrastructure investments.

Anticipated Completion Date: March 2013

2011-58d

The Department has in process a systems solution to prevent children of an improper age to be deemed eligible for federally funded child care. If expenditures do occur for this population, alternative allowable funding has been identified effective July 2011.

Anticipated Completion Date: May 2012

Contact Persons: Diane Cook, Administrator
Department of Human Services
Phone: 401.462.6842

Janice Cataldo, CFO (Acting)
Department of Human Services
Phone: 401.462.0547

Finding 2011-59 – *Corrective Action*

The Department is working on a request for proposal to hire an agency to review all TANF MOE and to assist in identifying additional MOE. In addition, the Department will further strengthen control procedures in the preparation of the ACF 196 and ACF 204 report.

Anticipated Completion Date: March 2013

Contact Persons: Diane Cook, Administrator
Department of Human Services
Phone: 401.462.6842

Janice Cataldo, CFO (Acting)
Department of Human Services
Phone: 401.462.0547

Finding 2011-60 – *Corrective Action*

2011-60a

The Department issued a Procedural Memo on IEVS in 2012 and will follow up with instruction for eligibility staff.

2011-60b

The Department issued a Procedural Memo on IEVS in 2012 and will follow up with instruction for eligibility staff.

2011-60c

The Department will clarify that policy section and cite the governing federal regulation.

Anticipated Completion Date: March 2013

Contact Person: Diane Cook, Administrator
Department of Human Services
Phone: 401.462.6842

Finding 2011-61 – *Corrective Action*

The Office of Financial Management will monitor that subrecipients submit audit findings within 9 months after the end of the subrecipients' fiscal year. If these reports are not received, the office will send out a management letter notifying our subrecipients of the OMB requirement.

Anticipated Completion Date: June 2012

Contact Person: Janice Cataldo, CFO (Acting)
Department of Human Services
Phone: 401.462.0547

Finding 2011-62 – *Corrective Action*

(1) Accepted. The Office of Energy Resources will develop a procedure to adequately follow-up with subrecipients relating to any deficiencies noted during on-site monitoring reviews.

(2) The Office of Energy Resources has added an additional appendix to the agreement with one subrecipient with significant audit findings and continues to closely monitor the progress of the agency.

Anticipated Completion Date: October 1, 2012

Contact Person: Terri Brooks, Administrator, Financial Management
Office of Energy Resources
Phone: 401.574.9107

Finding 2011-63 – *Corrective Action*

2011-63a

Accepted. The Office of Energy Resources implemented in July 2011 the use of the Federal Cash Resources report as a tool to drawdown funds. Funds are not drawn-down until the funds are expensed.

2011-63b

Accepted. The Office of Energy Resources will utilize a report generated from the CAPTAIN data system as well as the weekly report to assure subrecipients receiving funds based on their immediate cash needs.

2011-63c

Subrecipient agreements will be revised to require subrecipients to disburse program funds on behalf of eligible clients based upon vendor submission of documented delivery of service.

Anticipated Completion Date: October 1, 2012

Contact Person: Terri Brooks, Administrator, Financial Management
Office of Energy Resources
Phone: 401.574.9107

Finding 2011-64 – *Corrective Action*

Accepted. The Office of Energy Resources maintains a spreadsheet with data from the state's accounting system that is updated monthly.

Anticipated Completion Date: October 1, 2012

Contact Person: Terri Brooks, Administrator, Financial Management
Office of Energy Resources
Phone: 401.574.9107

Finding 2011-65 – *Corrective Action*

Accepted. The Office of Energy Resources has established Blanket Purchase Agreements for each subrecipient to assure earmarking requirements are being met. In addition, the Office of Energy Resources has developed a spreadsheet to monitor the allocation of the funding allotted to ensure compliance with earmarking requirements.

Anticipated Completion Date: June 2012

Contact Person: Terri Brooks, Administrator, Financial Management
Office of Energy Resources
Phone: 401.574.9107

Finding 2011-66 – *Corrective Action*

2011-66a

Accepted. The Office of Energy Resources prepared a revised SF-269A financial report and was submitted to the Administration of Children and Families on March 8, 2012 and the Auditor General's Office received a copy of the report.

2011-66b

Accepted. Establishing Blanket Purchase agreements for each component of the block grant will ensure the proper back-up documentation is sufficient to meet the requirements.

2011-66c

Accepted. The Office of Energy Resources prepared a revised Carryover and Reallotment report and was submitted to the Administration of Children and Families on March 8, 2012 and the Auditor General's Office received a copy of the report.

2011-66d

Establishing Blanket Purchase agreements for each component of the block grant will ensure the proper back-up documentation is sufficient to meet the requirements.

2011-66e

Accepted. The Office of Energy Resources, through the Department of Administration's Division of Purchases, released a solicitation for a new data system in the fall of 2011. A report to generate the necessary data for the Household Report will be a requirement.

Anticipated Completion Date: October 1, 2012

Contact Person: Terri Brooks, Administrator, Financial Management
Office of Energy Resources
Phone: 401.574.9107

Finding 2011-67 – *Corrective Action*

As in the prior cost allocation finding, the Office of Financial Management will strengthen control procedures to assure that cost allocation quarterly reports are submitted more timely and correctly. Thus, the ACF -696 child care earmarks will be allocated appropriately in subsequent reports.

Anticipated Completion Date: June 2012

Contact Person: Janice Cataldo, CFO (Acting)
Department of Human Services
Phone: 401.462.0547

Finding 2011-68 – *Corrective Action*

2011-68a

The Office of Financial Management has implemented control procedures in the current state fiscal year.

2011-68b

The Office of Financial Management has implemented control procedures to assure that the rates match federally FMAP allocations.

Anticipated Completion Date: July 2011

Contact Person: Janice Cataldo, CFO (Acting)
Department of Human Services
Phone: 401.462.0547

Finding 2011-69 – *Corrective Action*

The Office of Financial Management worked with the budget office to secure additional state funding for SFY 2011 to eliminate our reliance on DCYF child care benefits as MOE. In the future, we will continue to ensure whatever expenditures claimed as MOE are adequately documented and include only recipients meeting applicable child care eligibility requirements.

Anticipated Completion Date: July 2011

Contact Person: Janice Cataldo, CFO (Acting)
Department of Human Services
Phone: 401.462.0547

Finding 2011-70 – *Corrective Action*

As of the result of the flooding of the Fiscal Agent offices on March 30, 2010, all paper provider enrollment documents were lost. The Department could either reconstruct the paper files or build an electronic provider enrollment portal that will ensure timely and efficient updates of provider files. The electronic option was chosen. All new providers post flood are enrolled on paper, while existing active providers are currently being enrolled in the new electronic provider enrollment portal.

Design, build and testing of the new system spanned 15 months. The re-enrollment of all active providers began in January, 20102. With over 12,000 providers in the system, the re-enrollment process will continue over several months.

Anticipated Completion Date: Ongoing

Contact Person: Ralph Racca, Administrator
Executive Office of Health and Human Services
Phone: 401.462.1879

Finding 2011-71 – *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 State is currently procuring a new eligibility determination system, which will identify insurance coverage at the point of eligibility determination.

Anticipated Completion Date: October 2013

Contact Person: Deborah Florio, Administrator
Executive Office of Health and Human Services
Phone: 401.462.0140

Finding 2011-72 – *Corrective Action*

OHHS will continue its efforts to improve the automation of the CMS reports and reconciliation of administrative costs to RIFANS. Accounts are being reconciled every month and controls have been strengthened on federal reporting for administrative and benefit expenditures. Federal reports are checked and verified prior to filing. OHHS is working to automate more report functions, but until there is a consistent automated option that works well with RIFANS, manually completing the reports will remain more cost effective.

Anticipated Completion Date: Ongoing

Contact Persons: Lawrence Ross, Assistant Director
Executive Office of Health and Human Services
Phone 401.462.6025

Janice Cataldo, Acting CFO
Department of Human Services
Phone: 401.462.0547

Finding 2011-73 – *Corrective Action*

Only the DCYF and Department of Disability (DD) CNOMs are not yet being processed through MMIS. In SFY 2011 these accounted for approximately half of questioned claims. Although these claims are not processed through MMIS, each agency maintains appropriate patient and service level documentation to support the CNOM claiming.

Due to complex claiming hierarchy in DCYF, it was determined not to pursue processing of CNOM claims through MMIS before the reprocurement of the MMIS contract. With the implementation of BHDDH's Project Sustainability project, DD CNOM claims will be processed through MMIS.

The terms and conditions in the Global Consumer Choice Compact Waiver do not require the same level of claims processing and eligibility controls for CNOM claims that are necessary for Medicaid claims. However, an RFP for a new eligibility system to replace InRhodes is being prepared and will include a requirement that the new system also maintain eligibility for CNOM claims.

OHHS will continue to make every effort to require claims associated with new CNOM initiatives be processed through the MMIS.

All agencies are required to conduct a self-audit of CNOM expenditures claimed, the results of which must be reviewed and approved by OHHS. The agencies have been provided with written audit guidelines outlining the standards and practices that need to be met. The federal government is credited for any over-claimed amounts.

Anticipated Completion Date: 4th Quarter SFY 2013

Contact Person: Lawrence Ross, Assistant Director
Executive Office of Health and Human Services
Phone 401.462.6025

Finding 2011-74 – *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. Claiming not in compliance with the above will be credited on the CMS 64.

Anticipated Completion Date: 4th Qtr. SFY 2012

Contact Person: Ralph Racca, Administrator
Executive Office of Health and Human Services
Phone: 401.462.1879

Finding 2011-75 – *Corrective Action*

Policies and procedures have been adopted by the DUR Board to ensure documented resolution of cases of special concern. The deadline for submitting the DUR Annual Report for FY 2010 was extended to September 30, 2011. The 2010 Annual report has been submitted to CMS.

Anticipated Completion Date: Completed 2nd Qtr. SFY 2012

Contact Person: Ralph Racca, Administrator
Executive Office of Health and Human Services
Phone: 401.462.1879

Finding 2011-76 – *Corrective Action*

DHS has assigned staff to evaluate the operation of the MEQC unit and to ensure that is meeting its federal monitoring and reporting responsibilities.

Anticipated Completion Date: 2nd Qtr SFY 2013

Contact Person: Corinne Calise Russo, Deputy Director
Department of Human Services
Phone: 401.462.2121

Finding 2011-77 – *Corrective Action*

The Rate Setting Unit committed to finalizing all hospital settlements by the end of calendar year 2012. The review process will ensure that the proper amounts were paid to and/or received from each hospital.

Due to the lack of adequate personnel resources, the Rate Setting Unit has been unable to complete nursing home cost report desk audits within the timeframes set forth in the Principles of Reimbursement. Desk audits for 2008 should be completed by the end fiscal year 2012. Every effort will be made to complete the 2009 desk audit by the end of calendar year 2012. An evaluation will be made in regard to conducting field audits.

Anticipated Completion Date: Hospital Settlements: 2nd Quarter SFY 2013
Nursing Home Cost Report Audits: Ongoing

Contact Person: Lawrence Ross, Assistant Director
Executive Office of Health and Human Services
Phone: 401.462.6025

Finding 2011-78 – *Corrective Action*

All providers are screened upon application and monthly thereafter to ensure the organization is not on the Medicare Exclusion Database and an excluded provider. It is the responsibility of the enrolled provider to screen its employees and subcontractors monthly to check for possible excluded individuals and sub-contractors. Documentation supporting this policy and procedure has been provided to the Auditor General. Notwithstanding the above, OHHS will investigate the feasibility of having the rendering provider on fee-for-service claims screened against the Medicare Exclusion Database.

Anticipated Completion Date: Federal portion of overpayments to be credited by the end of SFY 2012

Contact Person: Ralph Racca, Administrator
Executive Office of Health and Human Services
Phone: 401.462.1879

Finding 2011-79 – *Corrective Action*

2011-79a and 79b

The Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals (BHDDH) concurs that the multiple payment systems and rate structures that are were in place prior to June 30, 2011 were not efficient and did not provide adequate controls over the total DD program. During FY 11, the Department redefined services and established rates for each of the services. Effective July 1, 2011 Phase 2 of Project Sustainability was implemented. Providers bill HP directly for services provided. Most services are billed in either daily, hourly or 15 minute increments, the only services billed monthly are support coordination/support facilitation. All rates were approved by CMS in December 2011.

2011-79c and 79d

BHDDH licenses Behavioral Healthcare and Developmental Disability providers. There are regulations and professional standards for each provider type. Licensing staff survey 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. All Licensing surveys beginning July 1, 2011 shall include review by BHDDH Licensing Staff of all of a provider's professional staff to ensure that licenses for all professional staff 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 state: "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: June 2012

Contact Person: Maureen Wu, Administrator, Financial Management
Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals
Phone: 401.462.3100

Finding 2011-80 – *Corrective Action*

Incorporating system edits into MMIS to flag claims with overlapping dates would be costly and also complicated by the fact that 1) home health/homemaker services may not be provided every day within the date span billed; and 2) community based and institutional services are billed on different claim forms.

One of OHHS' initiatives for SFY 2013 is the expansion and enhancement of the Surveillance Utilization Review (SUR) program. Incorporating regular reviews/audits of claims with overlapping date ranges will be addressed in this initiative. OHHS will also examine the possibility of changing the billing instructions for home and community based providers to require the specific dates on which services are provided, rather than a date range, be included on the claim.

Anticipated Completion Date: 3rd Qtr. SFY 2013

Contact Persons: Ellen Mauro, Administrator
Executive Office of Health and Human Services
Phone: 401.462.6311

Lawrence Ross, Assistant Director
Executive Office of Health and Human Services
Phone: 401.462.6025

Finding 2011-81 – *Corrective Action*

2011-81a

Phase II of the System of Care was anticipated to begin by January 1, 2012. The RFP was issued in August 2011 and contracts were awarded to two successful bidders in November 2011. The start date for Phase II of the System of Care has been adjusted to July 1, 2012. The majority of the services currently being provided through hundreds of individual vendors will then be provided by the two vendors who received the award. One of the requirements for the successful bidder(s) is to have the capacity and infrastructure to bill directly for Medicaid claims.

2011-81b

We are continuing to work closely with OHHS 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 implementation of Phase II of the System of Care.

2011-81c

This was a requirement included in the RFP for Phase II of the System of Care.

Anticipated Completion Date:	System of Care - Phase II:	July 1, 2012
	Full provider compliance:	June 30, 2013

Contact Person: Lee Baker, Purchasing/Contracts Administrator
Department of Children, Youth and Families
Phone: 401.528.3627

Finding 2011-82 – *Corrective Action*

Medicaid Eligibility: The amounts in question will be credited to the Federal government.

RIte Share: 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, presents them with an opportunity to appeal or contest the State's claim, and announces 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.

Recoveries from clients, whether arriving from the individual directly or via the tax intercept, are credited back to the appropriate Federal and State accounts as they are received.

Development of a new eligibility system is underway as part of the State's effort to implement the Affordable Care Act. The new system will offer the opportunity for more timely identification of changes in insurance status and will help forestall the creation of such receivables in the first place. Implementation of the new system is planned on or before October 1, 2013.

Anticipated Completion Date: Process was implemented in April 2010.

Contact Person: Deborah Florio, Administrator
Executive Office of Health and Human Services
Phone: 401.462.0140

Finding 2011-83 – *Corrective Action*

DSH audits have been completed for FY 2005 – FY 2008. The FY 2009 audit is about to begin. The Department is working with the auditors to develop standardized reporting requirements for the hospitals. The Department will work closely with the hospitals and the Hospital Association to ensure the necessary controls are in place to validate the data for each hospital is accurate and in conformance with federal DSH guidelines.

Anticipated Completion Date: Ongoing

Contact Person: Ralph Racca, Administrator
Executive Office of Health and Human Services
Phone: 401.462.1879

Finding 2011-84 – *Corrective Action*

2011-84a

The Department does not agree that is has a responsibility 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.

2011-84b

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.

Anticipated Completion Date: October 2012

Contact Person: Deborah Florio, Administrator
Executive Office of Health and Human Services
Phone: 401.462.0140

Finding 2011-85 – *Corrective Action*

OHHS is seeking to establish an Administrative Services Unit for the purpose of centralizing certain functions currently the responsibility of and performed separately by each agency. An internal audit function would be one of the key responsibilities of the Administrative Services Unit. It would address the issue of appropriate control and monitoring of operations to ensure compliance with federal regulations.

Anticipated Completion Date: 2nd Qtr. SFY 2013

Contact Person: Lawrence Ross, Assistant Director
Executive Office of Health and Human Services
Phone: 401.462.6025

Finding 2011-86 – *Corrective Action*

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, particularly for the recipients identified as SPMI.

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 in the MMIS development queue.

Anticipated Completion Date: October 2012

Contact Person: Deborah Florio, Administrator
Executive Office of Health and Human Services
Phone: 401.462.0140

Finding 2011-87 – *Corrective Action*

The OHHS is currently working with the Controller's Office to identify manual payments that can be made through RIFANS. We will also review the authorization procedures for manual payments to determine if changes are needed to enhance the controls over such payments.

Generally, payments to providers are more appropriately made through MMIS, e.g. advance payments to nursing homes are recouped with the next claims payment cycle, and the timing of disproportionate share payments to hospitals are better controlled. Payment through MMIS also provides improved tracking/monitoring for Caseload Estimating purposes.

Anticipated Completion Date: 4th Qtr. SFY 2012

Contact Person: Ralph Racca, Administrator
Executive Office of Health and Human Services
Phone: 401.462.1879

Finding 2011-88 – *Corrective Action*

The University issues a separate subaward contract with a 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 accounts payable check stub references the vendor's invoice number and invoice amount.

In fiscal year 2011, the University implemented a procedure to manually send a separate remit with each ARRA award disbursement which included the required information: Federal award number, CFDA number and amount of Recovery Act funds. The University sent separate remit to the majority of ARRA subrecipients such as University and subrecipients paid by ACH. However, not all subrecipients received a separate remit with payment. In FY 2012 for each ARRA subrecipients payment, URI will enter the required information in a description field in PeopleSoft which will print on the check stub.

Anticipated Completion Date: July 1, 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	10-41
State Administrative Matching Grants for SNAP	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
Unemployment Insurance	17.225	09-39, 10-39, 10-40, 10-43, 10-44, 10-45
Trade Adjustment Assistance - Workers	17.245	07-54
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
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	09-45, 10-39, 10-40, 10-50, 10-51, 10-52, 10-53, 10-54, 10-55
Title I, Part A Cluster		
Title I Grants to Local Educational Agencies	84.010	09-48, 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	09-48, 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	09-48, 10-39
ARRA - Special Education – Preschool Grants (IDEA Preschool), Recovery Act	84.392	10-39
Improving Teacher Quality	84.367	09-48
State Fiscal Stabilization Fund Cluster		
State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	10-39
State Fiscal Stabilization Fund (SFSF) - Government	84.397	10-39

Summary Schedule of Prior Audit Findings
Table of Prior Findings by Federal Program

Program Title	CFDA Number	Findings included in Previous Single Audit Reports
Services, Recovery Act		
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	07-67
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
Child Support Enforcement	93.563	08-73, 08-74
Low-Income Home Energy Assistance Program	93.568	09-66, 10-39, 10-62, 10-63, 10-64, 10-65, 10-66, 10-67
CCDF Cluster:		
Child Care and Development Block Grant	93.575	08-81, 10-39, 10-41, 10-57, 10-61
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	08-81, 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
Adoption Assistance	93.659	08-84
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 (Title XVIII) Medicare	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
Block Grants for the Prevention and Treatment of Substance Abuse	93.959	08-107, 08-109
Homeland Security Cluster:		
State Domestic Preparedness Equipment Support Program	97.004	08-113
Homeland Security Grant Program	97.067	08-113
Research and Development Cluster	93.701	10-91

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
07-54		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	This finding referred to the ETA-563 report which has been replaced by the TAPR.
07-67		93.283	CDC – Investigations and Technical Assistance – Subrecipient Monitoring. DOH should enhance documentation of monitoring of subrecipients, obtain and review audit reports, and determine whether audit reports necessitate adjustment of DOH's records.						
	07-67a		Establish appropriate policies and procedures to monitor subrecipients, utilizing site visits, audits or other means as considered appropriate and enhance documentation of such activities.		X				
	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				
	07-67c		Evaluate whether the subrecipient audit reports necessitate adjustment of DOH's records, or impact its ability to comply with applicable federal regulations.		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				

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
	08-73b		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				
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		OCSS plans to commence a reconciliation process beginning with the quarter ending June 30, 2012.
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.		X				
08-84		93.659	Certain records were not available for our review, resulting in questioned costs for several payments in the sample.						
	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				
08-107		93.959	The Department could not determine if earmarking requirements had been met due to insufficient tracking of expenditures.						
	08-107		Track and maintain documentation demonstrating compliance with all applicable federal earmarking program requirements.				X		A new grant manual was written during FY 2010 with policies and procedure for earmarking requirements. RI is not an HIV designated state in FY 11, therefore earmarking is not required however, BHDDHH did track the earmarking as would have been required.

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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				
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				
09-39		17.225	The ETA 227 report was not reconciled to RIFANS prior to submission.						
	09-39b		Perform a reconciliation between the ETA 227 reports and RIFANS.			X			See Corrective Action Plan for finding 2011-45.
09-45		20.205	RIDOT did not have adequate policies or procedures in place to monitor its subrecipients.						
	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 2011-52.
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				
09-66		93.568	The OER did not perform any site visits to any subrecipients.						

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
	09-66a		Reestablish a regular schedule of site visits to LIHEAP subrecipients and document the monitoring procedures performed.		X				
	09-66b		Evaluate the impact of subrecipient activities on the OER's ability to comply with applicable federal regulations.		X				
10-39		Various	The State did not have adequate controls to ensure compliance with federal cash management requirements in drawing cash for federal programs.						
	10-39a		Reinforce use of the Sate'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.	02-17c 03-20c 04-29c 05-29b 06-22b 07-44b+c 08-39b+c 09-33b+c		X			See Corrective Action Plan for finding 2011-39.
	10-39b		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 09-33d			X		See Corrective Action Plan for finding 2011-39.
	10-39c		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.	02-17b 03-20b 04-29b 05-29c 06-22c 07-44d 08-39e 09-33e	X				

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10-40		Various	The State did not have adequate controls to ensure compliance with regulations governing the use, management and disposition of equipment purchased with federal funds.	97-10 98-07 99-09 00-09 01-08 02-16 03-19 04-30 05-30 06-23 07-45 08-40 09-34		X			See Corrective Action Plan for finding 2011-40.
10-41		10.551 93.558 93.714 93.575 93.596 93.713 93.767 93.778	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.						
	10-41a		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.	05-32d 06-24d 07-46c 08-42 09-35a		X			See Corrective Action Plan for finding 2011-42.
	10-41b		Develop policies and procedures detailing appropriate investigation of issues identified by the department's monitoring procedures.	08-42b 09-35b		X			See Corrective Action Plan for finding 2011-42.
10-42		10.561	DHS did not have documentation supporting the actual amounts of in-kind match reported.						
	10-42a		Develop control procedures to ensure that adequate supporting documentation is maintained for in-kind matching expenditures reported in the SNAP Federal Financial Status Report.			X			See Corrective Action Plan for finding 2011-46.
	10-42b		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.				X		See Corrective Action Plan for finding 2011-43.

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10-43		17.225	Six clients may not have been registered with RI Job Service. BAM unit investigative summaries were not consistent with respect to whether or not registration was required.						
	10-43		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.				X		See Corrective Action Plan for finding 2011-44.
10-44		17.225	Errors were found on the ETA-2208A (UI-3) reports. These errors might have been detected with improved controls.						
	10-44a		Perform and document supervisory review of the ETA-2208A (UI-3) report prior to submission to the federal government.		X				
	10-44b		Correct and resubmit the ETA-2208A (UI-3) Quarterly Contingency Reports for the quarters ended September 30, 2009, December 31, 2009, and March 31, 2010.			X			DLT has corrected staff years paid as noted in the finding. Staff years worked will be corrected in the 3-31-12 quarterly report.
10-45		17.225	Controls over reporting for the ETA 563 and its replacement, the Trade Act Participant Report (TAPR) should be enhanced to ensure accurate and consistent reporting.						
	10-45a		Review reports prior to submission to ensure data agrees to supporting information systems.					X	This finding referred to the ETA-563 report which has been replaced by the TAPR.
	10-45b		Coordinate reporting efforts across divisions to ensure consistent reporting. Reconcile the TAPR to the 9130 report.				X		See Corrective Action Plan for finding 2011-45.
	10-45c		Verify petition numbers reported on the TAPR prior to submission				X		See Corrective Action Plan for finding 2011-45.
10-46		17.258 17.259 17.260	DLT should improve controls over federal financial reporting by completing the State's required federal grant information schedule and reconciling to RIFANS.						
	10-46a		Establish authorized balances within FARS ledgers consistent with grant award documentation.	07-55a 08-49a 09-41			X		See Corrective Action Plan for finding 2011-47.
	10-46b		Report amounts drawn for local and state activities appropriately.		X				

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10-47		17.258 17.259 17.260	The forms used as guides to determine program eligibility were not always properly completed by staff.						
	10-47a		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.	07-56 08-50 09-42		X			See Corrective Action Plan for finding 2011-49.
	10-47b		Ensure that GEOSOL system data is consistent with case file documentation.			X			See Corrective Action Plan for finding 2011-49.
10-48		17.258 17.259 17.260	New accounts were created for the use of stimulus (ARRA) funds. The new account numbers were not consistent with the numbering convention established by the state controller for ARRA funds.						
	10-48		Ensure ARRA funding is appropriately identified in the State's accounting system. Follow the established numbering convention for creating accounts funded with ARRA dollars.		X				
10-49		17.258 17.259 17.260	DLT is behind in monitoring its subrecipients. Reports are not prepared and submitted to the subrecipients within a reasonable time after monitoring steps are performed.						
	10-49		Communicate the results of subrecipient monitoring activities to the subrecipient in a timely manner.				X		See Corrective Action Plan for finding 2011-48a.
10-50		20.205	Required labor compliance checks were not always performed and proper documentation was not always maintained.						
	10-50		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.	03-29 04-40 05-42 06-30 07-57 08-52 09-43			X		See Corrective Action Plan for finding 2011-50.
10-51		20.205	RIDOT should improve its quality assurance program with respect to materials testing.						

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	10-51a		Improve the RIDOT quality assurance program for materials testing consistent with federal regulations and guidelines.	07-58a 08-53a 09-44a		X			See Corrective Action Plan for finding 2011-51.
	10-51b		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 09-44b			X		See Corrective Action Plan for finding 2011-51.
	10-51c		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 09-44c		X			See Corrective Action Plan for finding 2011-51.
	10-51d		Require all test results be documented in the materials test book prior to vendor payment of the related materials.	08-53e 09-44d		X			See Corrective Action Plan for finding 2011-51.
	10-51e		Require staff to report any errors in the materials test book to the appropriate RIDOT personnel for correction.	09-44e		X			See Corrective Action Plan for finding 2011-51.
10-52		20.205	RIDOT did not have adequate policies or procedures in place to monitor its subrecipients.						
	10-52a		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 2011-52.
	10-52b		Identify all federal awards passed-through to subrecipients by project.	08-54b			X		See Corrective Action Plan for finding 2011-52.
	10-52c		Ensure subrecipients have had required single audits performed and review the audit reports on a timely basis including issuing management decisions within required timeframes.	08-54c		X			See Corrective Action Plan for finding 2011-52.
	10-52d		Provide required information to subrecipients in contracts such as CFDA number and title, federal agency and applicable compliance requirements including identification of ARRA funding.	08-54d 09-45d		X			See Corrective Action Plan for finding 2011-52.
	10-52e		Evaluate the impact of subrecipient activities on RIDOT's ability to comply with applicable federal regulations.	08-54e 09-45e		X			See Corrective Action Plan for finding 2011-52.

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10-53		20.205	Timing differences exist between the DOT FMS system and RIFANS, making reporting of ARRA expenditures inconsistent.						
	10-53		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.	09-46		X			See Corrective Action Plan for finding 2011-53.
10-54		20-205	RIDOT did not have adequate policies or procedures in place to ensure police detail charges by municipality were reasonable.						
	10-54		Establish policies and procedures for payment of police details and enter into memorandums of understanding with the municipalities to establish uniform and reasonable charges.				X		See Corrective Action Plan for finding 2011-54.
10-55		20.205	RIDOT does not have procedures in place to ensure matching funds are made when another State department is providing the match.						
	10-55		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.		X				
10-56		84.010 84.389	One employee of the Central Falls School District had not completed the required time reports.						
	10-56		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.					X	The Central Falls School District was not a component unit of the State for FY 2011.
10-57		93.558 93.714 93.575 93.596 93.713	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.						

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	10-57a		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, determining and enforcing compliance with work participation requirements.	01-46 02-47 03-50 04-68 05-63a 06-43a 07-70a 08-67a 09-56a		X			See Corrective Action Plan for finding 2011-58.
	10-57b		Include childcare cases in the sample case review process.	06-43d 07-70c 08-67c 09-56b		X			See Corrective Action Plan for finding 2011-58.
	10-57c		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.	08-67d 09-56c			X		See Corrective Action Plan for finding 2011-58.
	10-57d		Develop control procedures to prevent ineligible child care costs from being charged to the program.	09-56d		X			See Corrective Action Plan for finding 2011-58.
	10-57e		Adjust the federal report for the amount inappropriately claimed.					X	
10-58		93.558 93.714	TANF – Special Reporting – Strengthen supervisory review and approval of the ACF-204.						
	10-58a		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 08-71a 09-58a		X			See Corrective Action Plan for finding 2011-59.
	10-58b		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.	09-59a 09-60		X			DHS is working with OHHS to determine best approach, however, DHS has made improvements in securing supporting documentation.

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10-59		93.714	The Department's control procedures require further strengthening to ensure the reliability of data reported on the OFA-100 (TANF Emergency Fund Request Form).						
	10-59a		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.		X				
	10-59b		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.		X				
10-60		93.558 93.714 93.767 93.778	TANF eligibility discrepancies resulting from IEVS data matches were not investigated and resolved in a timely manner.						
	10-60a		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.	98-36 99-33a 00-32a 01-36a 02-41a 03-41a 04-56a 05-59a 06-40a 07-71a 08-66a 09-57a		X			See Corrective Action Plan for finding 2011-60.
	10-60b		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 09-57b		X			See Corrective Action Plan for finding 2011-60.

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	10-60c		Revisit the propriety and application of DHS policy (1022.10.20) and determine if it is supported by federal guidance or regulation.			X			See Corrective Action Plan for finding 2011-60.
	10-60d		Determine the nature of the wage record error and make necessary changes to prevent this type of error in the future.			X			See Corrective Action Plan for finding 2011-60.
	10-60e		Enhance controls to ensure and document that interface data received is complete and includes all periods during the year.			X			See Corrective Action Plan for finding 2011-60.
10-61		93.558 93.714 93.575 93.596 93.713 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.						
	10-61a		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.	03-43a 04-71a 05-64a 06-44a 07-75a 08-72a 09-55a		X			See Corrective Action Plan for finding 2011-57.
	10-61b		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.	03-43b 04-71b 05-64b 06-44b 07-75b 08-72b 09-55b		X			See Corrective Action Plan for finding 2011-57.
	10-61c		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 09-55c		X			See Corrective Action Plan for finding 2011-57.
10-62		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.						

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	10-62		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.	09-61			X		See Corrective Action Plan for finding 2011-63.
10-63		93.568	The OER does not maintain adequate accounting records by grant award in order to support compliance with period of availability requirements.						
	10-63a		Maintain documentation to support the calculation of funds expended and obligated by grant award.	06-47a 07-78a 08-76a 09-62a		X			See Corrective Action Plan for finding 2011-64.
	10-63b		Complete implementation of procedures to track expenditures by federal fiscal year grant award within the State accounting system.	06-47b 07-78b 08-76b 09-62b	X				
10-64		93.568	The OER does not perform any review or analysis to ensure compliance with earmarking requirements.						
	10-64		Improve procedures and documentation to ensure compliance with the LIHEAP earmarking requirements.	06-48 07-79 08-77 09-63		X			See Corrective Action Plan for finding 2011-65.
10-65		93.568	OER did not perform time studies or maintain time sheets to adjust budgeted payroll costs to actual.						
	10-65		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 09-64	X				
10-66		93.568	Errors were noted in the preparation of SF-269 reports. Separate reports were not prepared for “regular” and Emergency contingency funds as required. Supporting documentation for the Carryover and Reallotment report was not maintained.						

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	10-66a		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 10/08/09.		X				
	10-66b		Complete a SF-269A financial report for leveraging funds in accordance with LIHEAP Action Transmittal No. LIHEAP-AT-2010-01, dated 10/08/09.		X				
	10-66c		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 09-65c			X		See Corrective Action Plan for finding 2011-66.
	10-66d		Submit a revised Carryover and Reallotment Report for the 2008 grant awards as required.	08-79e 09-65d	X				
	10-66e		Strengthen controls over the preparation of the Carryover and Reallotment Report to ensure accurate detail is submitted.			X			See Corrective Action Plan for finding 2011-66.
	10-66f		Enhance the *CAPTAIN* system for the purpose of generating the data necessary to complete the LIHEAP Household Report accurately.			X			See Corrective Action Plan for finding 2011-66.
10-67		93.568	OER needs to improve controls over its subrecipients and their process for making payments to vendors without submission of invoices for services performed.						
	10-67		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.			X			See Corrective Action Plan for finding 2011-63.
10-68		93.596	DHS does not have adequate controls to ensure that amounts claimed for maintenance of effort are supported.						
	10-68a		Develop control procedures to ensure that compliance with specific eligibility requirements is maintained relating to all child care services claimed as maintenance of effort.				X		See Corrective Action Plan for finding 2011-69.
	10-68b		Properly document eligibility compliance for DCYF child care services claimed for FFY 2009.				X		See Corrective Action Plan for finding 2011-69.

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10-69		93.596	DHS drew federal funds in excess of its agreed upon levels of State contributions.						
	10-69		Develop and implement control procedures to ensure that federal cash draws do not exceed the required federal matching percentage (FMAP).				X		See Corrective Action Plan for finding 2011-68.
10-70		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.						
	10-70		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 09-70			X		See Corrective Action Plan for finding 2011-71.
10-71		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.						

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*
	10-71a		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 09-71a	X				
	10-71b		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 09-71b	X				
10-72		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.						
	10-72a		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 08-90 09-72a		X			See Corrective Action Plan for finding 2011-72.

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	10-72b		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 09-72b			X		See Corrective Action Plan for finding 2011-72.
	10-72c		Report cumulative disbursements accurately on the PMS-272 (and new SF-425 reports) based on actual expenditures in accordance with report guidelines.	03-65f 04-82c 05-77c 06-59c 07-90c 08-90c 09-72c			X		See Corrective Action Plan for finding 2011-72.
	10-72d		Improve tracking of Medicaid and SCHIP expenditures reported on the PMS-272 (and new SF-425) reports to better document the collective reporting of program and administrative expenditures by grant period.	08-90d 09-72d			X		See Corrective Action Plan for finding 2011-72.
	10-72e		Improve controls over federal reporting by consistently reporting expenditure amounts that have been recorded in the State's accounting system.	07-90d 08-90e 09-72e			X		See Corrective Action Plan for finding 2011-72.
10-73		93.767 93.778	Prior audits noted licensure information lacking in the Medicaid provider files maintained by the fiscal agent. These files were subsequently destroyed in the floods of March, 2010.						
	10-73		Reconstruct provider files to meet federal requirements for Provider Eligibility and Suspension and Debarment.	07-96 08-96 09-81		X			See Corrective Action Plan for finding 2011-70.
10-74		93.778	The MMIS currently lacks system edits that properly determine when home and community based service providers bill for services that are incompatible with claims billed by other providers (i.e., inpatient hospital claims) that suggest the individual was not present in the community to receive the services billed.						

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	10-74		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 09-69 93.778 03-57 04-75 05-71			X		See Corrective Action Plan for finding 2011-80.
10-75		93.778	Medical Assistance – DHS should improve controls over Medicaid expenditures administered by other state agencies.						
	10-75a		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.	06-62a 07-94a 08-94a 09-73a				X	No longer valid, however, see Corrective Action Plan for finding 2011-85.
	10-75b		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.	09-73b				X	No longer valid, however, see Corrective Action Plan for finding 2011-85.
	10-75c		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 09-73c				X	No longer valid, however, see Corrective Action Plan for finding 2011-85.
10-76		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.						
	10-76a		Implement system modifications to allow full adjudication of claims for services provided to adults with developmental disabilities through the MMIS.	07-91 08-92a 09-74a			X		See Corrective Action Plan for finding 2011-79.

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	10-76b		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.	08-92b 09-74b			X		See Corrective Action Plan for finding 2011-79.
	10-76c		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.				X		See Corrective Action Plan for finding 2011-79.
	10-76d		Ensure that all providers meet licensing and federal health and safety requirements for providing services within the medical Assistance Program.				X		See Corrective Action Plan for finding 2011-79.
10-77		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.						
	10-77a		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 09-75a			X		See Corrective Action Plan for finding 2011-81.
	10-77b		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 09-75b			X		See Corrective Action Plan for finding 2011-81.
	10-77c		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.	09-75c			X		See Corrective Action Plan for finding 2011-81.
10-78		93.778	The State was unable to provide specific claims data to support CNOM (costs not otherwise matchable) expenditures.						
	10-78a		Subject all CNOM claiming to the claims processing and eligibility control processes (MMIS and INRHODES systems) in place over all Medicaid program expenditures.	09-76a			X		See Corrective Action Plan for finding 2011-73.
	10-78b		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.	09-76b			X		See Corrective Action Plan for finding 2011-73.

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	10-78c		Ensure that all future CNOM claiming processes are fully operational prior to claiming expenditure populations to the Medicaid program.	09-76c			X		See Corrective Action Plan for finding 2011-73.
10-79		93.778	Numerous documentation deficiencies were noted in the review of case files.						
	10-79		Improve controls over required eligibility documentation obtained during the Medical Assistance application process.	08-103 09-78	X				
10-80		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.						
	10-80a		Address staffing deficiencies in the MEQC unit so that the agency can meet its federal monitoring and reporting responsibilities.				X		See Corrective Action Plan for finding 2011-76.
	10-80b		Re-evaluate MEQC policies and procedures to ensure compliance with federal regulations and/or guidelines for conducting MEQC reviews.	07-101a 08-99a 09-80a			X		See Corrective Action Plan for finding 2011-76.
	10-80c		Revisit the continuing eligibility of recipients who fail to cooperate during MEQC reviews.	07-101b 08-99b 09-80b			X		See Corrective Action Plan for finding 2011-76.
10-81		93.778	Fiscal Agent Contract. DHS should obtain specific guidance from CMS regarding the allowability of services performed by the fiscal agent.						
	10-81		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.	07-97 08-97 09-82		X			See Corrective Action Plan for finding 2011-74.
10-82		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.						
	10-82a		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 09-79		X			See Corrective Action Plan for finding 2011-82.
	10-82b		Reimburse the federal government for program overpayments within 60 days of discovery.	08-101 09-83		X			See Corrective Action Plan for finding 2011-82.

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10-83	93.778	DHS does not currently have controls in place to ensure the accuracy of the uncompensated care data provided by hospitals.						
10-83		Improve controls over Medicaid DSH payments by implementing the federal requirements of section 1923 (j)(2) of the Social Security Act.	08-102 09-84		X			See Corrective Action Plan for finding 2011-83.
10-84	93.778	Provider response rates to alert letters sent to Medicaid pharmacies is not adequate to ensure proper monitoring.						
10-84		Develop procedures to ensure timely monitoring and follow-up of high-risk issues identified by the State's DUR Board.	08-104 09-85		X			See Corrective Action Plan for finding 2011-75.
10-85	93.778	DHS needs to increase its oversight and monitoring procedures to improve controls over managed care contract expenditures.						
10-85a		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.	09-86			X		See Corrective Action Plan for finding 2011-84.
10-85b		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.				X		See Corrective Action Plan for finding 2011-84.
10-86	93.778	DHS has devoted fewer personnel resources to the Medical Assistance program, which could continue to negatively impact control over expenditures and compliance with federal requirements.						
10-86		Address personnel resource deficiencies in critical personnel areas to ensure proper administration and control over the Medicaid program.				X		See Corrective Action Plan for finding 2011-85.
10-87	93.778	Certain administrative expenditures were not charged at the required 50% federal matching rate. Some were not adequately supported.						

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	10-87		Ensure that documentation is maintained to support all administrative expenditures within the Medical Assistance Program.			X			Questioned costs reported in FY 2010 have not been credited back and no official decision or action has been communicated by the federal awarding agency.
10-88		93.778	Controls over Rhody Health Partners capitation payments could be improved.						
	10-88		Expand MEQC procedures to validate the eligibility requirements of Rhody Health and the proper assignment of capitation payment levels to program participants.				X		See Corrective Action Plan for finding 2011-86.
10-89		93.778	DHS did not comply with procurement requirements when it added new services to an existing contract.						
	10-89		Ensure that all procurements of contract services within the Medicaid Program follow the State's mandated policies and procedures.			X			EOHHS has addressed the control issue cited and is awaiting federal guidance on questioned costs reported in the prior year.
10-90		93.778	Waiver programs existing prior to the implementation of the Global Waiver had not submitted all outstanding HCFA-372 and HCFA-372S reports.						
	10-90		Complete all required waiver reports for prior 1915(c) waiver periods.		X				
10-91		R&D Cluster: 93.701	The University did not furnish required ARRA information to three of its subrecipients at the time of disbursement of ARRA funds.						
	10-91		We recommend that management of the University implement policies and procedures to ensure that the proper information is supplied to the subrecipients.				X		See Corrective Action Plan for finding 2011-88.